

Stock Code: 4763



Jinan Acetate Chemical Co., LTD.

2018 Annual Report

Notice to readers

*This English-version annual report is a summary translation of the Chinese version and is not an official document of the shareholders' meeting. If there is any discrepancy between the English and Chinese versions, the Chinese version shall prevail.*

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<http://newmops.twse.com.tw>

Acetate Annual Report is available at: [http://www. Acetate.com](http://www.Acetate.com)

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## Letter to Shareholders

### Dear Shareholders,

First, we would like to thank all of you for your support and encouragement for the past year. The Company's business result of 2018 is hereby reported as follows:

#### I. Business Result of 2018

##### (i) Result of Implementation of Business Plan

In 2018, the consolidated revenue of the Company was NT\$1,739,194 thousand, which is 0.5% less than NT\$1,747,987 thousand of last year. The consolidated net profit after tax was NT\$224,091 thousand, which is 34.85% more than NT\$166,172 thousand of last year. As the price of acetic anhydride was higher in the first half of the year 2018, the gross profit margin was therefore lower and the profit of the first half year was also lower. The gross profit margin of the third quarter rose sharply due to renovation of the factory of acetic anhydride tablets in June 2018 to save consumption of commonly used mediums. As the price of acetic anhydride dropped significantly in the fourth quarter, the gross profit margin of the third quarter therefore rose again. The annually average gross profit margin of 2018 has returned to the level of 2017. Besides, even though sales expenses and R&D expenses increased due to the factory established by Chung Feng to manufacture acetic anhydride tablets, yet the net profit after tax was generally better than that of last year because exchange gains were generated from fluctuation of CNY to USD exchange rate and CB valuation gains were generated due to fluctuation of the share price.

Therefore, the Company will continue to develop better specifications for products and be devoted to integrate upstream materials to reduce cost further. In addition to maintaining existing customers, the Company will also develop niche market, look for strategic alliance and expand supply. Basically, the Company remains optimistic for the growth of business in the future.

##### (ii) Analysis of Financial Incomes and Expenses and Profitability

Items		Year 2017	Year 2018
Financial structure (%)	Debt Ratio	43.58	44.25
	Ratio of long-term capital to property, plant and equipment	229.49	206.92
Profitability	Return on asset (%)	8.62	10.45
	Return on equity (%)	12.11	17.48
	Pre-tax income to paid-in capital (%)	36.27	45.19
	Profit ratio (%)	9.51	12.88
	Earnings per share (NT\$)	3.70	4.85

The debt ratio of 2018 was slightly higher than that of 2017. The Ratio of long-term capital to property, plant and equipment of 2018 was slightly lower than that of 2017. Such changes were caused by treasury stock implemented in 2018.

The return on asset, return on equity, pre-tax income to paid-in capital, profit ratio, earnings per share and many profitability indicators of 2018 were better than those of 2017. It was mainly because the income before tax and income after tax of 2018 were higher than those of 2017.

(iii) Status of R&D

As for the R&D direction, the Group not only continues to develop and improve manufacturing process to strengthen its ability of production and manufacturing, but also designs different process conditions. In addition to applying its experience obtained from current products, the Group also develops relevant material parameters, equipment parameters and craftwork parameters. To develop new products, a company has to accumulate necessary technology and experience. With such technology and experience, a company is then able to mass-produce new products with high yield and high quality to enhance the technical threshold for the industry. The Company, after making effort for many years, has obtained a high level of technology maturity, and its relevant products have also been recognized by lots of companies in more than 30 countries in the world.

II. Summary of Business Plan of 2019

(i) Guidelines for Management

1. Focus the niche market with growth potential in an emerging country,

and make revenue grow stably.

2. Focus on development of the products with special specifications of cellulose diacetate tow, in addition to the products with general specifications, to satisfy the requirements of specifications required by customers in the world.
3. Strengthen on-the-job training for existing employees, enhance R&D ability, and cooperate with external resources, including institute of science and technology and relevant agencies, to positively research and develop the strategy of applying acetate fiber materials to products, in order to accumulate experience and develop new technology rapidly and ensure and enhance competitiveness in research and development.
4. Provide sound technical service, and customize diversified products with stable quality and a small quantity based on the need for products required by the customer.
5. Continue to look for opportunities of integrating upstream and downstream suppliers vertically, reduce cost and expand downstream supply.

(ii) Important Production and Marketing Policies

1. Develop niche markets in Africa, Middle East, South America and Southeast Asia by participating international and famous trade shows, applying the experience obtained from transactions with emerging economies and countries, or through the services provided by the agent.
2. Possess the ability of manufacturing the products with general specifications, and also focus on development of the products with special specifications to satisfy the requirements of specifications required by customers in the world.
3. Formulate a long-term plan to apply acetate fibers to other applied products to expand the level of application of products.

III. Corporate Future Development Strategy

(i) Development of Products

Due to advanced production technology, only several large manufacturers produce cellulose acetate tow. It has been an oligopoly market. As acetic anhydride tablets have been mass-produced in recent years, products have

even been developed towards spectacle frames, handles of hand tools and other applications. The Company will continue to cultivate research in technology of cellulose acetate to strengthen its product competitiveness and enhance its market share.

(ii) Marketing Strategy

Maintain existing customers, positively look for potential customers by participating trade shows overseas, develop in an emerging country the market that has potential in order to expand business, and choose quality customers to be partners in business and grow with the partners.

(iii) Production Strategy

The Company formulates many R&D plans every year aiming to not only develop new product specifications, but also focus on improvement of craftwork of process, enhancement of efficiency, and increase of percentage of automated production. It also integrates upstream suppliers to reduce production cost per unit.

IV. Influence of External Competitive Environment, Regulatory Environment and Overall Business Environment

The Company, which has autonomous technology of cellulose acetate tow and cellulose acetate (tablet), is able to cooperate with the tobacco company in the monopolistic or oligopoly market of every country. In recent years, the Company has expanded export business positively and broken into the niche market successfully. In addition to the products with general specifications, special specifications are also researched and developed in order to satisfy the demands specified by different customers. The Company also continues to develop environment-friendly products, enhance ability of production and quality control and increase its market share.

We wish you good health and all the best.

Sincerely yours,

Chairman : Wang, Ko-Chang  
General Manager : Wang, Ko-Chang  
Chief Financial Officer: Wang, Sheng-Bin



## **I. Company Profile**

### **2.1 Date of Incorporation:**

The Group's operating base, Jinan Acetate Chemical Co., Ltd. (hereinafter is called the Jinan Grand Nature Co. Ltd.) was established in October 1999, and the holding company My Parents Living Technology Limited (hereinafter is called the My Parents Co. Ltd.) was established in October 2012 and participated in the investment of Jinan Acetate Chemical Co., Ltd. in February 2013. All shareholders of Jinan Acetate Chemical Co., Ltd. except My Parents Co. Ltd. transferred their shares in Jinan Acetate Chemical Co., Ltd. to My Parents through the share exchange in November 2013. Co. Ltd., which makes My Parents Co. Ltd. 100% owned by Jinan Acetate Chemical Co., Ltd., and the shareholders of these Jinan Acetate Chemical Co., Ltd. become shareholders of My Parents Co. Ltd. Subsequently, Jinan Acetate Chemical Co., LTD. (i.e. the Materials KY) was incorporated in the Cayman Islands in September 2014, and all shareholders of My Parents Co. Ltd. transferred their shares of My Parents Co., Ltd. to the Materials KY, which allowed Materials KY to hold 100% of the My Parents Co. Ltd. shares, and the original My Parents Co. Ltd. shareholders converted their shares to the Materials KY shares with the same proportion, while My Parents Co. Ltd. still holds 100% of the shares of Jinan Acetate Chemical Co., Ltd. The Company thus has completed restructured the group structure. Next, the Company considered the group operation and established a representative office in Taiwan in January 2015, which is responsible for the maintenance of public information.

In order to expand the operation scale, the Company will continue to integrate upstream and downstream manufacturers to save production costs and increase operating income. Therefore, since 2016, we will cooperate with Yankuang Lunan Chemical Co., Ltd. (hereinafter is called the Lunan Chemicals) and the downstream strategic investment the Thy Glory Ltd. (hereinafter is called the Thy Glory Ltd.) jointly established the Acetek Material Co., Ltd. and it has obtained 80% of the operating rights of the joint venture company.

The Company's main business is the R&D, production and sales of cellulose diacetate, cellulose acetate tows and other related products, mainly used in cigarette filters or products with filtering effect. The Group is mainly produced in China with low cost labor. The Company actively develops and improves product

processes with customers, realizes customer needs and improves production efficiency; wins customer trust and becomes a long-term partner of customers. On the other hand, we also provide customized services to develop different specifications of diacetate tows per customer needs. In addition, we participate in worldwide exhibitions every year and increase the exposure of our products. We have gradually opened up many new markets and customers, and gradually grow in steady manner.

## 2.2 Company History

Year	Milestones
1999	Established the Jinan Julong Fiber Co., Ltd. in Shandong, China that produces nylon air textured yarn.
2002	Jinan Julong Fiber Co., Ltd. changed its name to Jinan Daziran Fiber Co., Ltd.
2005	Jinan Daziran Fiber Co., Ltd. invested new plant to produce cellulose acetate tows; the annual capacity is 2,000 tons.
2006	Jinan Daziran Fiber Co., Ltd. changed its name to Jinan Acetate Chemical Co., Ltd.
2008	Jinan Acetate Chemical Co., Ltd. expanded cellulose acetate tows production capacity, equipped metering pump transmission devices on the equipment, changing the metering pumps from horizontal to saddle in operation; filtering core changed from box closure to independent unit control; hot air changed from umbrella cap type to the flat air-filled buffer type; changed the air-return air duct to independent one and adjustable independently, which increased the annual production capacity to 3,000 tons.
2009	Jinan Acetate Chemical Co., Ltd. obtained the product quality certification of customer Taeyoung Industry Corporation.
	Jinan Acetate Chemical Co., Ltd. developed a swing-type pendulum machine and a linear pendulum machine for the pendulum state and wire condition of the wire-wound machine in the process. In order to improve the filtration quality and reduce the breakage, developed the core filter and a obtained the respective patent certificate.
2010	Jinan Acetate Chemical Co., Ltd. expanded the production capacity of cellulose acetate tows again and changed the return air from the jacket to the one-side air recovery unit. The annual production capacity was expanded to 4,000 tons.
	Developed and changed the tow to wire-forming structure; developed a bundle roller device for cellulose acetate fiber in the R&D process of equipment. In addition, the process has increased the stability and uniformity of metering pumps; developed a cellulose fiber spinning

	metering pumps. Moreover, certify that the slurry quality meets the specifications. Developed the spinning solution viscosity detection devices and obtained the respective patent certificate.
2012	In November, Jinan Acetate Chemical Co., Ltd. awarded the High-Tech Enterprise Certificate.
	The equipment process improved the filtration quality and able to produce fine single nylon strands. The double-filter core filter has been developed. In order to ensure that the drying condition of tows in channel is more stable and adjustable, the spinning damper has been developed and obtained the respective patent.
2013	In January, Jinan Acetate Chemical Co., Ltd. increased USD 3 million registered capital; the registered capital after the increment was USD 851.44 million, and the paid-up capital was USD 8,154,400.
	In August, the second plant of Jinan Acetate Chemical Co., Ltd. was put into mass production and changed the channel structure. The air supply and air distribution control valves were installed in each channel; the annual production capacity was expanded to 8,000 tons.
	In November, Jinan Acetate Chemical Co., Ltd. was 100% owned by the My Parents Living Technology Limited.
	In December, Jinan Acetate Chemical Co., Ltd. renamed to the Jinan Acetate Chemical Co., Ltd.
	Equipment improvement: In order to reduce the damage of the crimping machine, reduce the generation of waste wire and improve human dependence status, the R&D has developed the automatic docking device between the fiber tows and crimping machine. In order to reduce the replacing times of crimping machine and make the crimping machine operates more stable, developed a fiber tow crimping swing arm with the respective patent certificate obtained thereof.
2014	In September, Jinan Acetate Chemical Co., Ltd. awarded the Top 100 Taiwan-invested enterprises in Shandong Province through the Shandong Provincial Economic and Information Technology Commission and the Shandong Provincial Department of Commerce.
	In September, applied for establishing the Jinan Acetate Chemical Co., Ltd. in Cayman for the first time, the English name is Jinan Acetate Chemical Co., Ltd. (Materials KY), all shareholders of My Parents Co. Ltd. transferred all shares to through shares-exchange way, the Materials KY holds 100% equity of Jinan Acetate Chemical Co., Ltd., mainly for launching the stock exchange market in Taiwan and restructuring the organization.
	In December, the Materials KY received the certificate of acceptance of new products and new technologies from the Shandong Provincial Economic and Information Technology Commission.
	Equipment improvement: In order to reduce the time loss from yarn

	breakage, a crimping machine has been developed. In order to reduce the loss of acetone and increase production speed, an acetone gas adsorption treatment device for fiber tows production has been developed; In order to make the single production line into two for special manufacturing process, a multi-fiber-tow drying and swinging device was developed; and in order to make the wind adjustment finer and reduce yarn breakage chance, a spinning device channel air supply device was developed with patent certificate obtained thereof. Through equipment improvement and process R&D, we've removed the critical difficulty and achieved a theoretical capacity of 9,000 tons.
2015	TWSE approved Materials KY the listing, in November the Materials KY stock was officially listed on TWSE.
2016	Increase the tows production line and increase the theoretical capacity to 10,000 tons.
	In July, Materials KY made a joint venture with Lunan Chemicals to establish Acetek Material Co., Ltd.; the plant's theoretical production capacity of vinegar sheets is 20,000 tons.
2017	In June, the First Domestic Unsecured Convertible Corporate Bonds were issued in Taiwan, ROC, the funds raised are NT\$505 million. In June, Acetek Material Co., Ltd. made trial production; successfully produced spinning grade and plastic grade vinegar sheets in Q3. Extended the tows production line capacity to 11,000 tons of theoretical capacity. Jinan Acetate Chemical Co., Ltd.(China) has 80% ownership of Acetek Material Co., Ltd.

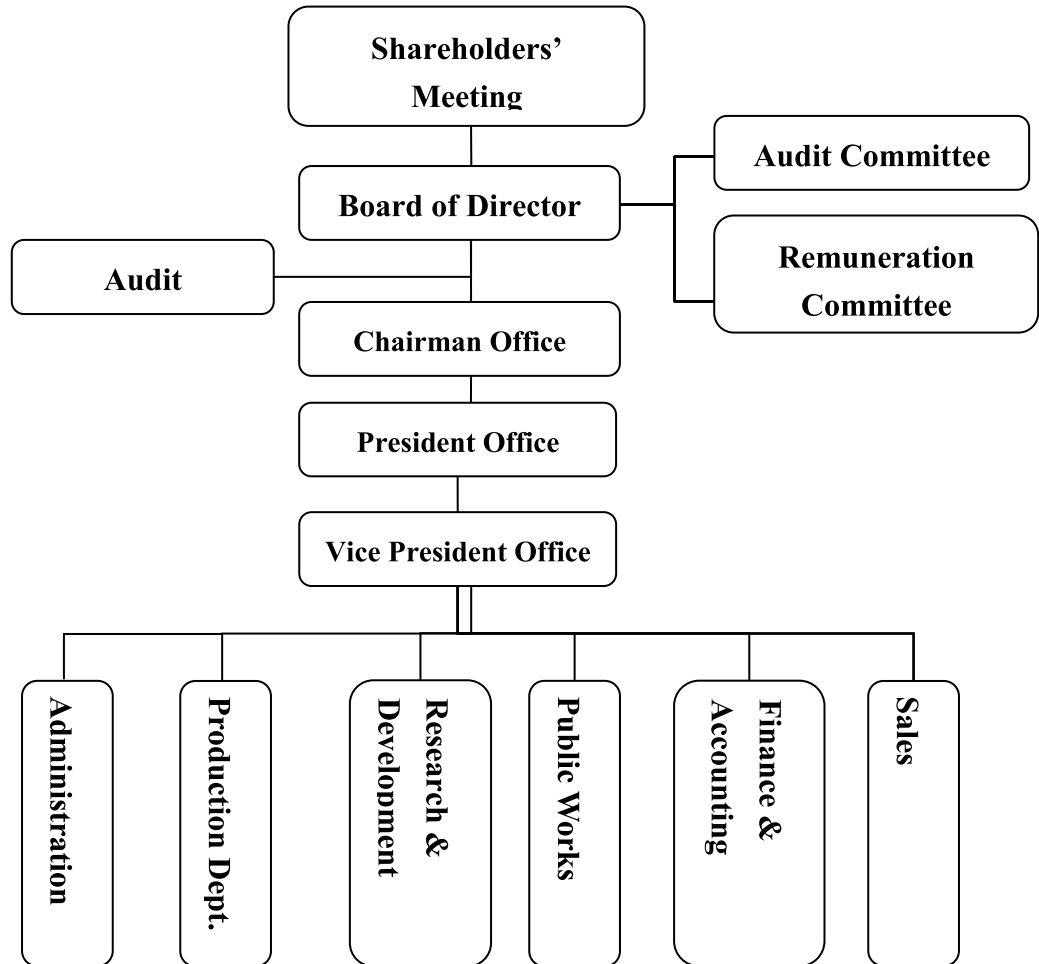
**2.3 Group Structure : Please refer to VIII. Special Disclosure.**

**2.4 Risk Item : Please refer to VII. Review of Financial Conditions, Operating Results, and Risk Management.**

## II. Corporate Governance Report

### 3.1 Organization

#### 3.1.1 Organizational Chart



### 3.1.2 Major Corporate Functions

Department	Functions
Chairman Office	Establish operating plan and strategic guideline for company business operation and organizational management.
Audit Committee	Supervise the business and financial status of the Group, the appropriate expression of financial statements and effective implementation of internal control.
Remuneration Committee	Set and regularly review the policy, system, standard and structures of directors' and managers' performance assessment and salary & remuneration; and regularly assess and decide the remuneration of directors and managers.
Audit	Responsible for evaluating and implementing the Company's auditing business and internal control; set forth improvement suggestions and continue to track down and improve the progress.
General Manager Office	Perform the matters decided by the Board Of Directors; comprehensively implement the Company's business objectives and future development.
Vice President Office	Assist the general manager in daily affairs and project tasks; coordinate the Company's R&D resources and draft the R&D direction.
Sale	Responsible for the planning of Company's product sales, customer service, market development strategy and developing direction; and the procurement and customs logistics of raw materials required for manufacturing; and make suitable adjustment of procurement strategy with market status.
Research & Development	Responsible for the development of new products and specifications, production processes improvement and upgrading of automatic production.
Production Department	Handle the production technology, online quality control, products manufacturing, schedule management, on-site management and related operations. Responsible for the construction of hardware facilities related to manufacturing, machine maintenance, production process design and related operations.

### 3.2 Directors, Supervisors and Management Team

#### 3.2.1 Directors and Supervisors

Apr. 30, 2019

Title	Nationality / Country of Origin	Name	Gender	Date Elected	Term (Years)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience ( Education )	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship	
							Shares	%	Shares	%	Shares	%	Shares	%			Shares	%
Chairman	Samoa	Bright Pearl Enterprises Ltd.													Fiber Tech., National Taiwan University of Science and Technology Jinan Julong Fiber Co., Ltd.- Assistant Vice President Jinan Junda Fiber Ltd.- General Manager Jinan Acetate Chemical Co., LTD.-Chairman Taiwan Business Association of Jinan City- President National Association of Taiwan Enterprises- Vice president	Bright Pearl Enterprises Ltd.-Director Fei yue Engineering Ltd.-Director Jinan Hezhen Industry & Trade Co., Ltd.-President Acetek Material Ltd.-President		
	Taiwan .	Representative: Wang, Ko-Chang	M	Jun 28, 2017	3	Sep. 25, 2014	16,373,000	35.23%	16,373,000	35.23%					University of San Francisco SinoPac Financial Holding	Formosan Rubber Group Inc.-President		
Director	Hong Kong	Amacron Trading Ltd.,	M	Jun 28, 2017	3	Dec. 4, 2014												

Director	Taiwan	Representative: Hsu, Cheng-Tsai	M	Jun 28, 2017	3	Dec. 4, 2014	3,440,000	7.40%	3,431,000	7.38%	Co., Ltd.-Director	Fig Development Inc.,-Prediscent Formosan Construction Co., - Prediscent Rui-Fu International Co., Ltd.- Prediscent Fong-Han International Co., Ltd.- Director Chen His Investment Co., Ltd.-Supervisor					
							11,792,000	25.37%	7,862,000	16.91%							
Director	Taiwan	Representative: Yang, Li-Min	M	Jun 28, 2017	3	Dec. 4, 2014	11,792,000	25.37%	7,862,000	16.91%	Co., Ltd.-Director	Kingpo Electronics Inc.-Independent Director Kung Long Batteries Industrial Co., Ltd.-supervisor Tokyo Star Bank-President Taiwan Institute of Economic research-President					
Independent Director	Taiwan	Chiang, Pin-Kung (Note 1)	M	Jun 28, 2017	3	Dec. 4, 2014					Co., Ltd.-Director	Kingpo Electronics Inc.-Independent Director Kung Long Batteries Industrial Co., Ltd.-supervisor Tokyo Star Bank-President Taiwan Institute of Economic research-President					



Independent Director	Taiwan	Lin, Tzer-Jong	M	Jun 28, 2017	3	Dec. 4, 2014											Quanju Julong biotech companies-director Tuo-Xin Investment Co., -Director Li-Xiang Investment Co., -Director Ju-Neng Investment Co., -Director Acegreen Eco-Material Technology Co., Ltd.-Supervisor Ju-Mao biotech companies-supervisor Acelon Chemicals & Fiber Co., - General Manager.				
Independent Director	R.O.C.	Lin, Wen-Cheng	M	Jun 28, 2017	3	Dec. 4, 2014											Department of Chemical Engineering, National Taipei University of Technology. Formosa Chemical & Fibre Co.,-Production Manager Formosa Chemical & Fibre Co.,-R & D officer Master of Business Administration(MBA), St. John's College Newegg Inc.-CFO of Greater China Prescope Technologies Co., Ltd.- CFO Tsankuen Co., Ltd.- Finance Manager Clevo Co., Buynow Division-CFO Celestial Entertainment Inc.-Financial Manager Polaris Securities Co., Ltd.Captial Market Dept.-Senior Officer KPMG CPA Firm-Senior	Seychelles Ocean Waves International Trading Ltd.- President Cayman Great Elite Inc.,-Director			

Note 1: had been passed away on December 10<sup>th</sup>, 2018

**Major shareholders of the institutional shareholders**

Apr. 30, 2019

Name of Institutional Shareholders	Major Shareholders
Bright Pearl Enterprises Ltd.	Wang, Ko-Chang (100%)
AMACRON TRADING LIMITED	Amacron International(B.V.I) Limited (100%)
MACRIFER TRADING SOCIEDAD ANONIMA	Juan Antonio Bruno Perroni (100%)
STANORD LTD	Yang, Li-Min (100%)

**Major shareholders of the Company's major institutional shareholders**

Apr. 30, 2019

Name of Institutional Shareholders	Major Shareholders
Amacron International(B.V.I) Limited	Hsu Cheng-Tsai(60%)
	Hsu Yu-Ting(40%)

**Professional qualifications and independence analysis of directors and supervisors**

Apr. 30, 2019

Criteria	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience		Independence Criteria(Note)								Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director						
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7		8	9	10			
Name																	
Wang, Ko-Chang ( Representative of Bright Pearl Enterprises Ltd.)	-	-	✓	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
HSU Cheng-Tsai ( Representative of Amacron Trading Ltd.,)	-	-	✓	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Ericson Fensterseifer ( Representative of MACRIFER TRADING SOCIEDAD ANONIMA)	-	-	✓	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Yang, Li-Min ( Representative of MACRIFER TRADING SOCIEDAD ANONIMA)	-	-	✓	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Chiang, Pin-Kung (Note 1)	-	-	✓	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Lin, Tzer-Jong	-	-	✓	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Lin, Wen-Cheng	-	✓	✓	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-

Note 1: had been passed away on December 10<sup>th</sup> 2018

Note2: Please tick the corresponding boxes that apply to the directors or supervisors during the two years prior to being elected or during the term of office.

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of the Company or any of its affiliates. Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
5. Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company or who holds shares ranking in the top five holdings.
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the shares, of a specified company or institution which has a financial or business relationship with the Company.
7. Not a professional individual who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof. These restrictions do not apply to any member of the remuneration committee who exercises powers pursuant to Article 7 of the "Regulations Governing the Establishment and Exercise of Powers of Remuneration Committees of Companies whose Stock is Listed on the TWSE or Traded on the TPEX".
8. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
9. Not been a person of any conditions defined in Article 30 of the Company Law.
10. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

### 3.2.2 Management Team

Apr. 30, 2019, unit: per share, %

Title	Nationality/ Country of Origin	Name	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position	Managers who are Spouses or Within Two Degrees of Kinship	
				Shares	%	Shares	%	Shares	%			Title	Name
Chairman	Taiwan	Wang, Ko-Chang	Dec. 4, 2014	-	-	-	-	-	-	Fiber Tech., National Taiwan University of Science and Technology Acelon Chemicals & Fiber Co., - Assistant Vice President Jinan Junda Fiber Ltd. - General Manager Jinan Acetate Chemical Co., LTD.-Chairman Taiwan Business Association of Jinan City- President National Association of Taiwan Enterprises- Vice president Department of Accounting, Soochow University KPMG CPA Firm- Auditor Yuanta Securities Co., Ltd. Investment Banking Dept. - Manager KD Leisure Development Co., Ltd-CFO	Bright Pearl Enterprises Ltd.-Director Fei yue Engineering Ltd.-Director Jinan Hezhen Industry & Trade Co., Ltd.-President Acetek Material Ltd.-President		
CFO	Taiwan	Wang, Sheng-pin	Dec.04, 2014	521,000	1.12	-	-	-	-	Department of Accounting, Fu Jen University Ernst & Young CPA Firm- Auditor Taiwan International Securities Co., Ltd. Underwriting Department- Manager Smux Inc., -Financial Manager	Acetek Material Ltd.-Director		
Audit Supervisor	Taiwan	Chiang Hsiu-Fang (Note1)	Dec. 04, 2014	-	-	-	-	-	-	Graduate Institute of Finance, National Taiwan University of Science and Technology KPMG CPA Firm-Senior Test Research, Inc. - Financial Manager UC & GN International Corp.-Financial Assistant Vice President			
Audit Supervisor	Taiwan	Lin, Ya-Fen (Note2)	Mar. 26, 2019	-	-	-	-	-	-	Department of Industrial electrical and automation, Textile University of China Jinan Chemical Fiber Factory- Engineer Jinan Junda Fiber Co., Ltd.-Factory Manager	Acetek Material Ltd.-Supervisor		

Vice President	China	Zhu, Zhang-Chao	Dec. 01, 2007	-	-	-	-	-	-	-	-	-	-	Branch Campus of Beijing University of Aeronautics and Astronautics, Major of Mechanical Design and Manufacturing Jinan Juda Fiber Co., Ltd.-Deputy Factory Manager	-			
Sales Director	China	Sun, Jing	Jan. 20, 2013	-	-	-	-	-	-	-	-	-	-	Shandong University, Department of Chemistry Jinan Juda Fiber Co., Ltd. - Sale Dept. Assistant Manager	-			
Financial Manager	China	Zhao, Jin-Po	Feb. 24, 2015	-	-	-	-	-	-	-	-	-	-	Financial Accounting, Correspondence College of Fudan University Jinan Huasang Gas Co., Ltd. - Financial Officer Shandong Tianhui New Energy Co., Ltd. - Financial Manager Jinan Acetate Chemical Co., Ltd. - Financial Director				
Public Works Dept. Director	China	Zhang, Ai-Feng	Sep. 17, 2013	-	-	-	-	-	-	-	-	-	-	Materials Chemistry, Laiyang Agricultural College Jinan Juda Fiber Co., Ltd. - Section Manager				
Factory Chief	China	Liu, Zhen	Dec. 01, 2007	-	-	-	-	-	-	-	-	-	-	Chemical Engineering and Technology, Liaocheng University Jinan Juda Fiber Co., Ltd. - deputy Factory Manager				
Human Resource Section Manager	China	Zhang, Xue-Zhong	Jul. 02, 2014	-	-	-	-	-	-	-	-	-	-	Bachelor of Laws, Jinan University Shandong Sangle Solar Energy Co., Ltd. - Marketing Area Manager Jinan Acetate Chemical Co., Ltd. - Human Resource deputy Section manager				

Note 1: Discharged from the position

Note 2: Took office on March 26, 2019.

### 3.2.3 Remuneration of Directors, Supervisors, President, and Vice President

#### Remuneration of Directors

Unit: NT\$ thousands

Title	Name	Remuneration				Ratio of Total Remuneration (A+B+C+D) to Net Income (%)				Relevant Remuneration Received by Directors Who are Also Employees				Ratio of Total Compensation (A+B+C+D+E+F+G) to Net Income (%)		Compensation Paid to Directors from an Invested Company Other than the Company's Subsidiary	
		Base Compensation (A)	Severance Pay (B)	Bonus to Directors (C)	Allowances (D)	Salary, Bonuses, and Allowances (E)	Severance Pay (F)	Profit Sharing-Employee Bonus (G)	Exercisable Employee Stock Options (H)	New Restricted Employee Shares (I)	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	Cash	Stock		The company
Chairman	Wang, Ko-Chang																
Director	Hsu, Cheng-Tsai																
Director	Ericson Fensterseiffer																
Director	Yang, Li-Min	1,767	-	2,768	42	3,600	-	1,660	-	4.37	-	1,767	3,043	-	-	-	-
Independent Director	Chiang, Pin-Kung (Note 1)																
Independent Director	Lin, Tzer-Jong																
Independent Director	Lin, Wen-Cheng																

Note 1: had been passed away on December 10<sup>th</sup> 2018

Range of Remuneration	Name of Directors			
	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)	
	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements
Under NT\$ 2,000,000	Wang, Ko-Chang, Hsu, Cheng-Tsai, Ericson Fensterseifer, Yang, Li-Min, Chiang, Pin-Kung, Lin, Tzer-Jong, Lin, Wen-Cheng	Wang, Ko-Chang, Hsu, Cheng-Tsai, Ericson Fensterseifer, Yang, Li-Min, Chiang, Pin-Kung, Lin, Tzer-Jong, Lin, Wen-Cheng	Hsu, Cheng-Tsai, Ericson Fensterseifer, Yang, Li-Min, Chiang, Pin-Kung, Lin, Tzer-Jong, Lin, Wen-Cheng	Hsu, Cheng-Tsai, Ericson Fensterseifer, Yang, Li-Min, Chiang, Pin-Kung, Lin, Tzer-Jong, Lin, Wen-Cheng
NT\$2,000,001 ~ NT\$5,000,000	0	0	0	0
NT\$5,000,001 ~ NT\$10,000,000	0	0	Wang, Ko-Chang,	Wang, Ko-Chang,
NT\$10,000,001 ~ NT\$15,000,000	0	0	0	0
NT\$15,000,001 ~ NT\$30,000,000	0	0	0	0
NT\$30,000,001 ~ NT\$50,000,000	0	0	0	0
NT\$50,000,001 ~ NT\$100,000,000	0	0	0	0
Over NT\$100,000,000	0	0	0	0
Total	7	7	7	7



**Remuneration of Supervisors:**

The Company has established the Audit Committee, therefore there are no Supervisors.

**Remuneration of the President and Vice President**

Unit: NTS thousands

Title	Name	Salary(A)		Severance Pay (B)		Bonuses and Allowances (C)		Profit Sharing- Employee Bonus (D)		Ratio of total compensation (A+B+C+D) to net income (%)		Exercisable Employee Stock Options		New Restricted Employee Shares		Compensation paid to the President and Vice President from an Invested Company Other Than the Company's Subsidiary
		The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	Cash	Stock	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	
Chairman	Wang, Ko-Chang															
CFO	Wang, Sheng-pin	4,200	5,867	58	91	1,650	1,871	2,215	-	2,215	-	-	-	-	-	-
president	Meng, Ching-Li															
Vice President	Zhu, Chang-Chao															

Range of Remuneration	Name of President and Vice President	
	The company	Companies in the consolidated financial statements
Under NT\$ 2,000,000	Meng, Ching-Li, Zhu, Chang-Chao	Meng, Ching-Li, Zhu, Chang-Chao
NT\$2,000,001 ~ NT\$5,000,000	Wang, Sheng-pin	Wang, Sheng-pin
NT\$5,000,001 ~ NT\$10,000,000	Wang, Ko-Chang	Wang, Ko-Chang
NT\$10,000,001 ~ NT\$15,000,000	0	0
NT\$15,000,001 ~ NT\$30,000,000	0	0
NT\$30,000,001 ~ NT\$50,000,000	0	0
NT\$50,000,001 ~ NT\$100,000,000	0	0
Over NT\$100,000,000	0	0
Total	4	4

Unit: NT\$ thousands

Manager	Title	Name	Employee Bonus - in Stock (Fair Market Value)	Employee Bonus - in Cash	Total	Ratio of Total Amount to Net Income (%)
	CFO	Wang, Sheng-pin				

### 3.2.4 Comparison of Remuneration for Directors, Supervisors, Presidents and Vice Presidents in the Most Recent Two Fiscal Years and Remuneration Policy for Directors, Supervisors, Presidents and Vice Presidents

A. The ratio of total remuneration paid by the Company and by all companies included in the consolidated financial statements for the two most recent fiscal years to directors, supervisors, presidents and vice presidents of the Company, to the net income.

Title	2017		2018	
	This company	All subsidiaries in the financial report	This company	All subsidiaries in the financial report
Director	7.59%	9.37%	7.98%	9.40%
President and Vice President				

B. The policies, standards, and portfolios for the payment of remuneration, the procedures for determining remuneration, and the correlation with business performance.

The Company has established the Audit Committee and The Company's Remuneration Committee currently consists of 3 Independent Directors. The policy for payment of compensation for Directors and Managerial officers is set by the Remuneration Committee, having taken into account the individual's position, level of participation, contributions to Company operations, as well as reference to the industry standards. The Remuneration Committee shall also regularly evaluate performance appraisal of Directors and Managerial officers.

### 3.3 Implementation of Corporate Governance

#### 3.3.1 Board of Directors

A total of 10(A) meetings of the board of directors were held in 2018 and as of the date of this annual report. The attendance of director and supervisor were as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) 【 B/A 】	Remarks
Chairman	Wang,	10	-	100%	

	Ko-Chang				
Director	HSU Cheng-Tsai	7	3	70%	
Director	Yang, Li-Min	8	2	80%	
Director	Ericson Fensterseifer	9	1	90%	
Independent director	Chiang, Pin-Kung	3	3	50%	had been passed away on December 10 <sup>th</sup> 2018
Independent director	Lin, Tzer-Jong	10	-	100%	
Independent director	Lin, Wen-Cheng	10	-	100%	

Other mentionable items:

1. If there are circumstances referred to in Article 14-3 of the Securities and Exchange Act and resolutions of the directors' meetings objected to by independent directors or subject to qualified opinion and recorded or declared in writing, the dates of the meetings, sessions, contents of motion, all independent directors' opinions and the company's response should be specified:

Date	Terms	Communication Content	Opinions of all Independent Directors	Response to the independent director's opinons
20180328	The 6th meeting of the 3rd term.	1. Determine the amount of employees' and directors' remuneration of 2017 2. Adoption of the Proposal for Distribution of 2017 Profits 3. Amendment to the Rules of Procedures for director's Meetings. 4. Proposal to provide endorsement and guarantee for the Company's subsidiary company.	Consent	Approved as proposed
20180622	The 8th meeting of the 3rd term.	1. The distribution of employees' and directors' remuneration of 2017 2. Proposal to provide endorsement and guarantee for the Company's subsidiary company.	Consent	Approved as proposed
20180810	The 9th meeting of the 3rd	Proposal to provide endorsement and guarantee for the Company's subsidiary company.	Consent	Approved as proposed

	term.			
20181108	The 11th meeting of the 3rd term.	The Company intends to buy back treasury shares and transfer them to employees.	Consent	Approved as proposed
20181225	The 12th meeting of the 3rd term.	<ol style="list-style-type: none"> <li>1. Proposal to have the Company's Remuneration Committee review the managers' 2018 year-end bonus.</li> <li>2. The salary adjustment of the Group's management staff.</li> <li>3. Valuation of the qualification on the compliance and independence of certificating accountant and respective reward.</li> <li>4. The issue of the Company planning to lend money to the subsidiary My Parents Living Technology Limited.</li> </ol>	Consent	Approved as proposed
20190215	The 13th meeting of the 3rd term.	<ol style="list-style-type: none"> <li>1. Plan to perform strategic alliance with LA/ES, the Group plans to acquire 20% equity of ELEUNG which is the 100% transfer investment subsidiary of LA/ES.</li> <li>2. Proposal to provide endorsement and guarantee for the Company's subsidiary company.</li> </ol>	Consent	Approved as proposed
20190326	The 14th meeting of the 3rd term.	<ol style="list-style-type: none"> <li>1. Adoption of the Proposal for Distribution of 2018 Profits</li> <li>2. Proposal for capital increase through conversion of capital reserve and issuance of new share</li> <li>3. Determine the amount of employees' and directors' remuneration of 2018</li> <li>4. Nominate and review the list of candidates for independent directors</li> <li>5. Proposal to have new directors released from the obligations under the covenant not to compete is presented</li> <li>6. Proposal to provide endorsement and guarantee for the Company's subsidiary company.</li> <li>7. The change of audit supervisor and deputy spokesperson of the Company.</li> <li>8. Proposal to amend Articles of Association of the Company is submitted for discussion.</li> <li>9. Proposal to amend the Regulations Governing the Acquisition and Disposal of Assets of the Company is submitted for discussion.</li> </ol>	Consent	Approved as proposed

		10. Proposal to amend the Procedure for the Loaning of Funds is submitted for discussion.		
		11. Proposal to amend the Procedure for Endorsements and Guarantees is submitted for discussion.		

2. All objections or reservations made by any Independent Director to the resolutions of the Board Meeting, apart from the above-mentioned, either in the form of a written statement or other records.

No objection or reservation from any Independent Director in all 10 Board Meetings.

3. If there are directors' avoidance of motions in conflict of interest, the directors' names, contents of motion, causes for avoidance and voting should be specified:

Date	Terms	Communication Content	Reasons for avoidance of conflict of interests and status of decisions
20180328	The 6th meeting of the 3rd term.	Determine the amount of employees' and directors' remuneration of 2017	Pursuant to avoid conflict of interest, Director Wang, Ko-Chang, Director Hsu, Cheng-Tsai, Director Yang, Li-Min, Director Ericson Fensterseifer and two supervisors at presence CFO Wang, Sheng-pin, Auditor Supervisor Chiang Hsiu-Fan had abstained. After the opinion of other directors in attendance were inquired by chairman, the proposal was approved without objection
20180622	The 8th meeting of the 3rd term.	The distribution of employees' and directors' remuneration of 2017	Pursuant to avoid conflict of interest, Director Wang, Ko-Chang, Director Hsu, Cheng-Tsai, Director Yang, Li-Min, Director Ericson Fensterseifer and two supervisors at presence CFO Wang, Sheng-pin, Auditor Supervisor Chiang Hsiu-Fan had abstained. After the opinion of other directors in attendance were inquired by chairman, the proposal was approved without objection
20181225	The 12th meeting of the 3rd term.	1. Proposal to have the Company's Remuneration Committee review the managers' 2018 year-end bonus. 2. The salary adjustment of the Group's management staff. 3. The house renting between the Company and Mr. Wang, Ko-Chang .	Pursuant to avoid conflict of interest, Director Wang, Ko-Chang and two supervisors at presence CFO Wang, Sheng-pin, Auditor Supervisor Chiang Hsiu-Fan had abstained. After the opinion of other directors in attendance were inquired by chairman, the proposal was approved without objection
20190326	The 14th meeting of the 3rd term.	Determine the amount of employees' and directors' remuneration of 2018	Pursuant to avoid conflict of interest, Director Wang, Ko-Chang, Director Hsu, Cheng-Tsai, Director Yang, Li-Min, Director Ericson Fensterseifer and two supervisors at presence

	term.		CFO Wang, Sheng-pin, Auditor Supervisor Chiang Hsiu-Fan had abstained. After the opinion of other directors in attendance were inquired by chairman, the proposal was approved without objection
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4. Measures taken to strengthen the functionality of the board: The Board of Directors has established an Audit Committee and a Remuneration Committee to assist the board in carrying out its various duties.

i. The Company has established rules of Procedures for directors' meetings and election of directors. The operation of the Board of Directors is in accordance with that rules and current enactments.

ii. The company has established an Audit Committee and Remuneration Committee to assist the company governance.

iii. The Company has a spokesperson and a deputy spokesperson, and has a specific person responsible for public information disclosure and other related matters.

### 3.3.2 Audit Committee (or Attendance of Supervisors at Board Meetings)

#### A. Audit Committee

A total of 8(A) meetings of audit committee were held in 2018 and as of the date of this annual report. The attendance of the independent directors was as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) 【 B / A 】	Remarks
Independent director	Chiang, Pin-Kung	2	2	50%	had been passed away on Dec. 10 <sup>th</sup> 2018
Independent director	Lin, Tzer-Jong	8	-	100%	-
Independent director	Lin, Wen-Cheng	8	-	100%	-

Other mentionable items:

1. If there are the circumstances referred to in Article 14-5 of the Securities and Exchange Act and resolutions which were not approved by the Audit Committee but were approved by two thirds or more of all directors, the dates of meetings, sessions, contents of motion, resolutions of the Audit Committee and the Company's response to the Audit Committee's opinion should be specified:

Date	Terms	Communication Content	Opinions of all Members	Response to the Members's opinons
20180328	The 4th meeting of the 2nd term.	<ol style="list-style-type: none"> <li>1. Adoption of the 2017 Business Report and Consolidated Financial Statements.</li> <li>2. Statement of internal control system of 2017</li> <li>3. Proposal to amend the Rule of the Audit Committee.</li> <li>4. Proposal to provide endorsement and guarantee for the Company's subsidiary company.</li> </ol>	Consent	Approved as proposed
20180622	The 6th meeting of the 2nd term.	<ol style="list-style-type: none"> <li>1. The distribution of employees' and directors' remuneration of 2017</li> <li>2. Proposal to provide endorsement and guarantee for the Company's subsidiary company.</li> </ol>	Consent	Approved as proposed
20180810	The 7th meeting of the 2nd term.	<ol style="list-style-type: none"> <li>1. Adoption of the 2018 Q2 Consolidated Financial Statements.</li> <li>2. Proposal to provide endorsement and guarantee for the Company's subsidiary company.</li> </ol>	Consent	Approved as proposed
20181225	The 8th meeting of the 2nd term.	<ol style="list-style-type: none"> <li>1. Valuation of the qualification on the compliance and independence of certificating accountant and respective reward.</li> <li>2. The issue of the Company planning to lend money to the subsidiary My Parents Living Technology Limited.</li> </ol>	Consent	Approved as proposed
20190215	The 9th meeting of the 2nd term.	<ol style="list-style-type: none"> <li>1. Plan to perform strategic alliance with LA/ES, the Group plans to acquire 20% equity of ELEUNG which is the 100% transfer investment subsidiary of LA/ES.</li> <li>2. Proposal to provide endorsement and guarantee for the Company's subsidiary company.</li> </ol>	Consent	Approved as proposed
20190326	The 10th meeting of the 2nd term.	<ol style="list-style-type: none"> <li>1. Proposal for capital increase through conversion of capital reserve and issuance of new share</li> <li>2. Determine the amount of employees' and directors' remuneration of 2018</li> <li>3. Nominate and review the list of candidates for independent directors</li> <li>4. Proposal to have new directors released from the obligations under the covenant not to compete is presented</li> <li>5. Proposal to provide endorsement and guarantee for the Company's subsidiary company.</li> <li>6. The change of audit supervisor and deputy</li> </ol>	Consent	Approved as proposed



		spokesperson of the Company. 7. Proposal to amend the Regulations Governing the Acquisition and Disposal of Assets of the Company is submitted for discussion. 8. Proposal to amend the Procedure for the Loaning of Funds is submitted for discussion. 9. Proposal to amend the Procedure for Endorsements and Guarantees is submitted for discussion.		
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2. In addition to the above matters, other resolutions passed by two-thirds of all the directors but yet to be approved by the Audit Committee: None.

3. If there are independent directors' avoidance of motions in conflict of interest, the directors' names, contents of motion, causes for avoidance and voting should be specified:

Name of Independent Directors	Meeting Agenda	Reason for recusal	The Company's Follow-up	Result of resolution
None	NA	NA	NA	NA

4. Communications between the independent directors, the Company's chief internal auditor and CPAs (e.g. the items, methods and results of audits of corporate finance or operations, etc.)

(1) The internal audit officer completes the audit reports on a monthly basis and delivers them to the Independent Directors for review in the following month. Regular reports should be conducted

at the Board meetings, the internal audit, and the results of the Company's self-inspection.

(2) Regular reviews on the financial statements should be conducted with the publication of review report. The internal audit officer proceeds communication with the Independent Director at least once a quarter, and may convene a meeting to discuss major or abnormal matters at any time. Another, before the annual audit report is issued, the accountant will first communicate with the management entity; explain the relevant check, risk assessment and key check matters, etc., so the accountant and the independent director can maintain full two-way communication the independent director can maintain full two-way communication.

**3.3.3 Corporate Governance Implementation Status and Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies”**

Evaluation Item	Implementation Status <sup>1</sup>		Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	
1. Does the company establish and disclose the Corporate Governance Best-Practice Principles based on “Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies”?	V	<p>The Company has established a code of practice for corporate governance, and adheres to the important principles of corporate governance such as safeguarding shareholders' rights, strengthening the functions of Board of Directors, expressing the functions of independent directors, respecting the interests of stakeholders and enhancing information transparency, etc.; and strengthen information transparency and Board functions and other measures by modifying relevant management measures, shareholder convention rules relevant to corporate governance, directors election rules, rules of independent directors' responsibilities scope, internal control system, integrity management code and</p>	<p>There is no big difference.</p>

Evaluation Item	Implementation Status <sup>1</sup>		Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	
		<p>ethical code of conduct, etc.; promote the operation of corporate governance.</p>	
<p>2. Shareholding structure &amp; shareholders' rights</p> <p>(1) Does the company establish an internal operating procedure to deal with shareholders' suggestions, doubts, disputes and litigations, and implement based on the procedure?</p>	V	<p>(1) The Company has assigned a dedicated stock agency to handle the shareholding issues in Taiwan, and set up a spokesperson to handle the shareholders' proposals. The relevant internal operating procedures will be decided in accordance with the demands and shareholders' suggestions, doubts, disputes and litigation matters.</p>	<p>Set related interior operating procedures to deal with them per the requirements appeared in the future.</p>
<p>(2) Does the company possess the list of its major shareholders as well as the ultimate owners of those shares?</p>	V	<p>(2) Through the stock agency, actual information can be provided and the list can be grasped in a timely manner.</p>	<p>There is no big difference.</p>
<p>(3) Does the company establish and execute the risk management and firewall system within its conglomerate structure?</p>	V	<p>(3) The Company has established the “Measures of Dealing Operation for the Group Companies, Specific Companies and Related Persons”, with independent financial operation among the related companies; and has implemented the risk management and control of the Company and</p>	<p>There is no big difference.</p>

Evaluation Item	Implementation Status <sup>1</sup>		Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	
(4) Does the company establish internal rules against insiders trading with undisclosed information?	V		related companies with appropriate firewall.  (4) The Company has established the "Management of Insider Trading Prevention" to prohibit the use of undisclosed information on the market to trade securities.
3. Composition and Responsibilities of the Board of Directors	V		There is no big difference.
(1) Does the Board develop and implement a diversified policy for the composition of its members?			(1) The association of Company Board members is based on the Board’s operation, operational type and development needs, and is built by the person in charge of the Company and the financial & accounting experts.
(2) Does the company voluntarily establish other functional committees in addition to the Remuneration Committee and the Audit Committee?		V	(2) The Company has set up an Audit Committee and a Remuneration Committee, all of which are built by three independent directors. As for other functional committees, they are separately authorized by the Board of Directors as required.
(3) Does the company establish a standard to measure the performance of the Board, and implement it annually?			(3) The Company will decide the performance evaluation method of the Board of Directors
			The company will set up other functional committee on the other that per actual requirements appeared in the future
			The Company will set that per actual requirements appeared in the

Evaluation Item	Implementation Status <sup>1</sup>		Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	
(4) Does the company regularly evaluate the independence of CPAs?	V	V	<p>according to actual needs and conduct regular performance evaluation of the Board of Directors.</p> <p>(4) The Company is required to assess the independence and eligibility of the certifying accountant at least once per year in accordance with the provisions specified in Article 29 of the “Code of Practice for Corporate Governance on the Listed Companies” and submit it to the Board of Directors; in addition to obtaining the independence statement issued by the accountant, confirm that the certifying accountant is free from any position in the Company.</p> <p>There is no big difference.</p>
4. Whether the SE/OTC listed companies have set up a special (part-time) unit or personnel responsible for corporate management related matters (including but not limited to providing data for directors and Supervisors in business operations, handling affairs related to the meeting of board of directors and board of shareholders	V		<p>The Company is part-time governed by the financial entity on the issues including handling the meetings of the Board of Directors and shareholder conventions in accordance with the law, producing the proceedings of Board of Directors and</p> <p>There is no big difference.</p>

Evaluation Item	Implementation Status <sup>1</sup>		Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	
handling company registration and change registration, making notes for the meeting of board of directors and board of shareholders)?		shareholder conventions, regularly scheduling the director's training courses, and reporting the Company's corporate governance operation to the Board of Directors on a regular basis every year. As of the date of printing this annual report, the Board of Directors has officially set up the head of corporate governance.	
5. Does the company establish a communication channel and build a designated section on its website for stakeholders, as well as handle all the issues they care for in terms of corporate social responsibilities?	V	The Company maintains a good communication channel with banks, suppliers and other stakeholders. The Company also has a dedicated staff to deal with the Company's external relations and stakeholder issues, and will set up a stakeholder zone on the Company's website to properly respond to concerns of stakeholders.	There is no big difference.
6. Does the company appoint a professional shareholder service agency to deal with shareholder affairs?	V	The Company designates Grand Fortune Securities Co.,Ltd, to deal with shareholder affairs.	There is no big difference.

Evaluation Item	Implementation Status <sup>1</sup>		Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	
7. Information Disclosure (1) Does the company have a corporate website to disclose both financial standings and the status of corporate governance?  (2) Does the company have other information disclosure channels (e.g. building an English website, appointing designated people to handle information collection and disclosure, creating a spokesman system, webcasting investor conferences)?	V	(1) The Company has built a website and the Company's related information will be disclosed consistently.	There is no big difference.
	V	(2) The Company has built a website in both Chinese and English. Questions are answered by the spokesperson and the acting spokesperson; the finance department is responsible for collecting and disclosing the Company information.	There is no big difference.
8. Whether this company has important information for others to know the business operations (including but not limited to employee rights, employee care, investor relation, supplier relation, rights of interested parties, training of directors and Supervisors, risk management policy and execution of risk measurement standard, execution condition of customer policy, the condition of	V	(1) The Company and its subsidiaries provide employees with adequate training programs; enable employees to fully reflect their opinions by a channel; and provide employees with reasonable benefits and remuneration in accordance with local enactments.	There is no big difference.

Evaluation Item	Implementation Status <sup>1</sup>		Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	
the company to buy insurance for directors and Supervisors)?		<p>(2) Employee care: According to the relevant regulations of local government, provide social insurance to ensure the welfare of employees; and hold irregular activities such as dinner, recreation and other activities to entertain employees.</p> <p>(3) Investor relations: Maintain a smooth communication channel with investors and safeguard their legitimate rights and interests.</p> <p>(4) Supplier relations: The Company has always maintained a good relationship with its suppliers.</p> <p>(5) The rights of stakeholders: The stakeholders can communicate and make suggestions with the Company to safeguard their legitimate rights and interests.</p> <p>(6) The studying situation of directors and</p>	



Evaluation Item	Implementation Status <sup>1</sup>		Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	
		<p>supervisors: The Company directors and independent directors have completed the study hours in accordance with the statutory requirements.</p> <p>(7) Implementing status of risk management policy and risk measurement standard: The Company has an internal control system and related management measures and implements them accordingly to reduce and prevent any possible risks.</p> <p>(8) Implementing status of customer policy: The liability insurance the Company has purchased for its directors: In 2018 and 2019, the Company insured liability insurance for directors; and reported the 2019 insurance price, coverage and insurance fee rate were reported to 2019 Board of Directors on March</p>	

Evaluation Item	Implementation Status <sup>1</sup>		Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	
		26, 2019.	
<p>9. Please describe the improvement in the results of the recent corporate management review issued by the Corporate Governance Center of the Taiwan Stock Exchange, and give priority to strengthening measures for those matters which have not been improved:</p>			
Business Operation Review No.	Business Operation Review Item	Improvement and execution condition	
2. 9	Does the company disclose in its annual report the opinions of independent directors on the major resolutions of the board of directors and Company's handling of opinions of independent directors in detail?	It has been disclosed in the 2018 Annual Report - Other matters that should be recorded in the operation of the Board of Directors: All matters of the independent directors and the company's opinion on the independent directors are stated in tabular form in the matters set out in Article 14 (3) of the Securities and Exchange Act and other directors' resolutions that have been rejected or retained by independent directors and have a record or written statement.	
2. 11	Does the company disclose in its annual report the resolution results of the audit committee on major resolutions and Company's handling of the opinions of the Audit Committee in detail?	It has been disclosed in the 2018 annual report - other matters that should be recorded in the operation of the audit committee: The matters listed in Article 14 of the Securities and Exchange Act and other matters that have not been approved by the Audit Committee and	

Evaluation Item	Implementation Status <sup>1</sup>		Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	
			approved by more than two-thirds of all directors shall state the date, time, contents of the resolution, the results of the resolution of the Audit Committee, and The company's handling of the opinions of the Audit Committee is described in tabular form.

Note: 1. Regardless of whether the evaluation item is achieved or not, the company shall state an appropriate explanation.

Attached Table1 : 2018 Training Records of the Company's Directors :

Title	Name	Date	Organizations	Courses	Training hours
Chairman	Wang, Ko-Chang	2018.06.22	Securities & Futures Institute	The war of trade secret protection	3
			Securities & Futures Institute	Common Reporting Standard for Automatic Exchange of Financial Account Information in Tax Matters	3
Director	HSU Cheng-Tsai	2018.10.03	Securities & Futures Institute	How the directors/supervisors without financial/accounting background review the financial report?	3
		2018.10.23	Securities & Futures Institute	Analysis of important issues under the amendment of Company Act.	3
Director	Ericson Fensterseifer	2018.06.22	Securities & Futures Institute	The war of trade secret protection	3
			Securities & Futures Institute	Common Reporting Standard for Automatic Exchange of Financial Account Information in Tax Matters	3
Director	Yang, Li-Min	2018.06.22	Securities & Futures Institute	The war of trade secret protection	3
			Securities & Futures Institute	Common Reporting Standard for Automatic Exchange of Financial Account Information in Tax Matters	3
Independent Director	Chiang, Pin-Kung	2018.06.22	Securities & Futures Institute	The war of trade secret protection	3
			Securities & Futures Institute	Common Reporting Standard for Automatic Exchange of Financial Account Information in Tax Matters	3
Independent Director	Lin, Tzer-Jong	2018.06.22	Securities & Futures Institute	The war of trade secret protection	3
			Securities & Futures Institute	Common Reporting Standard for Automatic Exchange of Financial Account Information in Tax Matters	3
Independent Director	Lin, Wen-Cheng	2018.06.22	Securities & Futures Institute	The war of trade secret protection	3
			Securities & Futures Institute	Common Reporting Standard for Automatic Exchange of Financial Account Information in Tax Matters	3

### 3.3.4 Composition, Responsibilities and Operations of the Remuneration Committee

**A. Professional Qualifications and Independence Analysis of Remuneration  
Committee Members**

Title	Criteria Name	Meets One of the Following Professional Qualification Requirements, Together with at Least Five Years' Work Experience			Independence Criteria (Note 3)								Number of Other Public Companies in Which the Individual is Concurrently Serving as an Remuneration Committee Member	Remarks (Note 4)
		An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the Company in a public or private junior college, college or university	A judge, public prosecutor, attorney, Certified Public Accountant, or other professional or technical specialist who has passed a national examination and been awarded a certificate in a profession necessary for the business of the Company	Has work experience in the areas of commerce, law, finance, or accounting, or otherwise necessary for the business of the Company	1	2	3	4	5	6	7	8		
Independent Director	Chiang, Pin-Kung (Note 1)	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	
Independent Director	Lin, Tzer-Jong	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	
Independent Director	Lin, Wen-Cheng	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	

Note 1: had been passed away on December 10<sup>th</sup> 2018

Note 2: Please fill in director, independent director or other in the identification.

Note 3: Please tick the corresponding boxes that apply to a member during the two years prior to being elected or during the term(s) of office.

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of affiliated companies. Not applicable in cases where the person is an independent director of the parent company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company, or ranking in the top 10 in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three sub-paragraphs.
5. Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company, or who holds shares ranking in the top five holdings.
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the shares of a specified company or institution which has a financial or business relationship with the Company.
7. Not a professional individual, who is an owner, partner, director, supervisor, or officer

of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.

8. Not a person of any conditions defined in Article 30 of the Company Law.

Note 4: If the member is also a director, please describe whether he or she also meets the regulation requirement of Item 5, Article 6 of the “Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter.”

### B. Attendance of Members at Remuneration Committee Meetings

There are 3 members in the Remuneration Committee.

A total of 4 (A) Remuneration Committee meetings were held in 2018 and as of the date of this annual report. The attendance record of the Remuneration Committee members was as follows:

Title	Name	Attendance in Person(B)	By Proxy	Attendance Rate (%) 【 B / A 】	Remarks
Convener	Lin, Tzer-Jong	4	-	100%	
Committee Member	Chiang, Pin-Kung	2	-	50%	had been passed away on December 10 <sup>th</sup> 2018
Committee Member	Lin, Wen-Cheng	4	-	100%	
Committee Member	Yu, Ching-Hsien	1	-	100%	Feb.15 2019 On board
Other mentionable items:					
1. If the board of directors declines to adopt or modifies a recommendation of the remuneration committee, it should specify the date of the meeting, session, content of the motion, resolution by the board of directors, and the Company’s response to the remuneration committee’s opinion (eg., the remuneration passed by the Board of Directors exceeds the recommendation of the remuneration committee, the circumstances and cause for the difference shall be specified): None.					
2. Resolutions of the remuneration committee objected to by members or subject to a qualified opinion and recorded or declared in writing, the date of the meeting, session, content of the motion, all members’ opinions and the response to members’ opinion should be specified:					
Date	Terms	Communication Content		Remuneration Committee’s opinion	Response to the Members’s opinions

20180328	The 3rd meeting of the 2nd term.	Determine the amount of employees' and directors' remuneration of 2017	Consent	Approved as proposed
20180622	The 4th meeting of the 2nd term.	The distribution of employees' and directors' remuneration of 2017	Consent	Approved as proposed
20181225	The 5th meeting of the 2nd term.	Valuation of the qualification on the compliance and independence of certificating accountant and respective reward.	Consent	Approved as proposed
20190326	The 6th meeting of the 2nd term.	Determine the amount of employees' and directors' remuneration of 2018	Consent	Approved as proposed

3. Remuneration Committee responsibilities: The members of Remuneration Committee are appointed by the Board of Directors. Members of the Committee shall be responsible for the good management to the Board of Directors and shall set and regularly review the management's performance, policies, systems, standards, and structures of the remunerations and compensations; Regular assessment shall be conducted to determine the remunerations and compensations of Directors and the managerial officers. The most recent fiscal year and up to the date of publication of the annual report, the Remuneration Committee faithfully fulfilled the duties.

### 3.3.5 Corporate Social Responsibility

Evaluation Item	Implementation Status <sup>1</sup>		Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	
I. Corporate Governance Implementation (1) Does the company declare its corporate social responsibility policy and examine the results of the implementation?	V	The Company currently has a code of ethical conduct and a code of corporate social responsibility as the guide to the implementation of corporate social responsibility.	No obvious discrepancy.
	V	The Company irregularly announces and publicizes relevant corporate ethics.	No obvious discrepancy.
(3) Does the company establish exclusively (or concurrently) dedicated first-line managers authorized by the board to be in charge of proposing the corporate social responsibility policies and reporting to the board?	V	Although the Company does not set a social responsibility full-time entity, yet, each department tries its best to fulfill its corporate social responsibility according to its position and scope, and reports important matters to the high-tier management.	No obvious discrepancy.
(4) Does the company declare a reasonable salary remuneration policy, and integrate the employee performance appraisal system with its corporate social responsibility	V	The Company has an employee handbook and an employee reward and punishment handling method to clearly record the system of rewards and punishments.	No obvious discrepancy.



Evaluation Item	Implementation Status <sup>1</sup>		Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	
policy, as well as establish an effective reward and disciplinary system?			
2. Sustainable Environment Development (1) Does the company endeavor to utilize all resources more efficiently and use renewable materials which have low impact on the environment?	V		The Company continuously upgrades the utilization efficiency of various resources and electronically forms or documents; continuously upgrades the utilization efficiency of various resources to reduce the load on the environment.
(2) Does the company establish proper environmental management systems based on the characteristics of their industries?	V		The Company has complete specifications for quality management, safety and health and environmental protection.
(3) Does the company monitor the impact of climate change on its operations and conduct greenhouse gas inspections, as well as establish company strategies for energy conservation and carbon reduction?	V		The Company has strengthened energy conservation and carbon reduction management in the manufacturing process and fulfilled its responsibility for environmental protection.
3. Preserving Public Welfare (1) Does the company formulate appropriate management policies and procedures according to relevant regulations and the	V		No obvious discrepancy.

Evaluation Item	Implementation Status <sup>1</sup>		Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	
International Bill of Human Rights?		implement equality and fairness in employment, employment condition, pay, benefit, training, assessment and promotion opportunity.	
(2) Has the company set up an employee hotline or grievance mechanism to handle complaints with appropriate solutions?		The Company shall establish a channel of regular communication with employees. Employees have the right to obtain information and express opinions on the Company's business management activities and decision; provide effective and appropriate complaint mechanism for employees, and respond the complaints appropriately.	No obvious discrepancy.
(3) Does the company provide a healthy and safe working environment and organize training on health and safety for its employees on a regular basis?		The Company pays great attention to the health and safety of its employees. In order to create a safe working environment, the Company has invested resources to establish a “Safe Production Management Committee” responsible for safety production and occupational health management. Regular meetings are held to discuss the safety hazards reported by various departments and make improvement; set performance improving standard and solution plan, confirmed by the Operation Administration Department that the improvement has been implemented to ensure the safe production requirement.	No obvious discrepancy.
(4) Does the company setup a communication channel with employees on a regular basis, as well as reasonably inform employees of any significant changes in operations that may have an impact on them?		The Company irregularly makes notifications in the Company announcements or by emails; and regularly holds the internal employer vs. employee meetings so as to establish a channel for employees' communication and announce important operational messages to all employees.	No obvious discrepancy.
(5) Does the company provide its employees with career development		The Company provides employees with refreshing opportunities to enhance their workforce and productivity.	No obvious discrepancy.

Evaluation Item	Implementation Status <sup>1</sup>		Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	
and training sessions?			
(6) Does the company establish any consumer protection mechanisms and appealing procedures regarding research development, purchasing, producing, operating and service?		Request supplier to make a statement, commending the non-toxic manufacturing; there are related inspection specification and procedures for R&D and production.	No obvious discrepancy.
(7) Does the company advertise and label its goods and services according to relevant regulations and international standards?		The Company's marketing and labeling on products and services follow relevant codes/regulations and international standards.	No obvious discrepancy.
(8) Does the company evaluate the records of suppliers' impact on the environment and society before taking on business partnerships?		When the Company works with suppliers, firstly it will figure out whether or not suppliers have the record of environmental and social impact.	No obvious discrepancy.
(9) Do the contracts between the company and its major suppliers include termination clauses which come into force once the suppliers breach the corporate social responsibility policy and cause appreciable impact on the environment and society?		The Company personnel avoids making commercial transactions with suppliers involved in the activities against corporate social responsibility policy, and immediately stop trading with them once the said activity is discovered and is listed as the refusing suppliers.	No obvious discrepancy.
4. Enhancing Information Disclosure (1) Does the company disclose	V	1. The Company will disclose information related to corporate social responsibility	No obvious discrepancy.



Evaluation Item		Implementation Status <sup>1</sup>		Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
		Yes	No	
2	Mushi town Government	Life Difficult Personnel	Support those in distress and aid those in misery; Charitable donation	Donation of charitable aid to Mushi town’s government, who have difficulty lives.
7. A clear statement shall be made below if the corporate social responsibility reports were verified by external certification institutions: N/A				

Note: 1. Regardless of whether the evaluation item is achieved or not, the company shall state an appropriate explanation.  
2. Companies who have compiled CSR reports may cite the source from specific pages of their CSR reports instead.

**3.3.6 Ethical Corporate Management**

Evaluation Item	Implementation Status <sup>1</sup>		Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	
<p>1. Establishment of ethical corporate management policies and programs</p> <p>(1) Does the company declare its ethical corporate management policies and procedures in its guidelines and external documents, as well as the commitment from its board to implement the policies?</p> <p>(2) Does the company establish policies to prevent unethical conduct with clear statements regarding relevant procedures, guidelines of conduct, punishment for violation, rules of appeal, and the commitment to implement the policies?</p>	V	<p>(1) The Company has an "Ethical Code of Conduct" and a "Code of Integrity Operation"; the Company's corporate culture also emphasizes integrity and ethics.</p> <p>(2) The Company has a "Operation Procedure and Conduct Guideline for Integrity Operation" for compliance.</p>	No obvious discrepancy.

Evaluation Item	Implementation Status <sup>1</sup>		Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	
(3) Does the company establish appropriate precautions against high-potential unethical conducts or listed activities stated in Article 2, Paragraph 7 of the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies?	V	(3) The Company has a "Operation Procedure and Conduct Guideline for Integrity Operation Code" and strictly prohibits of any dishonest act such as bribery or illegal political contribution; If any dishonest act is found, it will be handled in accordance with relevant regulations.	
2. Fulfill operations integrity policy	V	(1) The Company personnel prevents from engaging in commercial transactions with unscrupulous suppliers, customers or other business partners, once discovered, immediately stop trading with it and list it as a refusal. (2) The Company sets the Audit Committee,	No obvious discrepancy.
(1) Does the company evaluate business partners' ethical records and include ethics-related clauses in business contracts?	V		
(2) Does the company establish an exclusively (or	V		

Evaluation Item	Implementation Status <sup>1</sup>		Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	
concurrently) dedicated unit supervised by the Board to be in charge of corporate integrity?			which holds meeting at least once a quarter to supervise the effective implementation of the Company's internal control that shall obey the enactments, and is responsible to the Board of Directors.
(3) Does the company establish policies to prevent conflicts of interest and provide appropriate communication channels, and implement it?	V		(3) The Company's "Operation Procedure and Conduct Guideline for Integrity Operation Code" provides complete guidelines for employees.
(4) Has the company established effective systems for both accounting and internal control to facilitate ethical corporate management, and are they audited by either internal auditors or CPAs on a regular basis?	V		(4) The Company has an accounting system for accounting personnel to follow when operating, and the audit entity performs audit operations in accordance with the audit plan, and regularly reports audit performance to the Audit Committee and Board of Directors.



Evaluation Item	Implementation Status <sup>1</sup>		Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	
(5) Does the company regularly hold internal and external educational trainings on operational integrity?	V	(5) The Company's internal advocacy meeting arranges for high-tier management to express the importance of integrity to directors, employees and assignees.	
3. Operation of the integrity channel	V	(1) The Company hasn't established an employee report and reward system yet. However, when an employee discovers that there is a violation of laws and regulations or ethical conduct rule, anyone can report the complaint to the specific person.	At present the Company hasn't built the report and reward system and respective standard investigating procedure; yet, for any complaint, the Company handles it to the specific person and keeps reporter's identity and respective content in
(2) Does the company establish standard operating procedures for confidential reporting on investigating accusation cases?	V	(2) The Company hasn't established the standard investigation operation procedure and related confidentiality mechanism for accepting the report; however, the procedure of accepting	

Evaluation Item	Implementation Status <sup>1</sup>		Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	
(3) Does the company provide proper whistleblower protection?	V	<p>the reports are as follows: For the situation involving the general employees, the report shall be reported to the department head; for reports involving the directors or high-tier management, report it to the independent director.</p> <p>(3) The Company personnel dealing with the report shall perform it in writing statements and keep reporter’s identity and respective content in confidential; the Company promises to protect the reporters from being under improper dealing due to the reports.</p>	confidential.
4. Strengthening information disclosure (1) Does the company disclose its ethical corporate management policies and the results of its	V		No obvious discrepancy.

Evaluation Item	Implementation Status <sup>1</sup>		Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	
implementation on the company’s website and MOPS?		disclose it on company website; and emphasizes the concept of integrity management in annual reports and external documents.	
<p>5. If the company has established the ethical corporate management policies based on the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies, please describe any discrepancy between the policies and their implementation.</p> <p>There have been no differences.</p> <p>6. Other important information to facilitate a better understanding of the company’s ethical corporate management policies (e.g., review and amend its policies).</p> <p>When trading with the suppliers, the company has always adhered to the principle of good faith and promoted the company’s integrity management philosophy to its suppliers, and strengthened the education of our employees.</p>			

Note: Regardless of whether the evaluation item is achieved or not, the company shall state an appropriate explanation.

**3.3.7 Corporate Governance Guidelines and Regulations**

Please refer to the Company's website at [www.acetek.com.cn](http://www.acetek.com.cn) °

**3.3.8 Other Important Information Regarding Corporate Governance**

None.

### **3.3.9 Internal Control Systems**

#### **1. Statement of Internal Control System**

Jinan Acetate Chemical Co., LTD.

#### **Statement of internal control system**

Date: March 36, 2019

We hereby declare the results of the self-assessment of our internal control system in 2018 as below:

1. We acknowledge that it is the responsibility of the Company's Board of Directors and managers to establish, implement, and maintain the internal control system. We have established said system. Its purpose is to reasonably ensure that operational effectiveness and efficiency (including revenue, performance, and asset safety) and reporting are reliable, timely and transparent, as well as to ensure compliance with relevant regulations and laws.
2. Due to the inherent limitations of the internal control system, an effective internal control system can only provide reasonable assurance about the achievements of the three goals above, no matter how completely it is designed. Also, the effectiveness of an internal control system may vary when environment and circumstances change. However, our internal control system contains a self-supervision mechanism. We will immediately take corrective action towards any deficiency identified therefrom.
3. We determine the effectiveness of the design and implementation of our internal control system based on the criteria set forth in the "Regulations Governing Establishment of Internal Control Systems by Public Companies" (hereinafter called the "Regulations"). The Regulations specify five elements during the management and control process that constitute the internal control system: a. control environment, b. risk assessment, c. control activities, d. information and communications, e. supervision activities. Each constituent element may include several topics. The foregoing elements are as described in the Regulations.
4. We have adopted the above criteria of the internal control system to assess the effectiveness of the design and implementation of our internal control system.
5. Based on the results of said assessment, we determined that our internal control system (including the supervision and management of subsidiaries) as of December 31, 2018 have provided an effective design and implementation to reasonably ensure the achievement of goals, including the understanding of the achievement level of our effectiveness and efficiency goals, the reliability, timeliness, and transparency of reporting, as well as compliance with relevant regulations and laws.
6. The Company and its subsidiaries assigned accountants to review the reliability of external financial reporting and the security of assets (such that assets are not obtained, used or disposed without authorization) during the aforesaid period in accordance with Article 25 of the "Handling Guidelines" and Article 4 of the "Rules governing the TWSE Post-IPO Management of Foreign Issuers". As stated above, the internal control system is effective in design and performance, which has no major defect that would influence the reliability of recording, handling, summarizing and reporting financial information, nor the major defect that would affect the asset safety that makes the assets

being obtained, used or disposed without authorization.

7. This Report will form the major part of our annual report and prospectus, and will be disclosed to the public. Any misrepresentation, concealment and other illegal conduct will result in liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Act.
8. This Report has been passed by the Board of Directors on March 26, 2019. Among the six directors present at the meeting, zero members had objections, and the rest agreed to the statement herein.

Jinan Acetate Chemical Co., LTD.

Chairman: Wang, Ko-Chang

General Manager: Wang, Ko-Chang

2. If an accountant is entrusted to review internal audit control, the accountant review report shall be disclosed:

#### Audit Report for Internal Control System

Jinan Acetate Chemical Co., Ltd. and its subsidiaries, March 26, 2019, said that the internal control system, which was assessed to be related to external financial reporting and asset security protection, was effectively designed and implemented on December 31, 2018. Declaration, after auditing the accountant. Maintaining an effective internal control system and assessing its effectiveness are the responsibility of the company's management. The accountant's responsibility is to express an opinion on the effectiveness of the company's internal control system and the company's internal control system statement based on the results of the audit. The accountants has planned and executed the audit according to “Regulations Governing Establishment of Internal Control Systems by Public Companies” and the generally accepted audit regulations to reasonably assure that the company’s internal control system maintains effectively in all material respects. This audition includes to comprehend the company’s internal control system, evaluate the process of the evaluation for effectiveness of the overall internal control system by management team, test and evaluate the effectiveness of the design and operating of internal control system, and other audit procedures the accountants considering to be of necessity. The accountants believe that such audit could provide reasonable basis for our expressed opinions.

Any internal control system has its inherent limitations, so the internal control system of Jinan Acetate Chemical Co., Ltd. could still not be able to prevent or inspect mistakes or fraud having already existed. Besides, the circumstance could change in the future, and the extent of compliance to the internal control system could decrease as well, so internal control system effective during this period would not necessarily means that it would still be effective in the future.

Based on the opinions of the accountant, the internal control effectiveness judgment system of Jinan Acetate Chemical Co., Ltd. and its subsidiaries is related to external financial reports and asset security protection in accordance with the internal control effectiveness judgment project of the “Standards for Publicly Held Companies to Internal Control Systems”. Designed and implemented on December 31, 2018, maintaining effectiveness in all major aspects; Jinan Acetate Chemical Co., Ltd. and its subsidiaries issued on March 26, 2019, the statement that the internal control system related to external financial reporting and asset security protection is considered to be effective design and implementation, major aspects are permitted.

**Deloitte & Touche**

**Accountant Lee, Tung-Feng**

**Accountant Yang, Ching-Cheng**

**March 26, 2019**

**3.3.10 Punishment of this company and its internal personnel according to law, and the company's punishment for violation of internal control system, main missing and improvement conditions from past year to this report's printing: None.**

**3.3.11 Major Resolutions of Shareholders' Meeting and Board Meetings**

Item	Date	Major resolutions
Board meeting	Mar. 28, 2018	<ol style="list-style-type: none"> <li>1. Determine the amount of employees' and directors' remuneration of 2017</li> <li>2. Adoption of the 2017 Business Report and Consolidated Financial Statements.</li> <li>3. Adoption of the Proposal for Distribution of 2017 Profits</li> <li>4. Statement of internal control system of 2017</li> <li>5. Amendment to the Rules of Procedures for director's Meetings.</li> <li>6. Proposal to amend the Rule of the Audit Committee</li> <li>7. The Company's application of credit lines to banks</li> <li>8. Proposal to provide endorsement and guarantee for the Company's subsidiary company.</li> <li>9. Proposal to amend Articles of Association of the Company is submitted for discussion.</li> <li>10. Arrangement of the Shareholders' meeting in 2018</li> </ol>
Board meeting	May 07,2018	<ol style="list-style-type: none"> <li>1. Important financial affairs report: 2018 Q1 Consolidated Financial Statements report.</li> <li>2. The execution report of internal audit.</li> <li>3. The execution report of purchased Directors' and Officers' liability insurance</li> </ol>
Board meeting	Jun. 22,2018	<ol style="list-style-type: none"> <li>1. The distribution of employees' and directors' remuneration of 2017</li> <li>2. The Company's application of credit lines to banks</li> <li>3. Proposal to provide endorsement and guarantee for the Company's subsidiary company.</li> </ol>
Board meeting	Aug. 10,2018	<ol style="list-style-type: none"> <li>1. Important financial affairs report: 2018 Q2 Consolidated Financial Statements report.</li> <li>2. The execution report of internal audit.</li> <li>3. The Company's application of credit lines to banks</li> <li>4. Proposal to provide endorsement and guarantee for the Company's subsidiary company.</li> </ol>
Board meeting	Nov. 01,2018	<ol style="list-style-type: none"> <li>1. The Company opens a foreign fund reserving account.</li> </ol>
Board meeting	Nov. 08,2018	<ol style="list-style-type: none"> <li>1. The Company intends to buy back treasury shares</li> </ol>



		and transfer them to employees.
Board meeting	Dec. 25,2018	<ol style="list-style-type: none"> <li>1. 2019 budgetary</li> <li>2. 2019 audit plan</li> <li>3. Proposal to have the Company's Remuneration Committee review the managers' 2018 year-end bonus.</li> <li>4. The salary adjustment of the Group's management staff.</li> <li>5. The house renting between the Company and Mr. Wang, Ko-Chang.</li> <li>6. Valuation of the qualification on the compliance and independence of certificating accountant and respective reward.</li> <li>7. The issue of the Company planning to lend money to the subsidiary My Parents Living Technology Limited.</li> </ol>
Board meeting	Feb. 15,2019	<ol style="list-style-type: none"> <li>1. Plan to perform strategic alliance with LA/ES, the Group plans to acquire 20% equity of ELEUNG which is the 100% transfer investment subsidiary of LA/ES.</li> <li>2. Proposal to provide endorsement and guarantee for the Company's subsidiary company.</li> <li>3. Assign Mr. Yu Jing-Xian as a member of the Company 2nd Remuneration Committee.</li> </ol>
Board meeting	Mar. 26,2019	<ol style="list-style-type: none"> <li>1. The execution report of purchased Directors' and Officers' liability insurance</li> <li>2. The execution report of internal audit</li> <li>3. Adoption of the 2018 Business Report and Consolidated Financial Statements.</li> <li>4. Adoption of the Proposal for Distribution of 2018 Profits</li> <li>5. Proposal for capital increase through conversion of capital reserve and issuance of new share</li> <li>6. Determine the amount of employees' and directors' remuneration of 2018</li> <li>7. Statement of internal control system of 2018</li> <li>8. Nominate and review the list of candidates for independent directors</li> <li>9. Proposal to have new directors released from the obligations under the covenant not to compete is presented</li> <li>10. The Company's application of credit lines to banks</li> <li>11. Proposal to provide endorsement and guarantee for the Company's subsidiary company.</li> <li>12. The change of audit supervisor and deputy</li> </ol>

		spokesperson of the Company. 13. Proposal to amend Articles of Association of the Company is submitted for discussion. 14. Proposal to amend the Regulations Governing the Acquisition and Disposal of Assets of the Company is submitted for discussion. 15. Proposal to amend the Procedure for the Loaning of Funds is submitted for discussion. 16. Proposal to amend the Procedure for Endorsements and Guarantees is submitted for discussion. 17. Build the Company “Standard operating procedures of handling director’s requirements”. 18. Arrangement of the Shareholders' meeting in 2019
Board meeting	May 10,2019	1. Important financial affairs report: 2019 Q1 Consolidated Financial Statements report. 2. The execution report of internal audit.
Shareholders’ meeting	Jun.22, 2018	1. Adoption of the 2017 Business Report and Consolidated Financial Statements. Executing status: Approved 2. Adoption of the Proposal for Distribution of 2017 Profits Executing status: Set August 25, 2018 as the ex-dividend date, September 26, 2018 as the cash dividend distribution date. 3. Proposal to amend Articles of Association of the Company is submitted for discussion. Executing status: Already completes the change registration operation.

**3.3.11 Major Issues of Record or Written Statements Made by Any Director or Supervisor Dissenting to Important Resolutions Passed by the Board of Directors: None**

**3.3.12 Resignation or Dismissal of the Company’s Key Individuals, Including the Chairman, CEO, and Heads of Accounting, Finance, Internal Audit and R&D**

Apr, 30,2019

Title	Name	Date of Appointment	Date of Termination	Reasons for Resignation or Dismissal
Chief Internal Auditor	Chiang Hsiu-Fang	Dec. 04,2014	Mar. 26,2019	Discharged from the position

### 3.4 Information Regarding the Company's Audit Fee and Independence

#### 3.4.1 Audit Fee

Accounting Firm	Name of CPA		Period Covered by CPA's Audit	Remarks
Deloitte & Touche	Tung-Feng Lee	Ching-Cheng Yang	2018.01.01~2018.12.31	

Unit: NT\$ thousands

Fee Range		Fee Items	Audit Fee	Non-audit Fee	Total
1	Under NT\$ 2,000,000			v	
2	NT\$2,000,001 ~ NT\$4,000,000		v		
3	NT\$4,000,001 ~ NT\$6,000,000				v
4	NT\$6,000,001 ~ NT\$8,000,000				
5	NT\$8,000,001 ~ NT\$10,000,000				
6	Over NT\$100,000,000				

Information on Audit fees

Unit: NT\$ thousands

Accounting Firm	Name of CPA	Audit Fee	Non-audit Fee					Period Covered by CPA's Audit	Remarks
			System of Design	Company Registration	Human Resource	Others	Subtotal		
Deloitte Touche Tohmatsu Limited	Tung-Feng Lee	3,192				821	821	2018.01.01-2018.12.31	Note
	Ching-Cheng Yang								

Note: The other items are checking of travel expenses and miscellaneous expenses in Mainland China; Cayman changes the directors and annual fees and other fees.

Audit fees shall be disclosed if any one of the following conditions occurs

- (1). When non-audit fees paid to the CPA, to the accounting firm, and/or to any affiliated enterprise of such accounting firm are equivalent to one quarter or more of the audit fees paid thereto:
- (2). Change accounting firm and audit fees paid for the fiscal year in which such changes took place are lower than those for the previous year, the reduction in the amount of audit fees: N/A
- (3). When the audit fees paid for the current year are lower than those for the previous fiscal year by 15 percent or more: N/A

### **3.4.2 Replacement of CPA**

Information on replacement of CPA: N/A

### **3.4.3 Audit Independence**

The Company's Chairman, Chief Executive Officer, Chief Financial Officer, and managers in charge of its finance and accounting operations had hold any positions at the Company's independent auditing firm or its affiliates companies in the most recet year: N/A

### 3.5 Changes in Shareholding of Directors, Supervisors, Managers and Major Shareholders

Unit: Shares

Title	Name	2018		As of Apr. 30, 2019	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Chairman (Major Shareholders )	Bright Pearl Enterprises Ltd.	-	-	-	-
	Representative: Wang, Ko-Chang	-	-	-	-
Director ( Major Shareholders )	MACRIFER TRADING SOCIEDAD ANONIMA	(3,930,000)	-	-	-
	Representative: Yang, Li-Min	-	-	-	-
Director	MACRIFER TRADING SOCIEDAD ANONIMA	(3,930,000)	-	-	-
	Representative: Ericson Fensterseifer	-	-	-	-
Director	Amacron Trading Ltd.,	-	-	(2,000)	-
	Representative: HSU Cheng-Tsai	-	-	-	-
Independent Director	Chiang, Pin-Kung	-	-	-	-
Independent Director	Lin, Wen-Cheng	-	-	-	-
Independent Director	Lin, Tzer-Jong	-	-	-	-
President	Wang, Ko-Chang	-	-	-	-
President	Meng, Ching-Li	-	-	-	-
Vice President	Shu, Chang-Chao	-	-	-	-
CFO	Wang, Sheng-pin	281,000	450,000	-	-
Sale Director	Sun, Ching	-	-	-	-
Vice President	Chang, Ai-Feng	-	-	-	-
Factory Manager	Liu, Chen	-	-	-	-

**3.5.1 Shares Trading with Related Parties: N/A**

**3.5.2 Shares Pledge with Related Parties: N/A**

### 3.6 Relationship among the Top Ten Shareholders

As of 4/30/2019

Name	Current Shareholding		Spouse's/minor's Shareholding		Shareholding by Nominee Arrangement		Name and Relationship Between the Company's Top Ten Shareholders, or Spouses or Relatives Within Two Degrees		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relationship	
Bright Pearl Enterprises Ltd.	16,373,000	35.23	-	-	-	-	-	-	-
Representative: Wang, Ko-Chang	-	-	-	-	-	-	Wang, Song-Lan	elder sister	-
Macrifer Trading Sociedad Anonima	7,862,000	16.91	-	-	-	-	-	-	-
Representative: Juan Antonio Bruno Perroni	-	-	-	-	-	-	-	-	-
Stanord Ltd.	3,930,000	8.46							
Representative: Yang, Li-Min									
Amacron Trading Ltd.	3,431,000	7.38	-	-	-	-	-	-	-
Representative: Hsu, Cheng-Tsai	-	-	-	-	-	-	-	-	-
Farglory Life Insurance Inc.	1,537,000	3.31	-	-	-	-	-	-	-
Lucky Family Ltd.	1,220,000	2.62	-	-	-	-	-	-	-
Representative: Wang, Song-Lan	-	-	-	-	-	-	Wang, Ko-Chang	elder sister	-
Tokio Marine Nawa Insurance Co., Ltd.	787,000	1.69	-	-	-	-	-	-	-
Standard Chartered Hosting of the Bank of Liechtenstein	654,000	1.41	-	-	-	-	-	-	-
Wang, Sheng-pin	521,000	1.12	-	-	-	-	-	-	-
Hezhen Investment Co., Ltd.	440,000	0.95	-	-	-	-	-	-	-
Representative: Wang, Song-Lan	-	-	-	-	-	-	Wang, Ko-Chang	elder sister	-

### 3.7 Ownership of Shares in Affiliated Enterprises

Unit: shares/ %

Affiliated Enterprises	Ownership by the Company		Direct or Indirect Ownership by Directors, Supervisors, Managers		Total Ownership	
	Shares	%	Shares	%	Shares	%
My Parents Living Technology Limited	Note	100	-	-	Note	100
Jinan Acetate Chemical Co., LTD.(China)	Note	100	-	-	Note	100
Acetate Material Co., Ltd.	Note	80	-	-	Note	80

Note: Limited company with no shares

## IV. Capital Overview

### 4.1 Capital and Shares

#### 4.1.1 Source of Capital

##### A. Issued Shares

Unit: NT\$1000/One thousand shares

Month/ Year	Par Value (NT\$)	Authorized Capital		Paid-in Capital		Remark		
		Shares	Amount (NT\$ thousands)	Shares	Amount (NT\$ thousands)	Sources of Capital	Capital Increased by Assets Other than Cash	Other
09/2014	10	100,000	1,000,000	10,000	100,000	Authorized capital	-	
11/2014	10	100,000	1,000,000	40,000	400,000	Organizational restructuring ( Capital increased out of surplus)	-	Note 1
02/2015	10	100,000	1,000,000	41,000	410,000	Capital increased by cash	-	Note 2
11/2015	10	100,000	1,000,000	46,480	464,800	Capital increased by cash	-	Note 3

Note1: After the establishment of the company and the group's original holding company Tzu Yan Company to exchange shares

Note2: The company raised capital in cash and issued 1,000 new shares.

Note3: The company raised capital in cash and issued 5,480 new shares.

##### B. Type of Stock

As of 04/30/2019/ Unit: shares

Share Type	Authorized Capital			Remarks
	Issued Shares	Un-issued Shares	Total Shares	
Common Stock	46,480,000	53,520,000	100,000,000	-

#### 4.1.2 Status of Shareholders

As of 04/30/2019/ Unit: shares

Item	Government Agencies	Financial Institutions	Other Juridical Persons	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	-	9	18	1,168	23	1,219
Shareholding (shares)	-	3,327,000	667,000	7,815,000	34,158,000	46,480,000
Percentage	-	7.16%	1.44 %	16.81%	73.49%	100.00%

Note : Foreign institutions or individuals without mainland Chinese investors



### 4.1.3 Shareholding Distribution Status

#### A. Common Shares

As of Apr. 30, 2019; Unit: share/NT\$10 par value

Class of Shareholding (Unit: Share)	Number of Shareholders	Shareholding (Shares)	Percentage
1 ~ 999	74	2,934	0.01%
1,000 ~ 5,000	856	1,670,066	3.59%
5,001 ~ 10,000	113	877,000	1.89%
10,001 ~ 15,000	49	644,000	1.39%
15,001 ~ 20,000	27	502,000	1.08%
20,001 ~ 30,000	33	847,000	1.82%
30,001 ~ 40,000	14	481,000	1.03%
40,001 ~ 50,000	8	366,000	0.79%
50,001 ~ 100,000	23	1,769,000	3.81%
100,001 ~ 200,000	8	1,181,000	2.54%
200,001 ~ 400,000	3	872,000	1.88%
400,001 ~ 600,000	3	1,474,000	3.17%
600,001 ~ 800,000	2	1,441,000	3.10%
800,001 ~ 1,000,000	0	0	0.00%
1,000,001 or over	6	34,353,000	73.91%
Total	1,219	46,480,000	100.00%

### 4.1.4 List of Major Shareholders

As of 04/30/2019/ Unit: shares

Shareholder's Name	Shareholding	
	Shares	Percentage
Bright Pearl Enterprises Ltd.	13,373,000	35.23%
Macrifer Trading Sociedad Anonima	7,862,000	16.91%
Stanord Ltd.	3,930,000	8.46%
Amacron Trading Ltd.	3,431,000	7.38%
Farglory Life Insurance Inc.	1,537,000	3.31%
Lucky Family Ltd.	1,220,000	2.62%
Tokio Marine Newa Insurance Co., Ltd.	787,000	1.69%
Standard Chartered Hosting of the Bank of Liechtenstein	654,000	1.41%
Wang, Sheng-pin	521,000	1.12%
Hezhen Investment Co., Ltd.	440,000	0.95%

#### 4.1.5 Market Price, Net Worth, Earnings, and Dividends per Share

Unit: NT\$

Items	2017	2018	01/01/2019-03/31/2019 (Note 6)
<b>Market Price per Share</b>			
Highest Market Price	207	178	151.5
Lowest Market Price	117	113.5	120
Average Market Price	164.94	129.27	136.06
<b>Net Worth per Share</b>			
Before Distribution	27.16	25.47	27.60
After Distribution	22.16	Note 5	-
<b>Earnings per Share(Note 1)</b>			
Weighted Average Shares (thousand shares)	46,480	46,436	45,975
Diluted Earnings Per Share	3.7	3.76	1.29
Adjusted Diluted Earnings Per Share	3.7	Note 5	-
<b>Dividends per Share</b>			
Cash Dividends	5	4( Note 5)	-
Stock Dividends			
• Dividends from Retained Earnings	-	-	-
• Dividends from Capital Surplus	-	1( Note 5)	-
Accumulated Undistributed Dividends	-	-	-
<b>Return on Investment</b>			
Price / Earnings Ratio (Note2)	44.58	34.38	-
Price / Dividend Ratio (Note 3)	32.99	32.32	-
Cash Dividend Yield Rate (Note 4)	3.03	3.09	-

Note 1: shown as eps diluted by consolidation.

Note 2: Price / Earnings Ratio = Average Market Price / Earnings per Share

Note 3: Price / Dividend Ratio = Average Market Price / Cash Dividends per Share

Note 4: Cash Dividend Yield Rate = Cash Dividends per Share / Average Market Price

Note 5: Pending for shareholders resolution of 2019

Note 6: As of the printing date of this Annual Report, there was still the latest quarter data of earnings per share (EPS) and net worth per share duly audited by the Certified Public Accountants as well as the market price per share which represents the price of the data of the current year as of the printing date of this Annual Report

#### 4.1.6 Dividend Policy and Implementation Status

##### A. Dividend Policy in articles of the company:

The Board may, subject to approval by the Members by way of Ordinary Resolution or, in the case of Article 12.3(a), Supermajority Resolution and subject to the Articles and any direction of the Company in general meeting, declare a dividend to be paid to the Members in proportion to the

number of shares held by them, and such dividend may be paid in cash or shares.

Subject to the Applicable Law, no dividends or other distribution shall be paid except out of profits of the Company, realised or unrealised, out of share premium account or any reserve, fund or account as otherwise permitted by the Law. Except as otherwise provided by the rights attached to any shares, all dividends and other distributions shall be paid according to the number of the shares that a Member holds. If any share is issued on terms providing that it shall rank for dividend as from a particular date, that share shall rank for dividends accordingly.

The Company, in addition to the dividends to be distributed at the end of each financial year, may distribute interim dividends to the Members on semi-year basis. If the Board decides not to distribute interim dividends, the Board shall adopt a resolution to confirm such non-distribution after the relevant first half of the financial year. The distribution of the dividends at the end of each financial year shall comply with the requirements and procedures set forth in Clauses 14.4 to 14.6 and 14.10 to 14.12 and the distribution of the dividends for the first half of the financial year shall comply the requirements and procedures set forth in Clauses 14.6 to 14.12.

Subject to the Law and this Article and except as otherwise provided by the rights attached to any shares, the Company may distribute profits in accordance with a proposal for profits distribution approved by the Board and sanctioned by the Members by an Ordinary Resolution, in annual general meetings.

The Company is in the growth stage. The Board shall prepare the dividend proposal by taking into account the profit of the year, overall development, financial plans, capital requirements, the industry and the Company's prospects and perspectives and so on and submit the proposal for the Members' approval. For so long as the shares are traded on the ESM or listed on the TPEX or the TSE in Taiwan, if there are profits, in making the profits distribution recommendation, the Board shall set aside out of the profits of the Company for each financial year: (i) a reserve for payment of tax for the relevant financial year; (ii) an amount to offset losses incurred in previous years; (iii) ten per cent (10%) as reserve ("**Statutory Reserve**"); and (iv) a special surplus reserve as required by the applicable securities authority of the ROC under the Applicable Public Company Rules. The remaining balance, if any, together with a part or whole of accumulated undistributed profits in the previous years, subject to the Law and the Applicable Public Company Rules and after having considered the financial, business and operational factors of the Company, may be distributed as dividends to Members in proportion to their shareholdings in the amount of no less than ten per cent

(10%) of profit after tax of the relevant year. In the event that dividends are distributed to Members in a combination of share dividend and cash dividend, cash dividend shall be no less than ten per cent (10%) of the total dividends.

## **B. Proposed Distribution of Dividend**

1. Shareholder's stock dividend: The Company's Board of Directors has agreed to transfer NT\$ 1 to each share through the capital reserving fund on 2019-03-26. After agreed by the shareholders' convention, the Board of Directors has been authorized to set the discharge date.
2. Shareholder's cash dividend: The Company's Board of Directors has agreed the 2018 earnings distribution on March 26, 2019, with an amount of NT\$ 183,868,000 from the 2018 earnings and NT\$4 per share. After agreed by the shareholders' convention, the Board of Directors has been authorized to set the discharge date.
3. Employee Bonus - in Stock: None ◦
4. Employee Bonus - in Cash: NT\$ 2,768,000 ◦

## **C. The impact of the issuance of bonus shares proposed in the current shareholders' meeting upon the Company's business performance and earnings per share (EPS):**

The Company's Board of Directors has agreed to increase capital by NT\$1 per share and totally NT\$45,967,000 through the capital reserving fund on March 26, 2019. After the transfer, the capital increases to NT\$510,767,000. From this free share allotment, the Company's surplus per share in 2018 is diluted for 9%. As the Company is currently in the growing stage, it is expected to increase the profit in 2019; therefore, the Company's free share allotment has limited impact on business performance and earnings per share.

### **4.1.7 Employee Bonus and Directors' and Supervisors' Remuneration**

- A. Information Relating to Employee Bonus and Directors' and Supervisors' Remuneration in the Articles of Incorporation:

Please specify the above 4.1.6 A the explanation of dividend policy.

- B. The Estimated Basis for Calculating the Employee Bonus and Directors' and Supervisors' Remuneration

The Company's annual employee remuneration and director remuneration in 2018 are based on the Company's 2018 annual profit (defined as net profit before tax), taking the distribution percentage specified in Company's Articles of Association as the estimation basis, and list the current-stage operating expenses. However, if there is a difference between the actual allotment amount and the estimated one according to the conclusion of shareholder convention, it is regarded as the

accounting deviation and is included in the balance profit and loss of the resolution of the shareholder convention. If the employee's remuneration is issued by stock, the calculation of shares in the share-based remuneration bases on the market-closing price on the previous day of the shareholders convention and considers the ex-dividend and ex-dividend effect.

C. Profit Distribution for Employee Bonus and Directors' and Supervisors' Remuneration for 2019  
Approved in Board of Directors Meeting

(1) Recommended Distribution of Employee Bonus and Directors' and Supervisors' Remuneration:  
(NT\$ thousands)

Employee Bonus – in Cash	\$ 2,768
Employee Bonus – in Stock	0
Directors' and Supervisors' Remuneration	<u>2,768</u>
Total	\$ 5,536

(2) Ratio of Recommended Employee Stock Bonus to Capitalization of Earnings: 0%

The above-mentioned actual distribution of employee bonus and directors' and supervisors' remuneration was in line with the recommended resolution of the Board of Directors.

D. Distribution of last year's earnings surplus paid to employees, directors and supervisors: None.

**4.1.8 Buyback of Treasury Stock**

As of 04/30/2019

Treasury stocks: Batch Order	The 1st batch in 2018
Purpose of buy-back	Transfer ownership of shares to employees
Timeframe of buy-back	November 9, 2018–January 8, 2019
Price range	NT\$100 ~ NT\$160
Class, quantity of shares bought back	513,000 shares
Value of shares bought-back (in NT\$ thousands)	NT\$63,586
Shares sold/transferred	0 shares
Accumulated number of company shares held	513,000 shares
Percentage of total company shares held (%)	1.10%

## 4.2 Bonds

### 4.2.1 Corporate Bonds

As of 04/30/2019

Corporate Bond Type	1 <sup>rd</sup> Unsecured Convertible Corporate Bond	
Issue date	June 9, 2017	
Denomination	NT\$100 thousand	
Issuing and transaction location	Taipei Exchange (GreTai Securities Market)	
Issue price	To be issued at 100%~101% of fact amount	
Total price	The total value was 500 million NTD. The maximum value raised was 505 million NTD	
Coupon rate	Denomination rate is 0%	
Tenor	5 years Maturity: June 9, 2022	
Guarantee agency	None	
Consignee	CTBC Bank Co., Ltd.	
Underwriting institution	Cathay Securities Co., Ltd.	
Certified lawyer	Attorney-at-law Chen You-Liang of Jheding Attorney-at-law	
CPA	Deloitte & Touche Tohmatsu Limited Certified Public Accountants Tung-Feng Lee, Ching-Cheng Yang	
Repayment method	The bondholders may be repaid by converting possessed bonds to common stocks based on Article 14, or exercise the right of buying back based on Article 23 of the Regulations. The Company may conduct advance repurchase based on Article 22 of the Regulations, or the Company shall repay in the total unpaid denomination values except those already cancelled and bought back from the OTC markets by the Compny.	
Outstanding principal	NT\$500,000,000	
Terms of redemption or advance repayment	Please refer to the Company's "First domestic issuance of unsecured conversion of corporate bonds and conversion measures"	
Restrictive clause	None	
Name of credit rating agency, rating date, rating of corporate bonds	None	
Other rights attached	As of the printing date of this annual report, converted amount of (exchanged or subscribed) ordinary shares, GDRs or other securities	Amount of convertible bonds after exercise of conversion right: NT\$0; Total converted common shares: 0 share

	Issuance and conversion (exchange or subscription) method	Please refer to the Company's "First domestic issuance of unsecured conversion of corporate bonds and conversion measures"
	Issuance and conversion, exchange or subscription method, issuing condition dilution, and impact on existing shareholders' equity	If all are converted to common shares at the current conversion price NT\$161, then 3,105,590 shares have to be issued, which are 6.68% of total issued shares. Its influence on shareholders' equity is limited.
	Transfer agent	N/A

#### 4.2.2 Convertible Bonds

Corporate bond type		1 <sup>st</sup> Unsecured Convertible Corporate Bond		
Year		2017	2018	As of the printing date of this annual report
Market price of the convertible bond	Highest	125	114.5	109.4
	Lowest	107.5	101	99
	Average	111.81	104.62	104.73
Convertible Price		NT\$167.8	NT\$161	NT\$161
Issue date and conversion price at issuance		Issue Date: 2017/06/09 Conversion price at issuance: NT\$173/share		
Conversion methods		Issuing of new stocks		

#### 4.2.3 Exchangeable Bonds: None

#### 4.2.4 Shelf Registration for Issuing Bonds : None

#### 4.2.5 Corporate Bonds with Warrants: None

#### 4.3 Issuance of preferred shares 、 GDR 、 Employees stock options 、 Restriction on employee's issuance of new shares 、 Merger or issuance of new shares from other companies: None

#### 4.4 Execution of financing plans:

##### 4.4.1 Plan Contents

As of the last quarter of the printing day of this annual report, the previous issuance or private collection of securities hasn't completed or has completed in the last three years yet the benefits have not revealed yet: None.

#### **4.4.2 Execution:**

For the purpose of each plan stated above, the item-by-item analysis will be compared with the originally expected benefit on the last quarter before the printing date of this annual report. If the implementing progress or the benefit does not meet the expected target, specifically specify the reason and impact on shareholders' equity and the respective improvement plan: N/A.



## V. Operational Highlights

### 5.1 Business Activities

#### 5.1.1 Business Scope

##### A. Main areas of business operations

The Group is mainly engaged in research, manufacture and sale of cellulose acetate and tows.

##### B. Revenue distribution

Unit : NT\$ thousands

Item \ Annual	2017		2018	
	Sales Amount	Business Proportion	Sales Amount	Business Proportion
Cellulose acetate tow	302,101	17.28%	429,442	24.69%
Cellulose acetate	1,445,886	82.72%	1,309,752	75.31%

##### C. Main products

Cellulose acetate tow and Cellulose acetate.

##### D. New products development

Products	Application of new products
Cellulose acetate tow	Cigarette filters, water-based pen refills, garment materials, diapers, other filter materials and IQOS e-cigarettes, etc.
Base fabric (non-woven fabric)	Facial masks, facial filters
Cellulose acetate plastic grade	Special plates, plastic toys, packaging materials, instrument casings, tool handles and cellulose films
Cellulose triacetate	Protective films for LCD PVA film, organic permeable films

#### 5.1.2 Industry Overview

##### 1. Current state and development of the industry

The Company is an overseas holding company established in the Cayman Islands in September 2014. The Group mainly engages in the manufacture, sale and R&D of cellulose diacetate tows, vertically integrates the material sources. Since 2016, the Company jointly established the Aceteck

Material Co., Ltd. with Lunan Chemicals Co., Ltd. and the strategic investor Qiyao Co., Ltd., which mainly engages in the production, sales and R&D of cellulose diacetate. The cellulose diacetate tows belong to the acetate industry, the main applications are on the filter materials. The downstream application market includes filters for cigarettes, dry diapers, refills, non-woven masks, reverse osmosis membranes, sewage treatment. In medical applications, the cellulose diacetate tows are used to produce blood filters; some of them are also used in high-class clothing. About 75%-85% of the global cellulose acetate fiber production is the cellulose diacetate, and over 90% of the acetate tows are used for cigarette filters. The raw material of diacetate is wood pulp, which is a naturally regenerated fiber. The fiber is made into the cellulose diacetate by reacting with chemical raw materials such as acetic anhydride, and then produced into the cellulose diacetate tows through a series of process technologies. The industry overview and terminal application market are as follows:

The global environmental pollution is increasingly serious; the original ecological balance is destroyed as never made before. Countries around the world have developed strict environmental laws and regulations, using natural fibers or renewable resources as fiber raw materials, which enables the minimum pollution to the environment from products in the manufacturing process and the disposal afterward. The main raw material of cellulose acetate fiber is made by natural vinegar through acetification process, and is divided into acetate cellulose, cellulose diacetate and cellulose triacetate according to the acetification degree. The acetate cellulose has good skin contact and wearing comfort, hygroscopicity and easy to handle about, and its products can be completely decomposed, biodegradable that many synthetic fibers can't, which can be used for pharmaceutical enteric coatings, eyeglass frames, toys and other plastic products, or dissolved in acetone, after spinning, silking and curling, form tows to produce cigarette filters, dry diapers, refills, non-woven masks and sewage treatment; in addition, in medical, acetate cellulose can be used to make hemodialysis filtration membrane, artificial kidney membrane material and similar products. Therefore, the end application products of acetate cellulose can be quite extensive and diverse.

The Group makes vertical integration and expands new plant to material source and completed the plant construction on June 30, 2017. The new plant mainly produces cellulose diacetate (commonly known as vinegar tablets), and the spinning grade vinegar tablets are used by Jinan Acetate Chemical Co., Ltd., which is a downstream company of the supply group. The plastic vinegar tablets are mainly sold out. The manufacturing process of vinegar tablets applies the medium temperature method, and the cellulose acetate grade pulp reacts with acetic anhydride as the catalyst under the condition of sulfuric acid as the solvent and the acetic acid is as the solvent to produce cellulose triacetate, which is then hydrolyzed, precipitated, washed and dried to obtain cellulose diacetate. The manufacturing process of cellulose diacetate tows mainly uses vinegar tablets as raw

material, processed by dissolution, filtration, spinning, and crimping, drying, wire-drawing, packaging and other processes. Because the cellulose diacetate tows have excellent elasticity and thermal stability, its texture is firm, non-toxic, tasteless, small suction resistance, and remarkable in filter effect. It can reduce harmful substances such as tar and nicotine that enter human body during smoking, and thus have replaced the polypropylene material and become the main raw material for today's cigarette filters. Since the acetate tows have come into mass production model in 1962, the production of Celanese, Eastman and Rhodia (bought by the Solvay Group in 2011) accounted for the majority in the market; all three major suppliers produce their own vinegar tablets, supplying the world's major tobacco manufacturers (China Tobacco, PMI, British Anglo, Independent & Monopolies, Japan Tobacco and other manufacturers) after being formed to tows, and has long-term stable cooperation with global tobacco manufacturers. Since the manufacturing capacities of these three major suppliers are adjusted mainly in line with the demand of the top five tobacco manufacturers, therefore, the capacity expansion is cautious. In the past a few years, due to the growth of Chinese cigarette market, the supply of cellulose diacetate tows is in short; China tobacco industry has no independent technology, it thus makes joint venture with international companies. After obtaining the required technology, the production and demand have gradually become balanced. The demanding and price of cigarettes are extremely affected by the cycle of economy. Even if the tobacco tax is added to the tobacco control policy, the additional cost is taken by consumers and the cigarette prices increase instead of decrease; yet, for the acetate tows, under the major change in the cost structure, the price of the cellulose diacetate tows was adjusted along with adjusting of upstream and downstream prices.

In 2016, the global output of diacetate tows was about 762,000 tons, and its end products were widely used in cigarette filters. According to the research report of Zhiyan Consulting Group Research Center, the global sales amount of diacetate tows in 2016 is about 4.217 billion US dollars; the growth is going to reach over 4.811 billion US dollars by the end of 2023. It is obvious that the market demand will continue to grow in the future. The following are the markets for downstream applications such as the filters and textile cellulose acetate fibers.

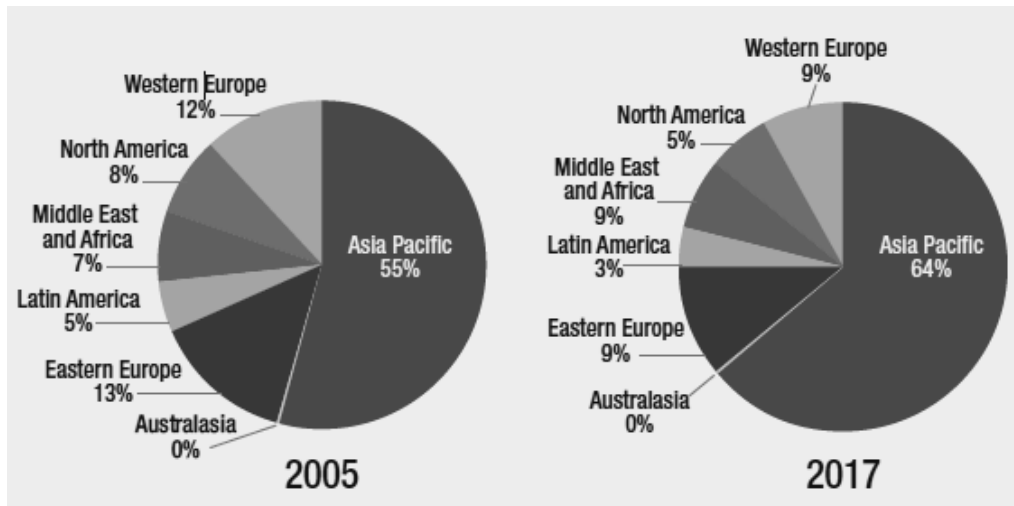
#### **A.Filters**

The filters are the upper part of cigarettes, which are used to filter out part of the tar inhaled from cigarettes, reducing the discomfort of the smoker after smoking. With the technology development, the filter types have made some changes. Because cellulose diacetate tow has good elasticity and thermal stability, it has a special type structure and chemical composition, which is non-toxic, tasteless, and strong in adsorption and has a significant effect on filtering, which can

reduce the toxic substances in the flue gas. Filters have been applied to the cigarette filters since 1957 to instead of polyester fiber material; it has become the main material for cigarette filters. Cellulose acetate fiber is widely accepted by consumers enjoying both low tar and high tar cigarettes. At present, the density or specification of acetate tow has reached 5.0 denier from 1.8 denier and can be made into a series of filters that adapt to different pressures and remaining characteristics. The finer the fiber, the higher filtration efficiency of cigarette it can reach about. In addition, the ventilation function of cellulose acetate fiber can also reduce the smoke volatilization, and the volatilization of cigarette tar and nicotine decreases as the filter becomes longer. In the past, cigarette filter was usually 20 mm long, at present, 25 mm, 27 mm or even 31 mm filters are common. The increase in filter length reduces the tobacco amount in cigarette; on the other hand, it reduces the cigarette smoke; longer cigarette filter can make better smoke-reducing effect.

The filter market is mainly from the demand of cigarette market. At present, the demand of global cigarette market is affected by the increasing number of tobacco control measures and the diversified trend of smoker consumption. The cigarettes demand in the developed countries including the United States, Europe and Japan continues to declining, within 2005 to 2017, cigarette sales in Asia, Middle East and Africa increased. The main cigarette growth in Asia comes from China. China is the country with the highest smoking population in the world. The output value of Chinese cigarettes is 42.6% of the global total. Other emerging economies such as Indonesia and Africa are the growing regions of cigarettes. According to the data, the top five cigarette markets are China, Russia, the United States, Indonesia and Japan, which account for 61.7% of the total cigarette market in 2017; among the top ten cigarette markets, six of them are the emerging market economies. The Indonesian cigarette market is a special one, mainly based on clove-flavored diced cigarettes; in the Russian cigarette market, cigarette sales decreased by 7.2% within 2016 to 2017, yet, cigarette sales increased by 3.6%; the tobacco market in India mainly is the smoke-free tobacco, about 75% market share; followed by the hand-rolling tobacco market, about 27% market share; cigarettes share only 14%; but for international tobacco merchants, about 81.3 billion cigarettes were sold in India in 2017, which is one of the emerging markets that can be expected to be developed.

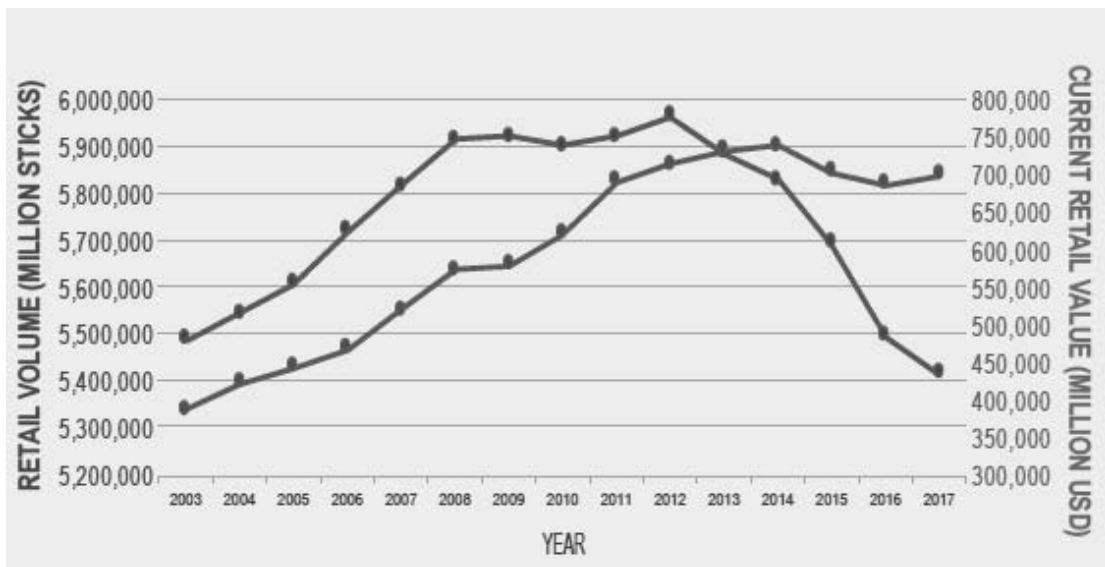
### Global cigarette market per region



Source: **Euromonitor International, 2018**

According to a market research report released by Euro monitor International in 2018, global cigarette sales decreased by 1.3% from 2003 to 2017; and cigarette sales increased by 26.5%. Euromonitor International predicts that the global cigarette industry will continue to grow in the next five years, and sales are expected to decrease by 8%, yet, sales will decrease by 0.3% due to price increasing.

### Global cigarette market 2001-2015 production value and annual output



Source: **Euromonitor International, 2018**

The cigarette markets in each of the above regions are growing and affecting the demand for

cellulose diacetate tows. However, not all cigarettes have filters, on particular the unfiltered cigarettes are more common in the emerging economies. Nowadays, the income of emerging economies is increasing and health awareness is rising. In addition to the government's effort to strengthen tobacco control measures with the World Health Organization (WHO), consumers and manufacturers are more convinced that the use of filters and the extension of cigarette filters can reduce the inhale of harmful substances. Therefore, the demanding of cellulose diacetate tows in the emerging markets such as Eastern Europe, Africa, the Middle East and Latin America shall continue to rise up.

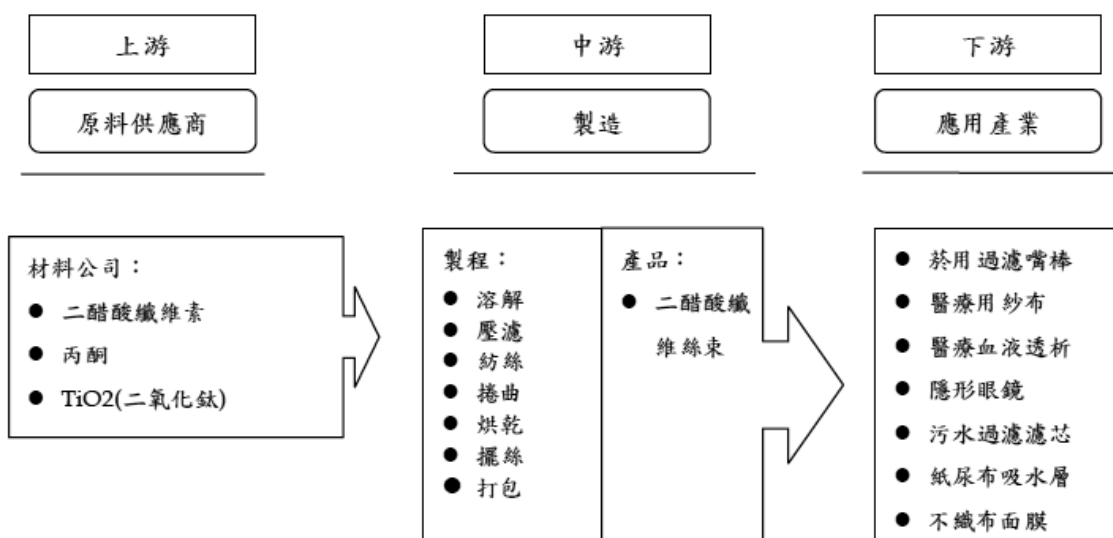
**B. Cellulose acetate fiber grade (non-woven facial mask, dry diaper and high-grade clothing, etc.)**

Non-woven fabric made of acetic acid staple fiber (non-woven fabric) can be used for surgical dressing that is non-sticking to the wound which is a high-grade medical and hygienic material, and can also be used as the main material for the absorbent layer of diapers. In addition, acetic acid staple fiber can also be blended with cotton or synthetic fiber to make various fabrics with excellent properties. On particular, acetate fiber has been developed for use in masks because it has stronger water retention and conformability than existing non-woven fabrics. Acetate filaments are the silkiest one in the chemical fiber, and the gloss is elegant. Bright dyeing, strong color fastness, soft and smooth hand-feeling, light texture, low moisture regain, good elasticity, hard to wrinkle, good drapability and thermos-plasticity and dimensional stability, able to be widely used as clothing lining, casual wear, pajamas and underwear, etc. It can also combine with polyvinyl alcohol, polyester, polyamine filaments and silk to make composite yarns, weaving all kinds of men's and women's clothing and developing satin fabrics and woven fabrics, decorative satin and embroidered products. At present, it is favored by consumers in the United States, Britain, Japan, Italy, Mexico, South Korea, Russia, Pakistan and other countries and regions, especially in the US market. China's annual demand on textile cellulose acetate fiber is about 10,000 tons. Due to the high import price, there are only small amount of import, about 2,000 tons per year. Many textile mills use substitutes to solve the problem of insufficient cellulose acetate, and the performance of acetate fiber is excellent. Wide range, high added value of products, no pollution in the production process and renewable raw materials that is suitable for sustainable development. China's textile acetate filament production is still completely dependent on imports, so the market prospect of textile acetate fiber is very promising.

**2. Correlation among upstream, midstream and downstream sections of the industry:**

The relationship of the Group's upper, middle and lower industries are shown as follows. The

Company's cellulose diacetate tows can be used in a wide range of applications. At present, most of the tows are used in cigarette filters, the upstream industry is the manufacturers of cellulose diacetate, and the downstream one is the filter rod manufacturers or cigarette manufacturer, ink refills, dry diaper layer products and sewage filters, etc. In 2016, the Group vertically integrated the material source and has established a joint venture with Lunan Chemicals Co., Ltd., which is the upstream supplier, and downstream strategic investor Qiyao Co., Ltd. and started to mass production since the second half of 2017, which mainly produces the cellulose diacetate to reduce the cost of raw materials, and processed through a series of process technologies, and then sold to downstream manufacturers such as filter rod manufacturers or cigarette manufacturers that manufacture cigarette filters. The tobacco industry, which is mainly used for its application, is relatively closed in operation. Therefore, in addition to direct sales, the Company also sell products through agents familiar with the tobacco industry.



Source: Provided by the Company

### 3. Various development trends and competition conditions of the product:

#### A. Expanding other application areas of cellulose acetate fiber

Cellulose acetate tow is mainly used in tobacco tows, dry diapers and refills, etc. It can also be applied to sewage treatment filtration and hemodialysis. The Group will actively perform R&D on related applications in the future.

#### B. In-depth R&D (R&D ) on the full series of special tobacco tow specifications

While continuing to develop existing specifications, we will strengthen special specifications to

meet the needs of diverse customers and focus on quality improvement.

#### C. In-depth horizontal development

In addition to maintaining its own customers, the Company also actively seeks potential customers by participating in foreign exhibitions, and proceeds to develop potential emerging markets so as to expand its business. In addition, it will select good-quality customers as partners and grow together with them.

In summary, the Group continues to invest in the R&D of high-level technologic research and related applications of cellulose diacetate tows and cellulose triacetate, responding to the development of future medical and daily consumer products, with a view to master business opportunities.

### **4. Industrial competition**

The Group mainly engages in the R&D, production and sales of cellulose diacetate tows. It is a professional cellulose acetate tows manufacturing company, the main competitors are from multinational international companies such as Europe, the United States and Japan, including Solvay, Eastman, Celanese and Daicel, etc. In this almost oligopolistic market, aim to the efforts of emerging country customers as business development targets, and nowadays have gained certain reputation in this field. But the Company still has to face the competition of international manufacturers that own transnational resources. In addition to the Company's continuous R&D, the Group has continued to improve the manufacturing process and maintain quality stability, and strives for more customer orders and whereas reduces the risk of industrial changes.

### **5.1.3 Research and Development**

#### **1. Research and development and technical ability of our business lines**

##### A. Technologic level

The Group mainly engages in the production of various types of cellulose diacetate and tows, and makes R&D on such products. Cellulose diacetate has different properties and applications depending on its esterification degree. The products with of acetification degree of 2.25-2.3 are used for producing special plastic sheets; products with of acetification degree of 2.8-3.0 are for high performance electronic films and organic penetration membranes. The products with of acetification degree of 2.4-2.6 are applied for producing the Group's tows.



The raw material of cellulose acetate is natural cellulose such as wood pulp or cotton pulp. It is a renewable resource with rich sources and sustainability. Meanwhile, the wastewater generated in the production process is easy to handle and has less rejects. The main operating units in production process are cellulose acetate production unit, recovery unit, raw material tank area and chemicals area. Due to the wide variation of raw materials, the conditions for producing various specifications of tows are also quite different. Cellulose diacetate tow has a very powerful filtering function. In the production process, the main operating units are dissolution, high efficiency filtration, spinning, crimping, drying, wire swaying, packing, acetone, recovery and distillation units, etc. The main features of products are:

- (A) Renewable, belonging to the cleaning industry;
- (B) High filtration accuracy;
- (C) Fit the filtration requirements for multiple industries.

From the aforesaid features we can see that the Group's products are in line with the needs of society under sustainable development. For different filtration requirements and consumption, different process conditions are designed to produce different specifications of cellulose acetate and tows, and the experience of existing products cannot be fully applied. In addition to the experience of using existing products, it is necessary to develop relevant material parameters, equipment parameters and process parameters. The development of new products must have a certain amount of technology and experience to achieve the high production rate of new products. The technical threshold for entering this industry is very high. After years of hard work, the Company's overall technology maturity is quite high, and related products have been recognized by manufacturers in more than 30 countries.

**B. Research and development (R&D):**

In addition to the continuous development and improvement of the present product, the Group's R&D direction is to strengthening the own manufacturing strength and steps toward diversified products; the expected future development direction is as follows:

Product	Developing direction
Cellulose acetate tow	Cigarette filters, water-based pen refills, garment materials, diapers, other filter materials and IQOS e-cigarettes, etc.
Base fabric (non-woven fabric)	Facial masks, facial filters
Cellulose acetate of plastic grade	Special plates, plastic toys, packaging materials, instrument casings, tool handles and cellulose films
Cellulose triacetate	Protective films for LCD PVA film, organic permeable films

## 2. R&D costs of recent year and year 2019 as of March 31, 2019

Unit : NT\$ thousands;%

Item	2016	2017	2018	Jan. to March in 2019
Expense of R&D	45,229	97,399	110,484	29,952
Net Sales	1,586,120	1,747,987	1,739,194	457,740
Proportion of revenue	2.85	5.57	6.35	6.54

## 3. Technology or product developed successfully

Year	R&D effort	Main technology description	Products
2015	Air-draft and air-return equalizer in spinning machine channel	Channel air-draft device in spinning machine, channel is used to dry the cellulose acetate tows sprayed by slurry through the spinneret, which belongs to the spinning channel air-draft technology.	Cellulose acetate tows
	Two-stage silk guide roller for cellulose acetate production	The tows retracts from the silk-guide roller of spinning machine channel, which belongs to the silk-guide roller technology.	
	Air-draft device in spinning machine channel	The channel air-draft device in the spinning line, applied to dry the cellulose acetate tows fed from the slurry through the spinneret, which belongs to the spinning channel air-draft technology.	
	Tows silks-combining device	Device making that combines many silks into a cellulose acetate tow by the collection roller, which belongs to the cellulose acetate tows silk-combining technology.	
	Cellulose acetate production line	The production line of cellulose acetate, which belongs to the hollow fiber acetate production technology.	
	Cellulose acetate tows continuous wire-pendulum exchange box	The conversion device that cellulose acetate tows pass through the wire-pendulum machine and switch between two silk barrels after pendulum threading, which is the cellulose acetate tows laying technology.	

	Spinning channel air-adjusting valve	The channel wind-balancing device in the spinning machine, the channel is used to dry the cellulose acetate tows sprayed by the slurry through the spinneret, which belongs to the spinning channel air-draft regulation technology.	
	Cellulose acetate tows guiding wear-prevention mechanism	The mechanism for guiding cellulose acetate tows on a pendulum machine, which belongs to the cellulose acetate tows production technology.	
2016	Curling machine back pressure stabilizing device	The device used to stabilize the back pressure of the crimper, which belongs to the crimper back pressure technology.	Cellulose acetate tows
	Curling machine wear-preventing side-plate	The side plate in the crimping machine used for crimping the cellulose acetate tows, which belongs to the crimper side plate technology.	
	Spinning machine sealing device	The spinneret sealing device used in the spinning machine for the production of cellulose acetate, which belongs to the spinneret sealing technology in the spinning machine.	
2017	Cellulose diacetate midway test system	Midway test system for the production of cellulose acetate, which belongs to the cellulose acetate production technology.	Cellulose acetate tows
	Cellulose acetate tows tension stabilization guiding mechanism	The guiding mechanism before the cellulose acetate tows entering the crimping machine, which belongs to the cellulose acetate tows production technology.	
	Spinning metering pump mounting device	The device used to install the cellulose acetate tows metering pump in a spinning machine, which belongs to the spinning technology in a spinning machine.	
	Fiber spinning nozzle cap	The spinneret in the spinning machine for the production of cellulose acetate, which belongs to the spinning technology in spinning machine.	

	Aceification performance evaluator	The device used to evaluate the acetification performance of raw material cellulose acetate for producing cellulose acetate in a production process, which belongs to the cellulose acetate acetification performance evaluation technology.	Cellulose acetate tows
	Vinegar sheets drying and anti-escape device	The device used to prevent the cellulose acetate from running out of the dryer during drying process, which belongs to the cellulose acetate drying technology.	
	Integrated vinegar sheets moisture extrusion and splitting device	The device is used to extrude raw cellulose acetate material and produce the dewatered cellulose acetate before drying, which belongs to the cellulose acetate extrusion drying technology.	
2018	Wood pulp loosening machine	This machine is used for pre-pulverizing raw wood pulp in producing cellulose acetate, which belongs to the wood pulp pre-crushing technology.	Cellulose acetate tows
	Decolorizing device for recovering acetic acid in the manufacturing process of acetate cellulose	This device is used for decoloring and purification treatment of recovered acetic acid in the manufacturing process of acetate cellulose, which belongs to the acetic acid decoloring technology.	
	Automatic sampling device for cellulose acetate sheets dry inspection	The cellulose acetate production process is used to sample the cellulose acetate sheet for inspection, which belongs to the cotton pulp pre-shearing technology.	
	System for recovering acetic acid from vinegar waste residue liquid	It is the acetic acid waste residue treatment technology, which changes the viscosity of cellulose acetate waste residue by hydrolyzing and degrading the waste residue liquid, facilitate the acetic acid recycling operation.	
	Cotton pulp pre-shearing device	This device is used in the pre-shearing of cotton pulp before the grinding in cellulose acetate production process, which belongs to the cotton pulp pre-shearing technology.	
	Cellulose acetate drying uniform conveying device	This device is used in the production process of cellulose acetate to uniformly transport the cloth when cellulose acetate sheets are dried, which belongs to the cotton pulp pre-shearing technology.	

#### **5.1.4 Long-term and short-term business development plan**

##### **1. Short-term business development plan**

The Group exports to more than 30 countries and regions worldwide for a long time and maintains good cooperative relations. Both existing and new products are comparable to competitors with more affordable prices. Therefore, the Group will continue to maintain cost advantages and develop better product specifications. Meanwhile, on the basis of existing customers, the Group continues to develop the larger world market.

##### **2. Long-term business development plan**

The development of new products alone is an established strategy of the Group. In the past a few years, the Group has continued to actively develop new products and accumulated rich experience in product development. In the future, the Group will closely monitor the development trend of new products and new technologies, and develops better products for customers. The main advantage of the Group is its rich R&D experience on new products.

## 5.2 Market and Sales Overview

### 5.2.1 Market Analysis

#### A. Sales (Service) Region

Unit : NT\$ thousands;%

Area	Year	2016		2017		2018	
		Amount	%	Amount	%	Amount	%
Asia		935,425	58.98	1,163,871	66.58	1,236,829	71.12
Africa		300,997	18.98	266,006	15.22	139,531	8.02
America		315,529	19.89	264,099	15.11	351,951	20.24
Other		34,169	2.15	54,011	3.09	10,883	0.62
Total		1,586,120	100.00	1,747,987	100.00	1,739,194	100.00

#### B. Market Share (%) of Major Product Categories in the Last Two Years

The Group mainly engages in the manufacturing and sales of cellulose acetate tows. As there is no company with the same business content in Taiwan, the Group's market share is estimated by the global production of cellulose acetate tows. The Group's annual production in 2018 is approximately 10,133 tons; the estimated global market share is as follows:

Unit : thousands ton

Year	Acetate Group	Global Acetate fiber	Market Share (%)
	Cellulose acetate tow yield	ow yield	
2018	10.133	About 762	1.33%

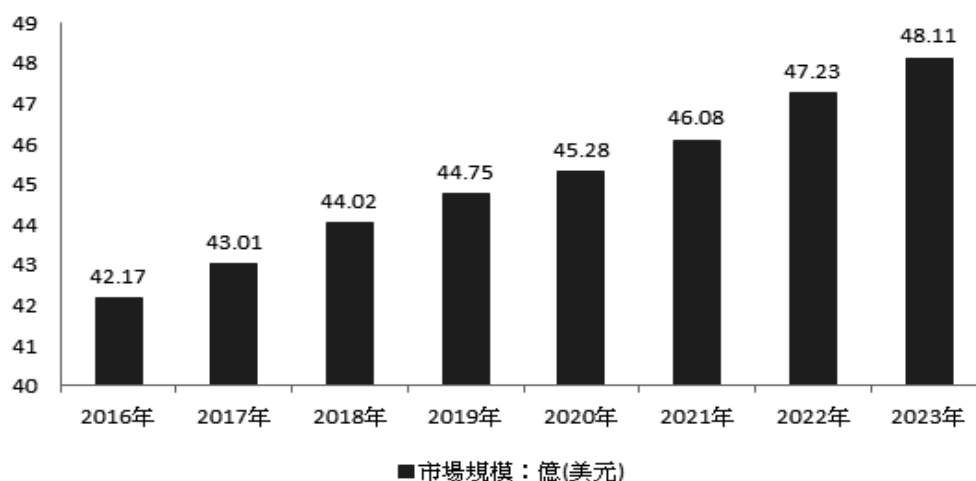
#### C. Market Analysis of Major Product Categories

Since cellulose acetate tow entered mass production in 1962, the production of Celanese, Eastman and Rhodia (bought by the Solvay Group in 2011) accounted for the majority of the market share, all three suppliers produced their own cellulose diacetate (vinegar sheets)); after being processed into tows, the tows are supplied to major tobacco manufacturers (China Tobacco, PMI, British Anglo, Independent & Monopolies and Japan Tobacco, etc.), and have long-term stable cooperation with global tobacco manufacturers. The capacity adjustment of these three major suppliers is mainly in line with the needs of the top five tobacco manufacturers. Therefore, the expansion of production is very careful. In the past a few years, due to the growth of the Chinese cigarette population market, supply of cellulose diacetate tows are in short. Since China Tobacco has no independent technology, after many joint ventures with international giants to obtain technology, the supply and demand has gradually become more balanced. The demand and price of cigarettes are extremely affected by the booming cycle. Even if the tobacco tax is added to the tobacco control policy and the cost is transferred to consumers, cigarette price won't decrease, but

for the cellulose diacetate tows, under the major changes in the cost structure, the price of cellulose diacetate tows is adjusted as the upstream and downstream prices are adjusted.

At present, the global production of cellulose diacetate tows is about 762,000 tons; the end products are massively used in cigarette filters. According to the report issued from the Research Center of Zhiyan Consulting Group, the global sales price of pharmaceutical cellulose diacetate tows industry in 2018 is about US\$ 4.402 billion. By the end of 2023, the growth will reach over US\$ 4.811 billion. It is obvious that the market demand will continue to grow in the future.

2016~2023年全球二醋酸纖維絲束行業市場規模預測



Source: Zhiyan Consulting Group, 2017

#### D. Strengths and weaknesses of development

##### 1. Independent production technology and customized services

The Group has been in the field of chemical fibers for many years. It has professional technology of cellulose acetate production, such as spinning winding, acetone recovery and other equipment and technologies. According to the customer's request for new products, the two parties have a tacit understanding of rapid design and development of products; significantly shorten customer communication time, speed up the joint development of new products, assist customers to launch new products as soon as possible, and seize market opportunities. The Group has a long-standing relationship with major customers and has successfully gained the trust and recognition from its customers with its stable and excellent product quality and the advantage of perfect service.

##### 2. Establish a good relationship with customers and provide perfect services to them.

The Group has a long-standing relationship with major customers and is able to communicate

directly with customers to understand their actual needs and produce high-quality products with superior process technology. Meanwhile, in addition to maintaining existing customers, the Group has successfully developed orders from many filter rods manufacturers. It is obvious that the product quality has been affirmed by large customers.

3. Emphasis on elite recruitment and develop independent technology

The Group pays great attention on the independent training of elites and regards them as an important strategy for long-term operation. With advanced acetate tows production technical capabilities in various specifications and excellent R & D team, in-depth study the development of more products with special specifications that can meet the diverse needs of end customers. The Group also applied for a number of patents in R&D technology. Through the establishment of national patent certification, develop independent technology to enhance technical competitiveness and leading edge.

E. Favorable and Unfavorable Factors in the Long Term

1. Favorable factors

(1) Production technology patents, independent R&D capabilities and high barriers to capital access

The key technologies of the Group are the production technologies, patents and independent R&D capability of cellulose diacetate and tows, which have certain barriers to access. The Group has intensively studied for many years with rich experience in technology, such as R&D of the industry-leading special-specification acetate tows equipment and technology that can meet the product requirements of different end customers.

The production technologies of cellulose diacetate tows are intensive, the process technology and product output yield decide the production cost. The Group's products have high yield and stable quality; the experienced R&D and production personnel regularly observe and adjust the acetate tows producing process and related machine programs to maintain high production yield and reduce production cost. In addition, mass production will reduce the unit input cost and expenses.

The production technology of cellulose diacetate tows is becoming more and more important to the industry, and the amount of capital investment is also increasing. The capital-intensive nature of manufacturing acetate tows is becoming more and more obvious. The Group has advanced acetate tows manufacturing R&D technology and equipment, the quality and technology is deeply affirmed by international manufacturers that make other new players in this field more difficult to access this field.



(2) Growth of the filter market from emerging economies

Global cellulose diacetate tows are mainly used in cigarette filters. Although the aforesaid cigarette market has a long-term growth and affects the demand of filters, but, not all cigarettes have front filters, especially unfiltered cigarettes are more common in emerging economies, mainly due to lower health awareness and income, and the cigarette filter is considered the reason of affecting the taste of smokers. Nowadays, due to the increasing income of emerging economies and rising health awareness, except the governments still work with the World Health Organization (WHO) to strengthen tobacco control measures, consumers and manufacturers mostly agree that adding filters to cigarettes and increasing the cigarette filter lengthen can reduce the inhale of harmful substances, so the current demand for cellulose diacetate tows in emerging markets such as Eastern Europe, Africa, Middle East and Latin America is still increasing as filter demand increases.

(3) Wide range of cellulose acetate applications

With its high added value of products and good market prospect, the Group, by utilizing the understanding on the characteristics of cellulose acetate and the R&D of various fiber materials, has begun to develop other applications of cellulose acetate, such as sewage treatment process application, biomedical products or other derivative products, and expands product application scope.

(4) Maintaining long-term stable partnership with customers

The Group's products are produced per customers-demanded new products or under customized production according to customer needs. The Group has a long-standing relationship with major customers, established a good understanding with customers, and has successfully obtained the trustfulness and affirmation from customers by the advantage of stable and excellent product quality.

2. Unfavorable factors and countermeasures

(1) Impact from tobacco control measures

At present, the largest application area of cellulose acetate in the world is still the cigarette filters. As the cigarette market is affected by enactments, such as cigarette health donation tax and indoor smoking prohibition, the cigarette market trend is fair in the developing countries, and shows recession in the developed countries such as the United States, Western Europe and Japan are showing recession.

Countermeasures

Through the experience of internationally renowned exhibitions and past transacting

experiences with emerging economies, the Group develops the profitable markets in Africa, Middle East, Eastern Europe and Asia (excluding China) or the markets in other low income countries through the agent services worldwide. In addition, it also strengthens other applications of cellulose acetate, such as the R&D of hollow fiber membranes.

(2) The risk of rising wage costs in Mainland China

The Group's main production base is located in Mainland China. In recent years, Mainland China provinces have continuously raised labor wages and benefits, resulting in the increase in labor costs for enterprises. Due to the improvement of education standard and income level in Mainland China, supply of labor force in there has been decreasing, caused by the change of social value; and the Group has gradually increased its recruitment and production costs.

Countermeasures

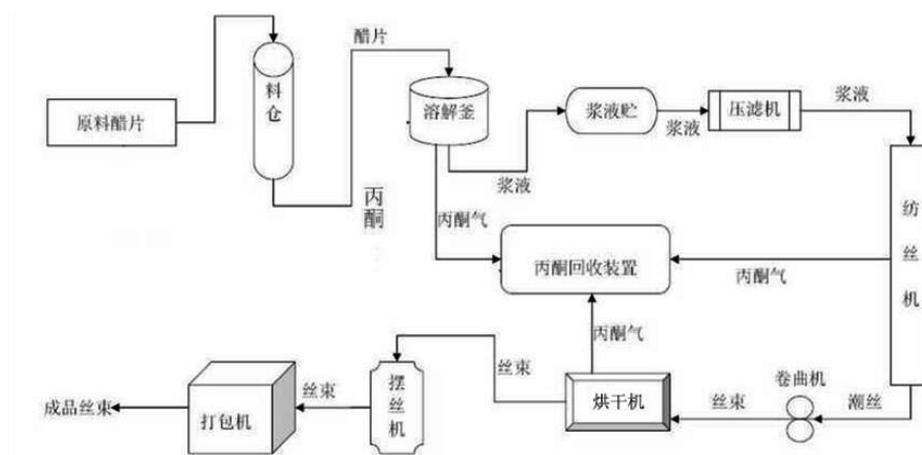
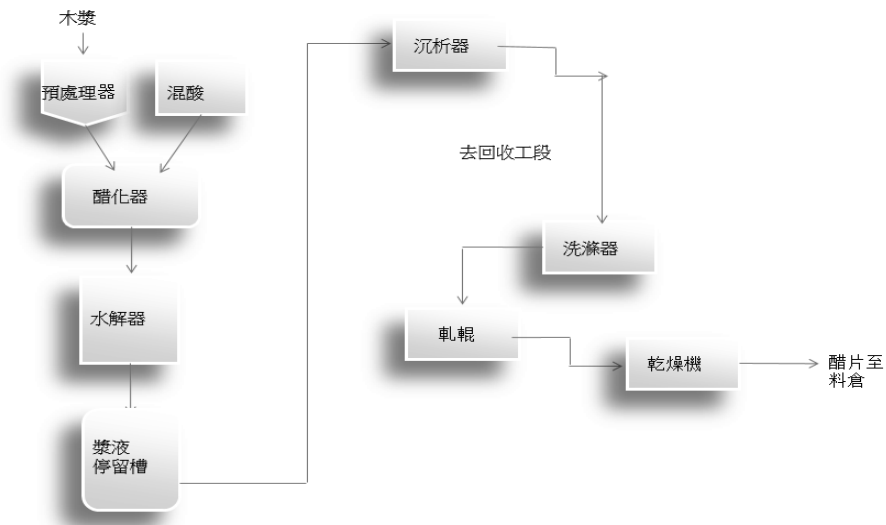
In facing the trend of rising wages in China, the Group will continue to improve production line planning, process management and import of high-performance equipment to further reduce manpower, increase output efficiency and yield and reduce production cost to reduce the production cost in response; and strengthen employee work training to upgrade work efficiency, reduce the impact of rising labor cost on business operation.

## 5.2.2 Production Procedures of Main Products

### A. Major Products and Their Main Uses

Product type	Major Product	Usage
Filtrate foreign matters	Acetate Tow	Cigarette filters, water-based pen refills, diaper absorbing lining and clothes
Plastic sheets with high transparency and anti-climate	Cellulose diacetate	Glasses frame and high-class tool handles, etc.

### B. Major Products and Their Production Processes



### 5.2.3 Supply Status of Main Materials

Major Raw Materials	Source of Supply	Supply Situation
Cellulose diacetate	Solvay	Stable
Acetone	Jiabo Chemicals	Stable
Wood pulp	SC, Gaomi Yinying	Stable
Acetic anhydride	Lunan Chemicals Co., Ltd. Kaifong Ronghua	Stable

### 5.2.4 Major Suppliers and Clients

List of customers that account for more than 10% of total sales within either of the last two years, their purchase amount and ratio:

#### A. Major Suppliers in the Last Two Calendar Years

Unit: NT\$ thousands ; %

Item	2017				2018				2019 (As of March 31)			
	Company Name	Amount	Percent	Relation with Issuer	Company Name	Amount	Percent	Relation with Issuer	Company Name	Amount	Percent	Relation with Issuer
1	Solvay	658,951	54.88	None	SC	246,779	27.93	None	Lunan Chemical	51,874	25.14	Note
2	SC	137,193	11.43	None	Lunan Chemical	222,745	25.21	Note	SC	47,167	22.86	None
3									Gaomi Silver	30,653	14.86	None
	Others	404,576	33.69	-	Others	414,141	46.86	-	Others	76,633	37.14	-
	Net Total Supplies	1,200,720	100.00	-	Net Total Supplies	883,665	100.00	-	Net Total Supplies	206,327	100.00	-

Note: Lunan Chemical is Acetate Material's shareholder.

Reasons for amount change:

The Group's change in the purchase amount of the aforesaid suppliers is mainly due to that the Group has established Acetate Material Co., Ltd. that can master the supply of raw materials, purchase cellulose acetate raw materials from Lunan Chemicals Co., Ltd., SC, and Gaomi Yinying Co., self-sufficiency and supply raw materials to the downstream companies of the Group. The change is still reasonable.

#### B. Major Clients in the Last Two Calendar Years

Unit: NT\$ thousands ; %

Item	2017				2018				2019 (As of March 31)			
	Company Name	Amount	Percent	Relation with Issuer	Company Name	Amount	Percent	Relation with Issuer	Company Name	Amount	Percent	Relation with Issuer
1	Eastern	245,792	14.06	None	Global	235,596	13.55	Note	Global	63,459	13.86	Note
2	OOO	186,958	10.70	None								
3	Global	177,038	10.13	Note								

	Others	1,138,199	65.11	-	Others	1,503,598	86.45	-	Others	394,281	86.14	-
	Net Sales	1,747,987	100.00	-	Net Sales	1,739,194	100.00	-	Net Sales	457,740	100.00	-

Note: Global Filters S.A. (Global Filters) is the shareholder of Jinan Acetate Chemical Co., LTD with indirect control capability.

Reasons for amount change:

The change in the Group's sales customers is mainly due to the Group's adjustment of its business strategy, market and individual customer business needs and performance. The change is reasonable.

### 5.2.5 Production in the Last Two Years

Unit: NT\$ thousands;Mt

Output Year Major Products (or by department)	2017			2018		
	Capacity	Quantity	Amount	Capacity	Quantity	Amount
	Cellulose acetate tow	11,000	10,051	1,021,146	11,000	10,133
Cellulose acetate	5,530	4,819	410,595	17,000	12,417	1,031,792
Total	16,530	10,540	1,431,741	28,000	22,550	2,043,233

Reasons for amount change:

The increase in production capacity and production of cellulose diacetate in 2018 was mainly due to the mass production of the Group's grandson company: Acetate Material Co., Ltd. in the second half of 2017, which became stabilized in 2018.

### 5.2.6 Shipments and Sales in the Last Two Years

Unit: NT\$ thousands;Mt

Shipments & Sales Year Major Products (or by departments)	2017				2018			
	Local		Export (Note)		Local		Export (Note)	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
Cellulose acetate tow	264	40,708	9,822	1,405,178	49	6,283	9,774	1,303,469
Cellulose acetate	-	-	3,256	302,101	11	1,201	4,136	428,241
Total	264	40,708	13,078	1,707,279	60	7,484	13,910	1,731,710

Note: Export sales refer to areas outside Taiwan

Reasons for amount change:

The increase in sales amount and value of cellulose acetate in 2018 was mainly contributed by the Group's stable production and responding to customer demands.

### 5.3 Human Resources

The number, average years of service, average age, and education distribution ratio of employees in the most recent two years up to the printed date of this annual report:

Year		2017	2018	As of March 31,2019
Number of Employees	Manager	16	14	14
	General employee	87	93	94
	Manufacturing staff	182	186	181
	Total	285	293	289
Average Age		34.08	35.19	34.92
Average Years of Service		2.64	2.82	2.82
Education	Ph.D.	-	-	-
	Masters	1.76	0.68	1.04
	Bachelor's Degree	45.26	43.69	43.25
	Senior High School	31.93	27.99	28.72
	Below Senior High School	21.05	27.64	26.99

### 5.4 Environmental Protection Expenditure

#### 5.4.1 Total Losses and Penalties

The loss or penalty caused by environmental pollution during the latest year and up to the printing date of this annual report: None

#### 5.4.2 Future Countermeasures and Possible Expenditure:

The company complied with government regulations on the responsibility of environmental protection, at present, in addition to waste is handled by local qualified professional manufactures, in the future in the sweage and air pollution will continue to carry out sewage and cavitation environmental protection equipment maintance and environmental management system operation.

### 5.5 Labor Relations

1. Company's employee benefits, education, training, retirement system and their implementation,

as well as the employer/employee agreement status:

(1) Employee benefits:

In addition to providing relevant insurance for employees according to local government regulations, the Group regularly promotes salary raise opportunities to reward employees with outstanding performance, and distributes year-end bonus, performance bonus, retention bonus and production inspiring bonus according to the Company's operating performance and individual work performance. Employees can enjoy holidays such as statutory holidays, marriage leave, maternity leave and annual paid leave. The remaining welfare measures include wedding and funeral gifts, improvement proposal bonus, free annual health checks, and non-regular tourisms, dinners and recreation activities to adjust employees' physical and mental health.

(2) Skills upgrade & training:

Regarding human resource quality, in addition to the rigorous terms of recruiting, the Group's personnel department also annually hosts training programs per employee's professional requirements during the hiring time, including internal and external training programs, used to enhance staff's skills.

(3) Pension system implementation:

The Company's Taiwan office has established an employee retirement system in accordance with the Labor Standard Act. The pension is paid by the Company at the amount of 6% of employee's monthly salary, deposited to employee's individual pension account respectively. The Company's Chinese subsidiary has paid monthly pension insurance to the local government's financial department account in accordance with the provisions specified in the employees fund pension insurance for Chinese enterprise.

(4) The agreement between labor and management and the maintenance measures of various employee rights:

The Group always pays great attention on employee's rights and interests. In addition to the relevant work rules that follow the enactments, the Group has clearly regulated the various service conditions, with the human resources department as a unified window for interaction with employees. Non-regularly holds labor meetings to make both parties able to communicate with each other in order to maintain good labor relation, and the communication channel is unimpeded. As of the date of printing this public notice, there is no major dispute between two parties.

2. The Company's losses and total fines due to employer/employee disputes within the most recent two years up to the printed date of this annual report, and the current and future estimated

monetary amount and measures to be taken in response:

The Company has no significant employer/employee disputes.

### 5.6 Important Contracts

Item No.	Agreement	Counterparty	Period	Major Contents	Restrictions
1	Sale Contract	GLOBAL、SHINHUNG TRADING 及 TOPTAC	2017/12 ~2019/2	The party purchased Cellulose acetate tow from Jinan Acetate Chemical Co., Ltd.	None
2	Sale Contract	LLC	2017/1 ~2019/3	The party purchased Cellulose acetate tow from Jinan Acetate Chemical Co., Ltd.	None
3	Purchase Contract	SC	2017/1 ~2019/12	Jinan Acetate Chemical Co., Ltd. purchased dissolving pulp from the party.	None
4	Purchase Contract	Rayonier	2018/1 ~2019/3	Jinan Acetate Chemical Co., Ltd. purchased dissolving pulp from the party.	None
5	Construction Contract	Jiana WanXingYuan Ecotechnology	2018/9/6 ~2019/1/18	The party provides spinning machine protection door/plate heat exchanger/40-position spinning machine, damper valve, middle shaft, driving shaft, Harford sleeve/air cylinder, air duct and air valve project service to Jinan Acetate Chemical Co., Ltd.	None
6	Construction Contract	Jinan Xuhai Construction and Installation Co., Ltd.	2018/1/1 ~2019/1/25	The party provides phase 1 & 2 plant maintenance and modifying construction to Jinan Acetate Chemical Co., Ltd.	None
7	Loan Contract	Bank SinoPac (China)	2019/3 ~2021/1	The party give Jinan Acetate Chemical Co., Ltd the credit line. The amount is about RMB thirty-six million dollars.	None
8	Loan Contract	Land Bank of Taiwan Chung-hsiao Branch.	2018/10/12 ~2019/10/12	The party give Jinan Acetate Chemical Co., Ltd the credit line. The amount is about five millions of dollars.	None



## VI. Financial Information

### 6.1 Five-Year Financial Summary

#### A. Consolidated Condensed Balance Sheet – Based on IFRS

Unit: NT\$ thousands

Item	Year	Financial Summary for The Last Five Years(Note1)					As of the March 31,2019
		2014 (Note2)	2015	2016	2017	2018	
Current assets		617,557	1,486,210	885,987	1,415,452	1,233,674	1,207,273
Property, Plant and Equipment		282,309	261,386	319,763	832,414	863,830	878,011
Intangible assets		-	-	-	-	-	-
Other assets		115,880	110,608	397,907	189,616	219,194	280,316
Total assets		1,015,746	1,858,204	1,603,657	2,437,482	2,316,698	2,365,600
Current liabilities	Before distribution	278,509	466,095	222,586	527,200	529,224	489,421
	After distribution	278,509	698,495	454,986	759,600	Note 3	Note 3
Non-current liabilities		11,142	10,929	12,642	535,121	496,027	489,878
Total liabilities	Before distribution	289,651	477,024	235,228	1,062,321	1,025,251	979,299
	After distribution	289,651	709,424	467,628	1,294,721	Note 3	Note 3
Equity attributable to shareholders of the parent		726,095	1,381,180	1,322,844	1,262,585	1,182,152	1,269,111
Capital stock		400,000	464,800	464,800	464,800	464,800	464,800
Capital surplus		120,241	462,001	462,001	479,542	479,542	479,542
Retained earnings	Before distribution	57,428	322,209	376,677	316,298	308,996	378,649
	After distribution	57,428	89,809	144,277	83,898	Note 3	Note 3
Other equity interest		148,426	132,170	19,366	1,945	(19,062)	9,706
Treasury stock		-	-	-	-	(52,124)	(63,586)
Non-controlling interest		-	-	45,585	112,576	109,295	117,190
Total equity	Before distribution	726,095	1,381,180	1,368,429	1,375,161	1,291,447	1,386,301
	After distribution	726,095	1,148,780	1,136,029	1,142,761	Note 3	Note 3

Note1: The financial statements have been audited by independent auditors.

Note2: The Company established the Cayman Company in September 2014. The financial information for 2014 is presented in the proposed consolidated financial statements endorsed and verified by the accountant.

Note3: The Company has approved the 2018 surplus distribution issue by the Board of Directors on March 26, 2019, which raised NT\$ 183,868,000 from 2018 surplus and allocated NT\$4 per share. The conclusion of shareholders convention authorized the chairman to set the date of dividend discharge.

## B. Consolidated Condensed Statement of Comprehensive Income – Based on IFRS

Unit: NT\$ thousands

Item \ Year	Financial Summary for The Last Five Years(Note1)					As of the March 31,2019
	2014 (Note2)	2015	2016	2017	2018	
Operating revenue	1,376,124	1,438,715	1,586,120	1,747,987	1,739,194	457,740
Gross profit	369,222	396,040	437,291	426,035	421,355	119,669
Income from operations	263,765	242,282	261,311	207,416	162,168	52,679
Non-operating revenue and expenses	(1,029)	60,533	57,628	(38,814)	47,884	11,242
Income before tax	262,736	302,815	318,939	168,602	210,052	63,921
Net profit of continuing department	224,035	264,781	286,543	166,172	224,091	65,140
Loss of discontinued department	-	-	-	-	-	-
Net profit (loss)	224,035	264,781	286,543	166,172	224,091	65,140
Other comprehensive income (income after tax)	25,019	(16,256)	(113,924)	(15,380)	(23,281)	31,388
Total comprehensive income	249,054	248,525	172,619	150,792	200,810	96,528
Net income attributable to shareholders of the parent	224,035	264,781	286,868	172,021	225,098	69,653
Net income attributable to non-controlling interest	-	-	(325)	(5,849)	(1,007)	(4,513)
Comprehensive income attributable to Shareholders of the parent	249,054	248,525	174,064	154,600	204,091	98,421
Comprehensive income attributable to non-controlling interest	-	-	(1,445)	(3,808)	(3,281)	(1,893)
Earnings per share	5.60	6.33	6.17	3.70	4.85	1.52

Note1: The financial statements have been audited by independent auditors.

Note2: The Company established the Cayman Company in September 2014. The financial information for 2014 is presented in the proposed consolidated financial statements endorsed and verified by the accountant.

### 6.1.2 Auditors' Opinions from 2014 to 2018

Year	Accounting Firm	CPA	Audit Opinion
2014	Deloitte Touche Tohmatsu Limited	Tsai, Hung-Hsiang Yang, Ching-Cheng	unqualified audit report with explanatory paragraph or modified wording
2015	Deloitte Touche Tohmatsu Limited	Lee, Tung-Feng Yang, Ching-Cheng	unqualified opinions
2016	Deloitte Touche Tohmatsu Limited	Lee, Tung-Feng Yang, Ching-Cheng	unqualified opinions
2017	Deloitte Touche Tohmatsu Limited	Lee, Tung-Feng Yang, Ching-Cheng	unqualified opinions
2018	Deloitte Touche Tohmatsu Limited	Lee, Tung-Feng Yang, Ching-Cheng	unqualified opinions

## 6.2 Five-Year Financial Analysis

### A. Consolidated Financial Analysis – Based on IFRS

Item		Year	Financial Analysis for the Last Five Years(Note1)					As of the March 31,2019
			2014 (Note2)	2015	2016	2017	2018	
Financial structure (%)	Debt Ratio		28.52	25.67	14.67	43.58	44.25	41.40
	Ratio of long-term capital to property, plant and equipment		261.15	532.58	431.90	229.49	206.92	213.69
Solvency (%)	Current ratio		221.74	318.86	398.04	268.48	233.11	246.67
	Quick ratio		159.71	267.59	226.98	170.44	156.32	154.06
	Interest earned ratio (times)		3,099.95	12,178.77	-	1,909.03	1,351.73	1,293.45
Operating performance	Accounts receivable turnover (times)		9.80	6.15	7.61	6.92	5.04	5.30
	Average collection period		37	59	48	53	72	69
	Inventory turnover (times)		7.97	5.83	3.84	3.34	3.57	4.30
	Accounts payable turnover (times)		20.81	4.85	5.33	7.07	4.94	7.17
	Average days in sales		46	63	95	109	102	85
	Property, plant and equipment turnover (times)		5.00	5.29	5.46	3.03	2.05	2.10
	Total assets turnover (times)		1.59	1.00	0.92	0.87	0.73	0.78
Profitability	Return on total assets (%)		26.68	18.57	16.55	8.62	10.45	11.91
	Return on stockholders' equity (%)		37.24	25.13	20.84	12.11	17.48	19.46
	Pre-tax income to paid-in capital (%)		65.68	65.14	68.62	36.27	45.19	55.01
	Profit ratio (%)		16.28	18.40	18.07	9.51	12.88	14.23
	Earnings per share (NT\$)		5.60	6.33	6.17	3.70	4.85	1.52
Cash flow	Cash flow ratio (%)		66.99	97.99	74.96	-11.04	65.37	(21.84)
	Cash flow adequacy ratio (%)	(Note3)	(Note3)	70.78	45.98	60.89	45.73	
	Cash reinvestment ratio (%)		19.33	27.24	(3.89)	(12.98)	5.22	(4.66)
Leverage	Operating leverage		1.14	1.17	1.18	1.22	1.55	1.46
	Financial leverage		1.03	1.01	1.00	1.05	1.12	1.11

Analysis of financial ratio differences for the last two years. (Not required if the difference does not exceed 20%)

1. Decrease in interest coverage ratio: Mainly caused from the issuance of convertible corporate bonds since June 2017 and the amortization of interest expenses in 2017 was less.
2. Decrease of turnover rate of receivables: Acetate Material plant construction was completed at end of June 2017, and the cellulose acetate customers are still in the development stage, so the credit period is longer.
3. Decrease of turnover rate of payables: Mainly due to the gradual mass production of Acetate Material, the payment period of main raw materials for the production of cellulose acetate is longer.
4. Decline in fixed asset turnover rate: Acetate Material plant construction was completed at end of June 2017, and the production amount and sales amount are still gradually increasing, which has not yet

reached the capacity scale.

5. Increase in profitability: Although the Acetate Material plant construction for cellulose acetate production has increased the sales and R&D expenses, yet, the impact of exchange rate fluctuations and stock price fluctuations caused by fluctuations in CNY/USD exchange rate results in CB evaluation benefits, and the overall profitability is better than last year.
6. Increase in cash flow ratio: In addition to the increase in net profit before tax, the main reason causing increasing of cash flow is that there was large number of cellulose acetate orders in Q4 2017, which results in large amount of cash received in 2018.
7. Increase in cash flow ratio and cash reinvestment ratio: Caused mainly due to the increase in net cash flow from operating activities in 2018.
8. Increase in operating leverage: Caused mainly due to the increase in sales and R&D expenses because the production of cellulose acetate by Acetate Material plant.

Note1: The financial statements have been audited by independent auditors.

Note2: The Company established the Cayman Company in September 2014. The financial information for 2014 is presented in the proposed consolidated financial statements endorsed and verified by the accountant.

Note3: As financial information is less than five years, it is not applicable.

Note4: The following formulas should be presented:

#### 1. Financial structure

(1) Debts to assets ratio = Total liabilities/total assets

(2) Long-term fund to property, plant and equipment ratio = (total equity+non-current liabilities)/  
property, plant and equipment, net -119-

#### 2. Solvency

(1) Current ratio = current assets/current liabilities

(2) Quick ratio = (current assets-inventory-prepayment)/current liabilities

(3) Interest earned ratio = Earnings before interest and tax / Interest expenses

#### 3. Operating performance

(1) Account receivables (including accounts receivable and notes receivable resulting from operation) turnover = net sales / balance (gross) of average accounts receivable (including accounts receivable and notes receivable resulting from operation)

(2) Average collection days = 365 /accounts receivables turnover

(3) Inventory turnover = sale cost/average inventory

(4) Account payables (including accounts payable and notes payable resulting from operation) turnover = net sales / balance (gross) of average accounts payables (including accounts payable and notes payable resulting from operation)

(5) Average days in sales = 365/inventory turnover

(6) Property, plant and equipment turnover = net sales/average property, plant and equipment, net

(7) Total assets turnover rate = net sales/average total assets

#### 4. Profitability

(1) Return on total assets = [income after income tax+interest expense\*(1-tax rate)]/average total assets.

(2) Return on equity = Income after income tax/average total equity

(3) Profit ratio = Income After income tax/net sales

(4) Earnings per share = (income attributable to parent company – dividends from preferred shares)/weighed average quantity of outstanding shares (Note 3)

5. Cash flow

(1) Cash flow ratio = Net cash flow from operating activities/current liabilities

(2) Net cash flow adequacy ratio = Net cash flow from operating activities in the most recent five years/ (capital spending + increase in inventory + cash dividends) in the most recent five years

(3) Cash flow reinvestment ratio= (Net cash flow from operating activities-cash dividends) (gross of property, plant and equipment+long-term investment+other non-current assets+working capital)

6. Leverage:

(1) Operating leverage = (Net operating revenue-changed operating costs and expenses)/operating income

(2) Financial leverage = Operating income/ (operating income-interest expenses)

### **6.3 Audit Committee's Report for the Most Recent Year**

#### **Audit report issued by Audit Committee**

The board of directors has prepared the company's business report, consolidated financial statements and statement of earning distribution of 2018. The consolidated financial statements have already been audited and certified by Lee Tung-Feng and Yang Ching-Chen, CPAs of Deloitte Taiwan, and the auditors' report has been issued. The audit committee has reviewed the above business report, consolidated financial statements and statement of earning distribution and believed that nothing in those statements was non-compliant. This report is hereby issued in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act.

This report is hereby submitted to the general meeting of shareholders of 2019.

Jinan Acetate Chemical Co., LTD.

Chairman of the Audit Committee: : Lin, Tse-Chung

On the Date of March 26, 2019

**6.4 Consolidated Financial Statements in the Most Recent Year:**

Please refer to page 130 to page 191

**6.5 Individual financial reports audited by CPA in the Most Recent Year: N/A**

**6.6 Financial Difficulties, if any, Encountered by the Company and its Affiliated Companies in the Most Recent Year and up to the Publication of the Annual Report, and Its Impact on the Company's Financial Status: None**

## VII. Review of Financial Conditions, Financial Performance, and Risk

### Management

#### 7.1 Analysis of Financial Status

##### (1) Comparative analysis of the financial status in the past two (2) years

Unit: NT\$ thousands

Item \ Year	Year		Difference		Remark
	2017	2018	Amount	%	
Current Assets	1,415,452	1,233,674	(181,778)	(12.84)	-
Property, plant and equipment	832,414	863,830	31,416	3.77	-
Intangible assets	-	-	-	-	-
Other assets	189,616	219,194	29,578	15.60	-
<b>Total Assets</b>	<b>2,437,482</b>	<b>2,316,698</b>	<b>(120,784)</b>	<b>(4.96)</b>	<b>-</b>
Current Liabilities	527,200	529,224	2,024	0.38	-
Non-current liabilities	535,121	496,027	(39,094)	(7.31)	-
<b>Total Liabilities</b>	<b>1,062,321</b>	<b>1,025,251</b>	<b>(37,070)</b>	<b>(3.49)</b>	<b>-</b>
Capital stock	464,800	464,800	-	-	-
Capital surplus	479,542	479,542	-	-	-
Retained Earnings	316,298	308,996	(7,302)	(2.31)	-
Other equity	1,945	(19,062)	(21,007)	(1,080.05)	1
Non-controlling interest	112,576	109,295	(3,281)	(2.91)	-
<b>Total Stockholders' Equity</b>	<b>1,375,161</b>	<b>1,291,447</b>	<b>(83,714)</b>	<b>(6.09)</b>	<b>-</b>
Analysis of changes in financial ratios:					
Other equity reductions: Caused mainly due to the depreciation of exchange rate of Taiwan dollar vs. CNY, the Company's holding of the net assets in CNY results in an increase of negative exchange difference stated in the financial statements of foreign operating institutions.					

(2) **Effect of changes on the company's financial condition:** The Company's financial condition has not changed significantly.

(3) **Future response actions:** Not applicable



## 7.2 Analysis of Financial Performance

### (1) Operation result analysis table

Unit: NT\$ thousands

Item	Year		Difference		
	2017	2018	Amount	%	Remark
Net Sales	1,747,987	1,739,194	(8,793)	(0.50)	-
Cost of Sales	(1,321,952)	(1,317,839)	(4,113)	(0.31)	-
Gross Profit	426,035	421,355	(4,680)	(1.10)	-
Operating Expenses	(218,619)	(259,187)	40,568	18.56	
Operating Income	207,416	162,168	(45,248)	(21.82)	1
Non-operating Income and Expenses	(38,814)	47,884	86,698	223.37	2
Income Before Tax	168,602	210,052	41,450	24.58	4
Tax Benefit (Expense)	(2,430)	14,039	16,469	677.74	3
Net profit	166,172	224,091	57,919	34.85	4
<p>Analysis of changes in financial ratios:</p> <ol style="list-style-type: none"> <li>1. Decrease of net operating profit: Caused mainly due to the increase of sales and R&amp;D expenses from the production of cellulose acetate by Acetate Material Co., Ltd. plant.</li> <li>2. Increase of non-operating income and expenses: Caused mainly due to the impact of exchange rate fluctuations caused by the fluctuation of CNY/USD exchange rate and the impact of stock price fluctuation on CB evaluation interests.</li> <li>3. Increase of income tax benefits: Caused mainly due to the R&amp;D deduction rose up to 75% and the establishment of Acetate Material Co., Ltd., the initial cost of operation and other expenses incurs the income tax benefit.</li> <li>4. Increase of pre-tax and current net profit: Caused mainly due to the reason that although constructing Acetate Material Co., Ltd. plant and producing cellulose acetate increases the sales and R&amp;D expenses, yet, the impact of the exchange rate and stock price fluctuations caused by the exchange rate fluctuation of CNY/USD created CB evaluation interest, and the increase of R&amp;D expense can deduct the income tax, which results in an increase in income tax benefit.</li> </ol> <p>There is no major abnormality in the overall performance of the Company, and thus there is no need to develop a response plan.</p>					

### (2) Effect of changes on the company's future business:

The Company's business scope has not changed significantly.

### (3) Future response actions: Not applicable.

### 7.3 Analysis of Cash Flow

#### 7.3.1 Cash Flow Analysis for the Current Year

Unit: NT\$ thousands

Item \ Year	2017	2018	Increase (decrease) amount	Increase (decrease) ratio(%)
Operating activities	(58,184)	345,975	404,159	694.62
Investing activities	(436,854)	(14,868)	421,986	96.60
Financial activities	354,497	(167,813)	(522,310)	(147.34)
Analysis of financial ratio change:				
1. Increase of cash inflow from operating activities: Before the increase in net profit, there was a large number of harvest in 2018.				
2. Decrease of cash outflow from Investing activities: This is due to the maturity of financial assets measured by post-amortization cost.				
3. Decrease of cash inflow from Financial activities: This is due to issue convertible Bonds in 2017.				

#### 7.3.2 Cash flow analysis and improvement plan for insufficient cash flow in next one year:

The Group's current operation is in the growth stage. In 2017, the Company implemented vertical integration, established the Group's core technology, and invested in the establishment of Acetate Material Co., Ltd. It has successively invested in costs and expenses to improve the quality and production quantity of products. The future price and sales amount will also gradually increase. The inventory and accounts receivable control are appropriate, the Group issued a corporate bond of NT\$ 505,000,000 in 2017 to make up the leak, the source of future capital expenditure funds can rely on the net cash inflow generated by business activities, plus the Company's good relationship with banks and sufficient financing amount to cover the cash outflow of investment.

## 7.4 Major Capital Expenditure Items

Impact on financial business caused by significant capital expenditure in recent years  
The Company's purchase of fixed assets during 2016~2018 was NT\$132,831,000, CNY 260,992,000 and CNY 183,644,000 respectively. The main one is on the plant construction of Acetate Material Co., Ltd. and continuously equipment and plant expanding in response of market demand. The Company's fixed assets and total assets turnover rate for the last three years are shown in the table below. As the quality of the Group's cellulose acetate is gradually improved, the production capacity and product quality are gradually increased in line with market demanding, and the price and sales amount are gradually improved. The decline in the turnover rate is still reasonable, and the Group has not adversely affected the financial business of the Company due to the increase of capital expenditure.

Turnover	2016	2017	2018
Property, plant and equipment turnover (times)	5.46	3.03	2.05
Total assets turnover (times)	0.92	0.87	0.73

## 7.5 Investment Policy in the Last Year, Main Causes for Profits or Losses, Improvement Plans and Investment Plans for the Coming Year

### (1) Re-investment policy

The Company's current investment policy is based on investment targets related to the Company's business and doesn't invest in other industries. The Company's management on the transfer business is based on the investment cycle specified in the internal control system and on the Company's "Operating Rules for the Group Corporate, Specific Companies and Stakeholders" and the "Administrating and Supervision Rules for Subsidiaries", etc. The aforesaid Rules have been approved by the Board of Directors.

### (2) Main reason for the profit and loss of re-investment and improvement plan

Unit: NT\$ thousands

Reinvested company	Percentage	2018 Recognized investment Gain/(Loss)	Main causes for profit or loss and Improving Plan
My Parents Living Technology Limited	100%	184,572	Recognize the investment income of Jinan Acetate Chemical Co., LTD.(Jinan)
Jinan Acetate Chemical Co., LTD.(China)	100%	185,975	The company is good operating performance and stable profitability.

## **7.6 Analysis of Risk Management**

### **7.6.1 Effects of Changes in Interest Rates, Foreign Exchange Rates and Inflation on Corporate Finance, and Future Response Measures**

#### **(1) Interest rate**

The Group's bank interest income for 2017 and 2018 were CNY 2,976,000 and CNY 4,013,000 respectively, which account for 0.17% and 0.23% of the combined net operating income for the respective year; the bank interest expenses were CNY 489,000 and CNY 671,000 respectively, which account for 0.03% and 0.04% of the combined net operating income ratio of the respective year; the impact on the Company's revenue and profit is rare. As the Group's credit is good and the relationship with banks is well, the Group has obtained sufficient bank line of credit; the change in the interest rate of the Group is still controllable to the Group's operating profit and the balance risk, which won't have significant impact.

#### **(2) Foreign exchange rates**

Most of the Group's products are for export. The selling trades are mostly made in US dollars. The buying trades are made both in US dollars and CNY respectively. Although the receivables offset will have certain hedging effect, but the main trading place is in Mainland China where the functional currency is CNY, therefore, the local daily expenses need to be exchanged for CNY and there is still exchange gains and losses made therefor. Overall speaking, the exchange rate changes have a certain degree of impact on the Group's revenue and profit. The net exchange gains (losses) of the Group for 2017 and 2018 were (25,421,000) and (1,472,000), the net exchange gains (losses) in 2017 and 2018 account for 1.45% and 0.08% of the net operating income and (15.08%) and (0.70%) for the pre-tax net profit ratio respectively. Due to the appreciation of US dollar in 2018, the Group's sales income mainly received in US dollars, which generates exchange gains. However, due to the conversion of the Cayman statement, the exchange losses will be affected by the appreciation of Taiwan dollar. The impact of currency exchange rate on the Group's operating condition is limited. Most of the Group's products are for export. The selling trades are mostly made in US dollars. The buying trades are made both in US dollars and CNY respectively. Although the receivables offset will have certain hedging effect, but the main trading place is in Mainland China where the functional currency is CNY, therefore, the local daily

expenses need to be exchanged for CNY and there is still exchange gains and losses made therefor. Overall speaking, the exchange rate changes have a certain degree of impact on the Group's revenue and profit. The net exchange gains (losses) of the Group for 2017 and 2018 were (25,421,000) and (1,472,000), the net exchange gains (losses) in 2017 and 2018 account for 1.45% and 0.08% of the net operating income and (15.08%) and (0.70%) for the pre-tax net profit ratio respectively. Due to the appreciation of US dollar in 2018, the Group's sales income mainly received in US dollars, which generates exchange gains. However, due to the conversion of the Cayman statement, the exchange losses will be affected by the appreciation of Taiwan dollar. The impact of currency exchange rate on the Group's operating condition is limited.

### **(3) Inflation**

The Group's past profit and loss weren't significantly affected by inflation. The Group will timely pay attention on market price fluctuation and maintain good interaction with customers and suppliers. If the purchase cost increases due to inflation, the Group will also adjust the sales price appropriately to reduce the impact on the Group's operation.

#### **7.6.2 Policies, Main Causes of Gain or Loss and Future Response Measures with Respect to High-risk, High-leveraged Investments, Lending or Endorsement Guarantees, and Derivatives Transactions**

Based on the stable principle and pragmatic operating idea, except for focusing on the Group's business, the Group does not engage in high-risk or highly leveraged investments.

The Group has established the "Procedures for Loaning of Company Funds", "Procedures for Endorsements and Guarantees", "Procedures for Acquisition and Disposal of Assets" and "Procedures for Financial Derivatives Transactions". The Group runs business per these procedures, so the related risks shall be limited.

### **7.6.3 Future Research & Development Projects and Corresponding Budget**

#### **(1) Future R&D plan**

The application scope of cellulose acetate contains the glasses frames and facial masks, etc. In order to meet the trend of global plastic molding and expand the market applications of cellulose acetate, CA (cellulose acetate film) will be developed in the future, which are mainly used in food packaging and lithium battery separating membranes; we do these to make preparation on the decomposable product packaging materials in EU next stage action. Acetate tow application scope includes the cigarette filters and pen cores, in response of the needs of top a few tow customers, we actively co-develop the currently high growing IQOS electronic cigarettes with customers, these products has a wide application range.

In view of the increasing demand for cellulose acetate and tows used in living products, the Group continues to invest R&D in new product specifications to quickly meet the needs of various product specifications in the market, and in cellulose diacetate and cellulose diacetate tows to expand customer market. The R&D expenses invested in 2017 and 2018 accounted for 5.57% and 6.35% of the operating revenue respectively. The Group is actively engaging in technology development, continuously investing in R&D resources and personnel to improve process technology, including the process optimization and high-grade automation; and actively work on diversified products. The proportion of the Group's R&D expense remained reasonable and stable.

#### **(2) Expected R&D expenses**

The Group estimates that the R&D expenses invested in 2019 will be CNY 119,800,000.

### **7.6.4 Effects of and Response to Changes in Policies and Regulations Relating to Corporate Finance and Sales**

The Company is registered in the Cayman Islands and its main place of operation is in Mainland China with a representative office in Taiwan. The operation of the Group's various businesses is handled in accordance with important domestic and international policies and laws, and timely pay attention to domestic and international significant

policy developing trend and laws fluctuation; responding to the changes in market environment with appropriate response measures. Therefore, there has not significant impact on the financial business due to changes in significant domestic or international policies and laws yet.

#### **7.6.5 Effects of and Response to Changes in Technology and the Industry Relating to Corporate Finance and Sales**

The Group independently makes R&D on the production process, formula and technology of cellulose acetate and tows, breaks through the market technically monopolized by European, American and Japanese multinational manufacturers. The production quality has been worldwide recognized by customers and the Group continues to develop new product applications. The Group is in a position of mastering the market trend and to assessing the impact of the on the Group's operation from market changes. In addition, the Group's customers are mostly cigarette manufacturers or their filter suppliers and agents. The Group maintains close cooperation with customers; control the status of cigarette vendors and obtain order from them. The Group's financial operation won't have adverse effect from the changes of technology and industry.

#### **7.6.6 The Impact of Changes in Corporate Image on Corporate Risk Management, and the Company's Response Measures**

The Group focuses on the management of its own field, continuously pursues the sustainable operation and growth, actively strengthens internal management, enhances product quality and production efficiency, and continuously introduces outstanding elites to incubate the strength of the management team; rewards the operating result to shareholders and the public, performs the social responsibility that a corporate shall do. The Group's operating result and reputation are good. As of the date of print this financial statement, there is no corporate crisis that would jeopardize the corporate.

#### **7.6.7 Expected Benefits from, Risks Relating to and Response to Merger and Acquisition Plans**

In the latest year and to the statement printing date, the Group has no M&A plan, yet, if there is an M&A plan, it will be handled in accordance with local enactments and the Group's management rules. In order to reduce possible risk, if the Group is subject to the potential M&A object, it will adhere to the attitude of prudent evaluation and consider the

combined effect of the merger, and consults with professionals; handle the merger and acquisition procedure on reasonable terms to ensure the Company's interests and shareholders' overall equity.

#### **7.6.8 Expected Benefits from, Risks Relating to and Response to Factory Expansion Plans**

In response of the continuous growth of the operation scale, the Group has begun to expand the acetate tows production line since in September 2018. It has been officially put into mass production in April 2019, which will help the Group strengthen its order handling capacity, increase production capacity and reduce management and production costs; and expand the operation scale and enhance overall competitiveness, the risks involved are limited.

#### **7.6.9 Risks Relating to and Response to Excessive Concentration of Purchasing Sources and Excessive Customer Concentration**

**(1) Stock concentration risk:**

The Group's top ten suppliers in 2017 and 2018 accounted for 93.41% and 88.79% of the total purchase amount, of which the largest supplier accounted for 54.88% and 27.93% of the annual purchases, with cellulose acetate that is the main raw material of acetate tows the Group originally purchased from supplier. In order to maintain the stability of raw materials and vertically integrate upstream and downstream products, the Group has established Zhongfeng Chemicals to produce cellulose acetate by itself; the formal mass production began since the second half of 2017. The Group changes to purchase the raw materials of cellulose acetate instead, and thus the proportion of purchase from the largest supplier fell to 27.93% in 2018, indicating that the Group is still committed to diversifying the source of purchase, and when there are better conditions for the purchase of goods, the Group can select the more favorable targets, and the supply status of the Group suppliers over the years is normal; there is no shortage of supply and any significant impact on the overall operation or customer rights.

**(2) Sales concentration risk:**

The Group's customers are mainly located in emerging markets such as North Africa, Latin America and Asia. The net operating income of the top two



customers in 2017 and 2018 accounted for 24.76% and 20.39% of the total annual operating revenue respectively, and there were no individual sales customer that share over 25% of the annual sales price; thus, the Group shall have no risk on the concentrated sales.

#### **7.6.10 Effects of, Risks Relating to and Response to Large Share Transfers or Changes in Shareholdings by Directors, Supervisors, or Shareholders with Shareholdings of over 10%**

The shareholdings of the Company's directors and supervisors have been stable during the last few years, and there have been no major transfers or swaps of shares.

#### **7.6.11 Effects of, Risks Relating to and Response to the Changes in Management Rights**

From last year to the time of publication, the management rights of this company have not changed. This company has strengthened its company operation measures, brought in independent directors, and established an audit committee and salaries and remuneration commission with the hope of improving the protection of overall shareholder rights. While the daily operation of the company relies on professional managers, who have made great contributions to the business performance of this company, they will get shareholders' support in the future, and a change in management right will not negatively impact the company's management and business operation strength.

#### **7.6.12 Litigation or Non-litigation Matters**

- (1) Major ongoing lawsuits, non-lawsuits or administrative lawsuit: None.
- (2) Major ongoing lawsuits, non-lawsuits or administrative lawsuits caused by directors, supervisors or shareholders with over 10% shareholdings: None.

#### **7.6.13 Other Major Risks- Information security risks analyze**

With the popularization for computers and digital information and in response to bulk data processing and retrieval, currently, almost all companies have opted for computerized operations. The company's information security assessment and coping measures are as shown in the table below, which should significantly reduce impacts arising from information security risks.

Item	Information Risk	Current Implication
1	System damage results in the losses of data.	<ol style="list-style-type: none"> <li>1. Secure a second host to perform synchronized data backup. If there is a problem with the first host, the second host can immediately function without a time gap.</li> <li>2. Data is backed up in two places through dedicated line transmission and portable storage device.</li> </ol>
2	Power failure and air-condition breakdown	<ol style="list-style-type: none"> <li>1. The information control room is equipped with an uninterruptible power system (UPS) to cope with temporary power outages.</li> <li>2. There is an emergency fan for forced convection. If the temperature continues to rise, the various equipment in the control room shall be shut down in order.</li> </ol>
3	Storage Server Damage	Turn on the backup storage server and copy the data from the backup storage server to the original storage server.
4	Internet Equipment Damage	After calling the offline backup network equipment and completing setting, replace the faulty equipment.

After assessment, the Company has no material operating risk of the Information security.

**7.7 Other important matters: None.**

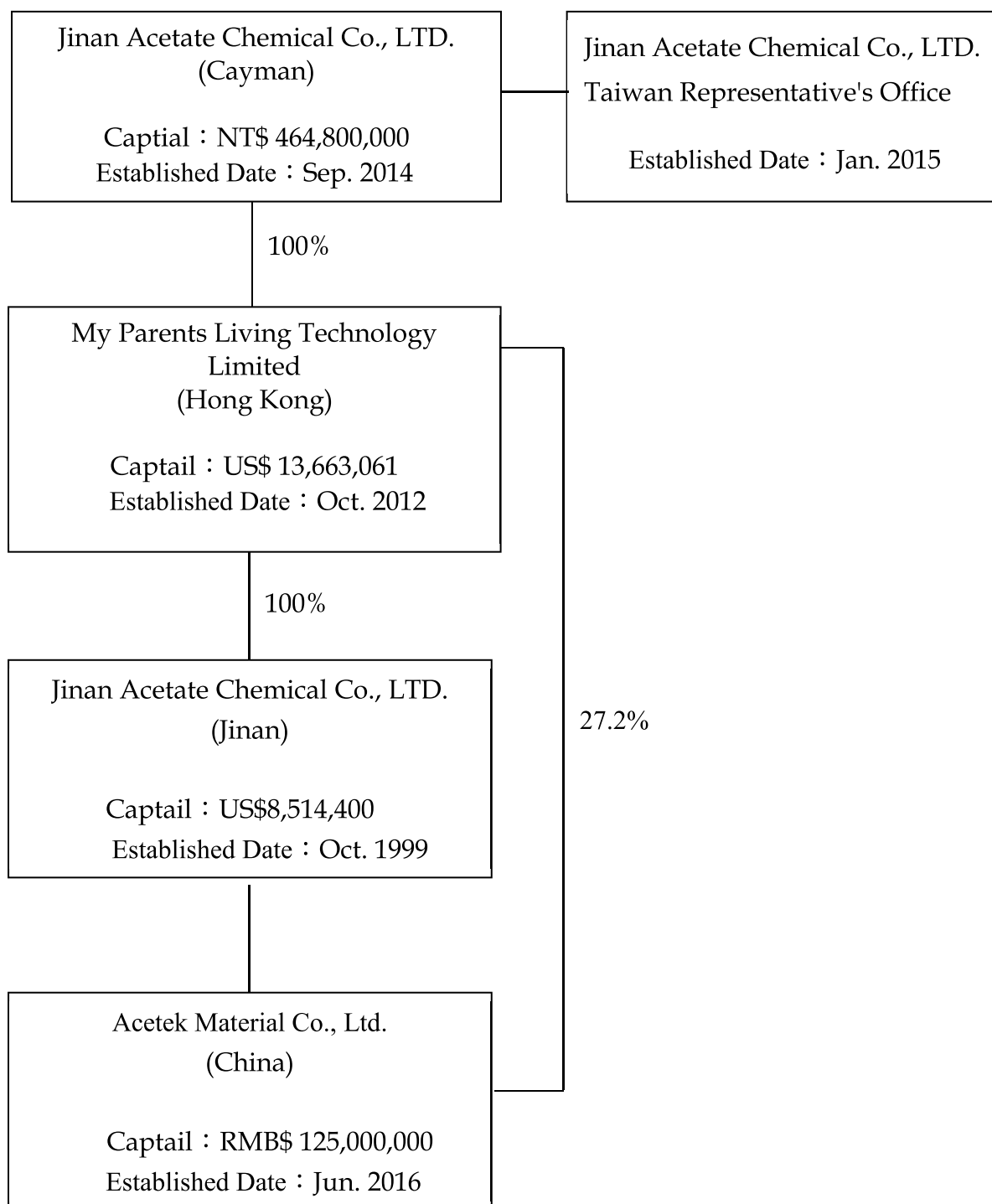
## VIII. Special Disclosure

### 8.1 Summary of Affiliated Companies

#### 8.1.1 Consolidated operating report of affiliates

##### (1) Investment Structure

As of Dec. 31, 2018



**(2) Basic information on affiliated enterprises:**

As of Dec. 31, 2018; Unit : NT\$ 1,000

Name of Subsidiary	Established Date	Address	Capital		Main Business Activity
			USD	RMB	
My Parents Living Technology Limited	Oct. 2012	Hong Kong	USD	13,663,061	Holding Company
Jinan Acetate Chemical Co., LTD. (Jinan)	Oct. 1999	China	USD	8,514.4	Manufacturing and sale of Cellulose acetate tow
Acetek Material Co., Ltd. (China)	Jun. 2016	China	RMB	125,000	Manufacturing and sale of Cellulose acetate

**(3) Presumed to be controlled and dependent in accordance with Article 369-3 of the Company Law: None.****(4) Business Scope of the Company and Its Subsidiaries**

The whole business scope of the Company and its subsidiaries mainly include investment, research and development, production, and sales of Cellulose acetate tow and Cellulose acetate. Each of the subsidiaries conducts division operations according to the Group's overall business planning.

**(5) Rosters of Directors, Supervisors, and Presidents of Subsidiaries**

Company	Title	Name or Representatives
My Parents Living Technology Limited	Director	Wang, Song-Lan
Jinan Acetate Chemical Co., LTD.	Director	Wang, Ko-Chang
	Director	Wang, Song-Lan
	Director	Yang, Li-Min
	Supervisor	Hsu, Cheng-Tsai
	President	Meng, Ching-Li
Acetek Material Co., Ltd.	Director	Wang, Ko-Chang
	Director	Wang, Sheng-Pin
	Director	Chang, Chih-Wei
	Supervisor	Meng, Ching-Li
	President	Tsao, Chao-Chun

### 8.1.2 Operation Status of affiliate companie

Name of affiliates	Capital amount	Total assets	Total liabilities	Net worth	Operating revenue	Net operating income	Net income (after tax)	EPS (after tax) (NTD)
My Parents Living Technology Limited	412,542	1,788,799	48,270	1,740,529	-	(115)	184,572	(Note)
Jinan Acetate Chemical Co., LTD.	264,171	2,019,504	296,806	1,722,698	1,666,809	178,446	185,975	(Note)
Acetek Material Co., Ltd.	581,452	1,109,358	577,343	532,015	726,431	42,882	(20,108)	(Note)

Note: Limited company with no shares, unable calculate EPS.

### 8.1.3 Consolidated Financial Statements of Affiliates:

Please refer to page 130 to page 191.

### 8.1.4 Relationship Report on the Affiliates: N/A.

### 8.2 Private Placement Securities in the Most Recent Years: None.

### 8.3 Shares in the Company Held or Disposed of by Subsidiaries in the Most Recent Years: None.

### 8.4 Other necessary supplementary explanations: None.

### 8.5 In the most recent year and as of the publication date of the annual report, if there are any matters determined in Term 2, Item 2, Article 36 of the Securities Exchange Act that have significant impacts on shareholders' equity or securities prices : None.

### 8.6 Description of Significant Differences on Regulations Pertaining to the Protection of Shareholders' Equity in the Republic of China

NO	Important Matters Related to Protection of Shareholders' Equity	The Provisions Contained in the Articles of Incorporation	The Reasons for Differences
1	The shareholders' convention shall be held within the ROC territory. If the shareholder convention is convened outside the ROC territory, it shall obtain the TWSE consent within two days after the conclusion of the Board of Directors or the shareholders obtain the permission from the competent	In accordance with Article 18.3 of the revised Articles of Association made by the shareholder convention's special resolution of the issuing company (hereinafter: the issuing company's Articles of Association) on December 4, 2014, during the period that the shares are listed on the	If the shareholders convene the shareholder convention outside the Republic of China, since the shareholders' own convening of the shareholders' temporary convention is not subject to the permission of the local authorities of Cayman, Article 18.3 of the issuing company's Articles of Association only stipulates that TWSE shall be notified in

	authority.	TWSE, except as otherwise specified by the Cayman Company Act, the shareholder convention shall be held within ROC territory. If the board of directors decides to convene a shareholder convention outside ROC territory, the issuing company shall report to TWSE for approval within two days after the resolution of the board of directors.	advance, instead of the “obtain the TWSE consent within two days after the shareholders obtain the permission from the competent authority” as required by the checklist for the protection of shareholders' equity.
2	If the shareholders continue to hold shares for more than one year and more than 3% of the total issued shares, they can write down the proposed matters and reasons and request the board of directors to convene a temporary shareholders convention. Within 15 days after the request is filed, when the board of directors fails to notify the convening, the shareholders can report to the competent authority for permission to convene it themselves.	After reviewing the issue company’s Articles of Association, the relevant provisions on protecting shareholders' equity, as stipulated in Articles 19.3, 19.4, 19.5 and 19.6, when more than 3% of the total issued shares to be holding for more than one year during the period of listing on TWSE request in writing, the board of directors shall immediately convene a temporary shareholders convention. If the board of directors fails to convene the shareholders' temporary convention within fifteen days from the date of the request, the requesting shareholders can convene the temporary shareholders convention in the same way as the board of directors does on convening the shareholders meeting.	As for the part that shareholder hold the shareholders convention by themselves, since the Cayman Company Act has no special provisions for the shareholders to hold the shareholder convention, Article 19.6 of the issuing company’s Articles of Association does not regulate the shareholders to report to the competent authority before holding the self-convening shareholder convention. However, according to Article 19.6 of the issuing company's Articles of Association, if the board of directors fails to convene a notice for the temporary shareholders convention within 15 days from the date of shareholders request, the requesting shareholders may convene the temporary shareholders convention themselves, but shall try to convention in consistency with the way convened by the board of directors. As for the place where the temporary shareholders convention is to be held, according to Article 18.3 of the issuing company's Articles of Association, in addition to the provisions of the Cayman Company Act, it shall be convened in ROC territory. Shareholders who wish to convene temporary shareholders convention outside the Republic of China shall, according to the provisions of Articles 19.6 and 18.3 of the issuing company's Articles of Association, still follow the way of board of directors’ resolution in holding the shareholders convention outside ROC, submit the request to TWSE for approval.
3	When the Company performs its voting rights in writing or electronic way, its performing method shall be stated in the shareholder convention notice. Shareholders who perform their voting rights in writing or electronic way are deemed to be present in person at the shareholder convention. However, the	Article 25.4 of the issuing company Articles of Association stipulates that when a shareholder performs his/her voting rights in the shareholder convention by written or electronic vote, it is deemed to assign the meeting chairperson to act for him/her to perform voting right at the	For shareholders performing voting rights in writing or electronic way, the Cayman Company Act does not mention whether shareholders who perform their voting right in writing or electronic way can be treated to have attended the shareholder convention in person or not? Cayman's lawyers have not found any relevant cases on it. For the other arrangement, Article

	<p>provisional motions of the shareholders convention and the amendments of original motion shall treat the writing or electronic way as rights give-up.</p>	<p>shareholders convention in accordance with the written or electronic documents. The meeting chairperson bases on the status of agent, has no right to perform the voting right on behalf of the shareholder in matters not mentioned/stated in the written or electronic documents and/or amendments to the original proposal proposed at the shareholders convention. In order to clarify the doubt, shareholders performing their voting right in such manner shall be deemed to have performed their right to vote in respect of the provisional motions and/or amendments of the original motion proposed in the shareholder convention.</p>	<p>25.4 of the issuing company's Articles of Association stipulates that "the shareholder is deemed assigning the meeting chairperson by written voting or electronic way to exercise his/her voting rights in the shareholder convention per instructions. Based on the status of the agent, for the matters not mentioned/stated in the written or electronic documents and/or the amendments to the original proposal proposed at the shareholders convention, the meeting chairperson is not entitled to exercise the voting rights of the assigned shareholders. To clarify the doubt, shareholders exercising their voting rights in such manner shall be deemed to have abandoned their voting rights of amendments to the provisional motion and/or the original motion proposed in the shareholder convention. In Article 26.3 of the issuing company Articles of Association, the voting rights of that the chairperson exercises on behalf of the entrusted shareholders in the shareholder convention shall not exceed a limit of 3% of the total voting rights of issued shares.</p>
4	<p>The following proposals concerning the major equity of shareholders shall be agreed by the attending of over 2/3 of the total shareholders with issued shares, and 1/2 of the shareholders' voting rights. If the total number of shares attending shareholders is insufficient from the aforesaid conditions, it can represent the agreement by the attendance of over 1/2 of the total shareholders with issued shares and 2/3 of the attending shareholders with voting rights agree on that:</p> <ol style="list-style-type: none"> <li>1. The Company builds, alters or terminates the contract that leases all business, entrusts the operation or co-operations with others, transfers all or the major part of the business or property, receives all business or property transferred from others, and others that significantly impact the Company's operation.</li> <li>2. Change the Articles of Association.</li> <li>3. If the change in Articles of</li> </ol>	<ol style="list-style-type: none"> <li>1. Article 12.1 of the publishing company Articles of Association stipulates that the Company may, at any time, have a special resolution without violating the Cayman Company Act and the Articles of Association: <ol style="list-style-type: none"> <li>(a) Change its name;</li> <li>(b) Amend or add Articles of Association;</li> <li>(c) Amend or add the Articles of Association outline on the company's purpose, powers or other matters specifically stated;</li> <li>(d) Reduce capital and capital redeem reserve; or</li> <li>(e) Consolidation</li> </ol> </li> <li>2. Article 12.3 of the issuing company Articles of Association stipulates that the following acts of the company shall be approved by the shareholders' serious resolution without violating the Cayman Company Act: <ol style="list-style-type: none"> <li>(a) Capitalize the dividends and/or</li> </ol> </li> </ol>	<ol style="list-style-type: none"> <li>1. Regarding the resolution method in the shareholders convention, in addition to the ordinary resolutions and serious resolutions under the ROC laws, the "Special Resolution" defined by the Cayman Company Act is also included in Article 1.1 of the issue company's Articles of Association. In the case of non-compliance with the Cayman Company Act, it means that the shareholders who have right to participate in the voting presents in person at the company's shareholders convention, or votes by proxy, or legally authorizes the legal corporate shareholder or non-citizen shareholder to attend the voting (according to Article 23.1 of the issuing company's Articles of Association, it means that the attended shareholders number is over 1/2 of the total number of shares with voting rights). After each shareholder has the right to vote, at least 2/3 of the voting rights of shareholders agree the issue.</li> <li>2. In accordance with the provisions of the Cayman Company Act, the following matters shall be governed by special resolutions: <ol style="list-style-type: none"> <li>(1) Change the Articles of Association</li> </ol> </li> </ol>

	<p>Association is infringing the rights of the special shareholders, the resolution of special shareholders convention on it shall be required.</p> <p>4. Distribute all or part of the dividends and bonus by means of new shares.</p> <p>5. Resolution for dissolution, merger or division.</p>	<p>bonus and/or other money specified in Article 17 of the Articles of Association;</p> <p>(b) Pay all or part of the capital reserve and statutory surplus reserve (as defined in article 14.4 of the Articles of Association) by new shares or cash in proportion to the original shares of the shareholders. The issue of new shares or cash by statutory surplus reserve is limited to the portion of the reserve exceeding 25% of the paid-up capital.</p> <p>(c) Consolidation (except for "M&amp;A" defined in the Cayman Company Act, only a special resolution is required) or division;</p> <p>(d) Build, change or terminate a business lease contract, entrusted business contract or joint-operation contract;</p> <p>(e) Transfer all or major part of the business or property thereof; or</p> <p>(f) Acquire or receive all of the business or property from others and has a significant influence on company operation.</p> <p>3. Under the provisions specified in Article 12.4 of the company's Articles of Association, while not to violate the Cayman Company Act, the company can voluntarily dissolve itself by the following resolutions:</p> <p>(a) If the company decides to voluntarily dissolve itself due to the inability to pay off the due debt, by ordinary resolution made thereof; or</p> <p>(b) If the company decides to voluntarily dissolve itself as a result of the reason other than the conditions specified in 12.4(a) above, by a special resolution made thereof.</p> <p>4. Per Article 13 of the issuing company's Articles of Association, no matter whether the company has</p>	<p>According to Cayman law, the changes of Articles of Association shall base on the special resolution of the Cayman Company Act. Therefore, Article 12.1 of the publishing company's Articles of Association specifies the rule of changing the threshold of resolution instead of asking to follow ROC serious resolution specified in the shareholders' rights protecting check list. In addition, in accordance with Article 13 of the issue company's Articles of Associations, if any modification or change of Articles of Association will damage the priority of any kind of shares, the relevant amendments or changes shall be passed by special resolution and shall be subject to the special resolution of the shareholders convention held separately by the rights-damaged shareholders.</p> <p>(2) Dissolution</p> <p>According to Cayman law, if a company decides to voluntarily liquidate and dissolve itself because it cannot settle the debt after the debt is matured, its dissolution shall be in accordance with the ordinary resolution of the shareholders convention (i.e., Article 12.4(a) of the issuing company's Articles of Association). For the purpose of voluntarily liquidating and dissolving the company for reasons other than the above, the dissolution shall be subject to the special resolution prescribed by the Cayman Company Act; therefore, Article 12.4(a) of the Articles of Association of the issuing company sets the reason of unable to pay the debt after the debt is matured and defines the resolution threshold for the company's voluntarily liquidation and dissolution by resolution, which doesn't follow the shareholders' rights protecting check list asking to follow serious resolution under ROC laws. As for Article 12.4(b) of the publishing company's Articles of Association, since the special resolution stipulated by the Cayman Company Act has higher threshold than the thresholds of ROC's serious resolution, the provisions asking for dissolution by the special resolution specified in Article 12.4(b) of the issuing company's Articles of</p>
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		<p>been liquidated or not, if the company's capital is divided into different types of shares, except that shares issuing condition is another specified, rights of such shares can be changed by the special resolution of shareholders convention. Subject to the aforesaid provisions, if any modification or change in the Articles of Association would prejudice the priority of any type of shares, the relevant modification or change shall be by the special resolution and shall be convened by the shareholders under the damage with the special resolution.</p>	<p>Association actually has been in conformity with the protection checklist of shareholders' rights and interests that shall list the dissolution into the serious resolution requirement under ROC law.</p> <p>(3) Merger</p> <p>Since the Cayman Company Act is mandatory for voting procedure on defining the "M&amp;A and/or merger" (that is, it must proceed with the special resolution), by considering the definition of "M&amp;A and/or Merger" in Cayman Company Act is not the same as those in ROC law, in order to make the merger pattern beyond the "M&amp;A and/or merger" defined by the Cayman Company Act can be listed as the serious resolution of the shareholders convention according to the requirements of the shareholders' rights protection. Section 12.3(c) of the issue company's Article of Association sets that "merger" (meet the "M&amp;A and/or merger" as defined in the Cayman Company Act, which only needs for special resolution) shall be the serious resolution to be passed.</p> <p>3. The difference between the above matters and the checklist of shareholders' rights protection matters is that the important matters under shareholder equity protection shall be the resolution of serious matter; in the Articles of Association of the issuing company, these matters are specified in serious resolution and special resolution matters separately.</p>
5	<ol style="list-style-type: none"> <li>1. Company's supervisors are selected from shareholders convention. At least one supervisor shall have domestic residence.</li> <li>2. The supervisors shall not serve for more than three years. Yet, this restriction won't be valid if re-elected.</li> <li>3. When all supervisors are dismissed, the Board of Directors shall hold a temporary shareholders convention to select new supervisors within 60 days.</li> <li>4. The supervisor shall supervise the operation of the company's business; timely investigate the company's</li> </ol>	<p>Article 63 of the issuing company's Articles of Association has specified the duties of Audit Committee, which is equivalent to supervisors in Taiwan.</p>	<p>There is no "supervisor" idea defined in Camay Company Act, the issuing company only builds the Audit Committee, not supervisors, therefore, no supervisor provision is defined in the Articles of Association.</p>

	<p>business and financial status; check the accounting sheets and documents, and can request the Board or managers to submit reports.</p> <p>5. The supervisor shall check the sheets submitted to the shareholders convention from the Board of Directors and reports checking opinions to the shareholders convention.</p> <p>6. The supervisor shall assign the accountant or lawyer to review the checking matter on behalf of the company.</p> <p>7. The supervisor can attend the Board of Directors and make comments. If the Board of Directors or directors conduct business against the enactments, Articles of Association or the resolutions of the shareholders convention, the supervisor shall immediately notify the Board of Directors or the directors to stop their improper actions.</p> <p>8. The supervisor can exercise supervision rights independently.</p> <p>9. The supervisor cannot serve as the company director, manager or other employee.</p>		
6	<p>1. Shareholder holding more than 3% of the total company-issued shares for more than one year can request the supervisor to make a lawsuit against the directors for the company; and set Taipei District Court as the court of first instance.</p> <p>    Within 30 days after the shareholder makes the lawsuit request yet the supervisor fails to comply, the shareholder can make a lawsuit against the company; and set the Taipei District Court as the court of first instance.</p> <p>2. According to Article 48.3 of the Articles of Association of the issuing company, within the scope permitted by the Cayman Law, shareholder holding more than 3% of the total company-issued shares for more than</p>	<p>According to Article 48.3 of the Articles of Association of the issuing company, within the scope permitted by the Cayman Law, shareholder holding more than 3% of the total company-issued shares for more than one year can (a) request the Board of Directors to authorize the independent director in the Audit Committee to launch a lawsuit against the directors for the company in writing; and set the Taipei District Court as the court of first instance; or (b) requested the independent director of the Audit Committee to launch a lawsuit against the directors for the company in writing; and set the Taipei District Court as the court of first instance;</p> <p>Within 30 days after the request (a)</p>	<p>The issuing company has an Audit Committee, so there are no related regulations for the supervisors in the Articles of Association. However, with reference to Article 214 of ROC Company Act on the request of lawsuit against the directors by minority shareholders, Article 48.3 of the Articles of Association of the issuing company specifies that under the scope permitted by Cayman laws, shareholder holding more than 3% of the total company-issued shares for more than one year can (a) request in writing the Board of Directors to authorize the independent director of the Audit Committee to launch a lawsuit against the directors for the company in writing, and set the Taipei District Court as the court of first instance; or (b) requested the independent director of the Audit Committee to launch a lawsuit against the directors for the company in writing; and set the Taipei District Court as the court of first</p>

	<p>one year can (a) request the Board of Directors to authorize the independent director in the Audit Committee to launch a lawsuit against the directors for the company in writing; and set the Taipei District Court as the court of first instance; or (b) requested the independent director of the Audit Committee to launch a lawsuit against the directors for the company in writing; and set the Taipei District Court as the court of first instance;</p>	<p>or (b) above is applied, if (i) the requested Board of Directors fails to authorize the independent director of the Audit Committee to launch lawsuit, or the independent director of the Audit Committee authorized by the Board of Directors fails to launch lawsuit, stated in item (a) above; or (ii) the requested independent director of the Audit Committee fails to launch the lawsuit, within the scope permitted by the Cayman laws, the shareholder can launch a lawsuit against the directors for the company; and set the Taipei District Court as the court of first instance.</p>	<p>instance. Within 30 days after the request (a) or (b) above is applied, if (i) the requested Board of Directors fails to authorize the independent director of the Audit Committee to launch lawsuit, or the independent director of the Audit Committee authorized by the Board of Directors fails to launch lawsuit, stated in item (a) above; or (ii) the requested independent director of the Audit Committee fails to launch the lawsuit, within the scope permitted by the Cayman laws, the shareholder can launch a lawsuit against the directors for the company; and set the Taipei District Court as the court of first instance. Cayman's lawyers remind the following provisions in accordance with the Cayman laws: The Cayman Company Act does not allow the specific specification for the lawsuit procedure derived from the minority shareholders launching lawsuit against the directors in Cayman courts. The Articles of Association is not a contract between the shareholders and the directors, but is the agreement between the shareholders and the company, even though the Articles of Association allows the minority shareholders to launch derivative lawsuits against the directors, Cayman's lawyers believe that the content will not be able to bind the directors. However, under common law, all shareholders (including minority shareholders) have right to launch derivative lawsuits (including litigation against directors) regardless of their shareholding or shareholding period. Once the shareholder sues, the Cayman court will have full discretion to decide whether the shareholder can continue the lawsuit or not. In other words, the Articles of Association of the company stipulates that minority shareholders (or shareholders with the required shareholding ratio or shareholding period) can launch lawsuits against the director for the company, but whether the lawsuit can continue or not depends on Cayman court's decision. According to the relevant judgment of the Cayman Grand Court, when considering whether to approve the continuation of derivative proceedings or not, the applicable criterion is whether or not the Cayman court believes and accepts that the plaintiff's request on behalf of the company is superficial and the</p>
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			<p>claimed illegal activity is made by the party that can control the company, and the controller can prevent the company from litigating it. The Cayman Court will judge the lawsuit on a case-by-case basis (although the court may refer to the company's Articles of Association regulations, this is not a decisive factor).</p> <p>Under Cayman law, the Board of Directors shall decide on its behalf (instead of individual directors) on behalf of the company. Therefore, the directors shall, under the Articles of Association regulations, authorize any director to launch lawsuit against the other directors on behalf of the company.</p> <p>The Cayman Company Act does not give shareholders a clear request for a director to convene a Board of Directors to specify the specific matters. However, the Cayman Companies Act does not prohibit companies from establishing provisions relating to the Board of Directors proceedings at the Articles of Association (including the requirements for Board of Directors meetings). Therefore, with reference to Article 214 of ROC Company Act regarding the request of minority shareholders to launch lawsuit against directors, the Articles of Association of the company may require the shareholders to request the convening of Board of Directors to resolve specific matters (i.e., launch the lawsuit against the directors) in accordance with Article 48.3.</p>
7	<ol style="list-style-type: none"> <li>1. The company directors shall faithfully perform the business and perform the duty that the managers shall take care. If there is any violation on company, the damage liability shall be taken thereof. If the act is committed by the directors or by others, the shareholder will be able to resolve the act as the company's income in the proceeds.</li> <li>2. While performing the company's business, if the action of company directors is against the law that causes damage to others, the company managers, supervisors shall be liable to the damage identical to the company directors within their duty scopes.</li> </ol>	<p>According to Article 48.4 of the Articles of Association of issuing company, under the circumstance of not violating the general directors' responsibilities per Cayman common law principles and laws that the company directors are engaged in, company directors shall honestly perform business and do their responsibility a good management shall do. If there is any violation that incurs the company's damage, company directors shall be liable for damages to the maximum extent permitted by law. In the event that a director obtains any benefit for himself or another person in violation of the aforesaid provisions, the</p>	<p>Article 48.4 of the Articles of Association of the issuing company has provided that "under the circumstance of not violating the general directors' responsibilities per Cayman common law principles and laws that the company directors are engaged in, company directors shall honestly perform business and do their responsibility a good management shall do. If there is any violation that incurs the company's damage, company directors shall be liable for damages to the maximum extent permitted by law. In the event that a director obtains any benefit for himself or another person in violation of the aforesaid provisions, the company shall take all appropriate actions and steps to the maximum extent permitted by law, as decided by the ordinary resolution of the shareholders convention. The company interests are owned</p>

	<p>3. The company managers and supervisors shall bear the same liability for damage as the company directors do within the scope of their duties.</p>	<p>company shall take all appropriate actions and steps to the maximum extent permitted by law, as decided by the ordinary resolution of the shareholders convention. The company interests are owned by the company. When a company director conducts business operation, if there is any breach of law or order that causes the company to be liable for any compensation or damage to any person, the director shall be liable with the company for compensation or damage for any reason, if the director is not to be liable along with the company for compensation, the director shall compensate the company for any losses by the company suffers from the violation of the director's own obligations. Managers shall be subject to the same liability for damages as company directors when performing company duties.</p>	<p>by the company. When a company director conducts business operation, if there is any breach of law or order that causes the company to be liable for any compensation or damage to any person, the director shall be liable with the company for compensation or damage for any reason, if the director is not to be liable along with the company for compensation, the director shall compensate the company for any losses by the company suffers from the violation of the director's own obligations. Managers shall be subject to the same liability for damages as company directors when performing company duties."</p> <p>Cayman's lawyers are remind the following provisions in accordance with the Cayman enactments:</p> <p>Under Cayman law, the director's company liability can be broadly divided into common law responsibilities (i.e. professional competence, attention and diligence) and loyalty obligations. However, the directors are legally obligated under the provisions of various laws and, in certain circumstances, also have obligations to third parties (such as creditors). If the company is or may be unable to pay off, the directors shall consider the interests of the creditors when performing their duties.</p> <p>In addition, regarding the provisions of the directors' interests as the company's income, Cayman's lawyers believe that such regulations are uncertain and too general, so they have doubts about their enforceability. For example, whether or not a director's breach of obligation is left to the court to finalize and how to define the benefit (and the period in which it benefits)? Cayman's lawyers also believe that this Article does not limit the director's responsibilities. Directors are still subject to various statutory, common law and fiduciary duties under Cayman law.</p>
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## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Shareholders  
Jinan Acetate Chemical Co., Ltd.

### **Opinion**

We have audited the accompanying consolidated financial statements of Jinan Acetate Chemical Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### **Basis for Opinion**

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

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters of the Group's consolidated financial statements for the year ended December 31, 2018 are stated as follows:

#### Impairment Assessment of Accounts Receivable

The allowance for impairment loss of accounts receivable of the Group was recognized according to the assessed recoverability of the receivables and the collection experience of the management. Due to the significance of loss allowance and the material impact accounts receivable could have on its financial performance and condition, we consider the impairment assessment of accounts receivable as a key audit matter. The related significant accounting assessment and judgments are disclosed in Notes 4 and 5 to the consolidated financial statements.

The key audit procedures performed in respect of the above area included the following:

1. We have verified the correctness of the aging of accounts receivable through audit sampling.
2. We have assessed the appropriateness of the assumptions used in the evaluation of the recoverability of overdue accounts and possible uncollectible receivables.
3. We have evaluated the reasonableness of the loss allowance recognized by management.

#### Recognition of Operating Revenue

According to IFRS 15 "Revenue from Contracts with Customers", the Group recognizes revenue when the ownership and significant risks and rewards on the goods or services have been transferred to the customer. We, therefore, consider the recognition of operating revenue as a key audit matter. Please refer to Note 4 to the consolidated financial statements for the relevant accounting policy.

The key audit procedures performed in respect of the above area included the following:

1. We have obtained an understanding of the Group's policies and procedures and internal controls for revenue accounting and we have tested the operating effectiveness of the key controls over the timing of revenue recognition.
2. We have selected sample transactions in the sales records for substantive tests and confirmed them against the supporting documents.

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

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

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

Those charged with governance, including members of the Audit Committee are responsible for overseeing the Group's financial reporting process.

### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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



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

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

The engagement partners on the audit resulting in this independent auditors' report are Tung-Feng Lee and Ching-Cheng Yang.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 26, 2019

Notice to Readers

*The accompanying consolidated financial statements are intended only to present the consolidated 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 consolidated financial statements are those generally applied in the Republic of China.*

*For the convenience of readers, the independent auditors' report and the accompanying consolidated 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 consolidated financial statements shall prevail.*

**JINAN ACETATE CHEMICAL CO., LTD. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2018 AND 2017**  
(In Thousands of New Taiwan Dollars)

ASSETS	2018		2017	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 4 and 6)	\$ 369,078	16	\$ 206,246	8
Financial assets at amortized cost - current (Notes 4 and 8)	616	-	-	-
Debt investments with no active market - current (Notes 4, 9 and 29)	-	-	184,492	8
Notes and accounts receivable, net (Notes 4, 10 and 21)	262,913	11	321,993	13
Accounts receivable from related parties (Notes 4, 5, 10, 21 and 28)	49,150	2	55,993	2
Other receivables (Notes 25 and 28)	16,511	1	17,462	1
Current tax assets (Notes 4 and 23)	5,447	-	12,401	1
Inventories, net (Notes 4 and 11)	320,695	14	415,573	17
Prepayments (Notes 15 and 29)	85,674	4	101,315	4
Other current assets (Note 29)	123,590	5	99,977	4
Total current assets	<u>1,233,674</u>	<u>53</u>	<u>1,415,452</u>	<u>58</u>
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment (Notes 4, 13 and 29)	863,830	37	832,414	34
Investment properties, net (Notes 4, 14 and 29)	104,108	5	106,273	4
Deferred tax assets (Notes 4 and 23)	37,550	2	17,658	1
Prepayments for equipment	6,409	-	4,380	-
Refundable deposits (Note 27)	41	-	201	-
Long-term prepayments for leases (Notes 4, 15 and 29)	57,448	2	61,104	3
Other non-current assets	13,638	1	-	-
Total non-current assets	<u>1,083,024</u>	<u>47</u>	<u>1,022,030</u>	<u>42</u>
<b>TOTAL</b>	<u>\$ 2,316,698</u>	<u>100</u>	<u>\$ 2,437,482</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term borrowings (Note 16)	\$ 116,717	5	\$ -	-
Contract liabilities - current (Note 21)	7,196	-	-	-
Notes payable	92,131	4	39,716	2
Notes payable to related parties (Note 28)	31,416	2	-	-
Accounts payable	121,652	5	249,098	10
Other payables (Notes 18 and 28)	157,379	7	203,608	8
Advance receipts	-	-	34,168	2
Other current liabilities	2,733	-	610	-
Total current liabilities	<u>529,224</u>	<u>23</u>	<u>527,200</u>	<u>22</u>
<b>NON-CURRENT LIABILITIES</b>				
Financial liabilities at fair value through profit or loss - non-current (Notes 4, 7 and 17)	46,400	2	101,400	4
Bonds payable (Note 17)	439,842	19	423,732	17
Deferred tax liabilities (Notes 4 and 23)	9,785	-	9,989	1
Total non-current liabilities	<u>496,027</u>	<u>21</u>	<u>535,121</u>	<u>22</u>
Total liabilities	<u>1,025,251</u>	<u>44</u>	<u>1,062,321</u>	<u>44</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Note 20)</b>				
Share capital				
Common stock	464,800	20	464,800	19
Capital surplus	479,542	21	479,542	20
Retained earnings				
Legal reserve	78,110	3	60,908	3
Special reserve	2,344	-	2,344	-
Unappropriated earnings	228,542	10	253,046	10
Total retained earnings	308,996	13	316,298	13
Other equity				
Exchange differences on translating the financial statements of foreign operations	(84,208)	(4)	(63,201)	(3)
Revaluation surplus	65,146	3	65,146	3
Total other equity	(19,062)	(1)	1,945	-
Treasury shares	(52,124)	(2)	-	-
Total equity attributable to owners of the Company	1,182,152	51	1,262,585	52
<b>NON-CONTROLLING INTERESTS</b>	<u>109,295</u>	<u>5</u>	<u>112,576</u>	<u>4</u>
Total equity	<u>1,291,447</u>	<u>56</u>	<u>1,375,161</u>	<u>56</u>
<b>TOTAL</b>	<u>\$ 2,316,698</u>	<u>100</u>	<u>\$ 2,437,482</u>	<u>100</u>

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

## JINAN ACETATE CHEMICAL CO., LTD. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4, 21 and 28)	\$ 1,739,194	100	\$ 1,747,987	100
OPERATING COSTS (Notes 19, 22 and 28)	<u>(1,317,839)</u>	<u>(76)</u>	<u>(1,321,952)</u>	<u>(76)</u>
GROSS PROFIT	<u>421,355</u>	<u>24</u>	<u>426,035</u>	<u>24</u>
OPERATING EXPENSES (Notes 19, 22 and 28)				
Selling and marketing expenses	(84,843)	(5)	(54,307)	(3)
General and administrative expenses	(63,860)	(4)	(66,913)	(4)
Research and development expenses	<u>(110,484)</u>	<u>(6)</u>	<u>(97,399)</u>	<u>(5)</u>
Total operating expenses	<u>(259,187)</u>	<u>(15)</u>	<u>(218,619)</u>	<u>(12)</u>
PROFIT FROM OPERATIONS	<u>162,168</u>	<u>9</u>	<u>207,416</u>	<u>12</u>
NON-OPERATING INCOME AND EXPENSES (Note 22)				
Other income	12,659	1	13,542	1
Other gains and losses	52,006	3	(43,036)	(2)
Finance costs (Note 4)	<u>(16,781)</u>	<u>(1)</u>	<u>(9,320)</u>	<u>(1)</u>
Total non-operating income and expenses	<u>47,884</u>	<u>3</u>	<u>(38,814)</u>	<u>(2)</u>
PROFIT BEFORE INCOME TAX	210,052	12	168,602	10
INCOME TAX BENEFIT (EXPENSE) (Notes 4 and 23)	<u>14,039</u>	<u>1</u>	<u>(2,430)</u>	<u>-</u>
NET PROFIT FOR THE YEAR	<u>224,091</u>	<u>13</u>	<u>166,172</u>	<u>10</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss				
Exchange differences arising on translation to the presentation currency	<u>(23,281)</u>	<u>(1)</u>	<u>(15,380)</u>	<u>(1)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 200,810</u>	<u>12</u>	<u>\$ 150,792</u>	<u>9</u>
NET PROFIT (LOSS) ATTRIBUTABLE TO:				
Owners of the Company	\$ 225,098	13	\$ 172,021	10
Non-controlling interests	<u>(1,007)</u>	<u>-</u>	<u>(5,849)</u>	<u>-</u>
	<u>\$ 224,091</u>	<u>13</u>	<u>\$ 166,172</u>	<u>10</u>

(Continued)

## JINAN ACETATE CHEMICAL CO., LTD. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

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	2018		2017	
	Amount	%	Amount	%
TOTAL COMPREHENSIVE INCOME (LOSS)				
ATTRIBUTABLE TO:				
Owners of the Company	\$ 204,091	12	\$ 154,600	9
Non-controlling interests	<u>(3,281)</u>	<u>-</u>	<u>(3,808)</u>	<u>-</u>
	<u>\$ 200,810</u>	<u>12</u>	<u>\$ 150,792</u>	<u>9</u>
EARNINGS PER SHARE (NT\$, Note 24)				
Basic earnings per share	<u>\$ 4.85</u>		<u>\$ 3.70</u>	
Diluted earnings per share	<u>\$ 3.76</u>		<u>\$ 3.70</u>	

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

(Concluded)

**JINAN ACETATE CHEMICAL CO., LTD. AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017  
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Company												
	Share Capital			Retained Earnings			Other Equity						
	Number of Shares (In Thousands)	Amount	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Exchange Differences on Translating the Financial Statements of Foreign Operations	Gains on Property Revaluation	Treasury Shares	Total	Non-controlling Interests	Total Equity
BALANCE AT JANUARY 1, 2017	46,480	\$ 464,800	\$ 462,001	\$ 32,221	\$ 2,344	\$ 342,112	\$ 376,677	\$ (45,780)	\$ 651,446	\$ -	\$ 1,322,844	\$ 45,585	\$ 1,368,429
Appropriation of 2016 earnings	-	-	-	28,687	-	(28,687)	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	(232,400)	(232,400)	-	-	-	(232,400)	-	(232,400)
Cash dividends distributed by the Company	-	-	-	-	-	(261,087)	(232,400)	-	-	-	(232,400)	-	(232,400)
Net profit (loss) for the year ended December 31, 2017	-	-	-	-	-	172,021	172,021	-	-	-	172,021	(5,849)	166,172
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	-	-	-	-	(17,421)	-	-	(17,421)	2,041	(15,380)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	-	172,021	172,021	(17,421)	-	-	154,600	(3,808)	150,792
Changes in percentage of ownership interests in subsidiaries	-	-	17,541	-	-	-	-	-	-	-	17,541	(17,541)	-
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	88,340	88,340
BALANCE AT DECEMBER 31, 2017	46,480	\$ 464,800	\$ 479,542	\$ 60,908	\$ 2,344	\$ 253,046	\$ 316,298	\$ (63,201)	\$ 651,446	\$ -	\$ 1,262,585	\$ 112,576	\$ 1,375,161
Appropriation of 2017 earnings	-	-	-	17,202	-	(17,202)	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	(232,400)	(232,400)	-	-	-	(232,400)	-	(232,400)
Cash dividends distributed by the Company	-	-	-	-	-	(249,602)	(232,400)	-	-	-	(232,400)	-	(232,400)
Net profit (loss) for the year ended December 31, 2018	-	-	-	-	-	225,098	225,098	-	-	-	225,098	(1,007)	224,091
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	-	-	-	-	(21,007)	-	-	(21,007)	(2,274)	(23,281)
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	-	225,098	225,098	(21,007)	-	-	204,091	(3,281)	200,810
Buy-back of ordinary shares	-	-	-	-	-	-	-	-	-	(52,124)	(52,124)	-	(52,124)
BALANCE AT DECEMBER 31, 2018	46,480	\$ 464,800	\$ 479,542	\$ 78,110	\$ 2,344	\$ 228,542	\$ 308,996	\$ (84,208)	\$ 651,446	\$ (52,124)	\$ 1,182,152	\$ 109,295	\$ 1,291,447

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

# JINAN ACETATE CHEMICAL CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 210,052	\$ 168,602
Adjustments for:		
Depreciation expenses	86,707	43,319
Amortization expenses	2,403	2,374
Net loss (gain) on fair value changes of financial assets and liabilities designated as at fair value through profit or loss	(55,000)	15,800
Finance costs	16,781	9,320
Interest income	(4,013)	(2,976)
Write-downs (reversal) of inventories	(490)	714
Changes in operating assets and liabilities		
Notes receivable	(4,907)	(1,826)
Accounts receivable	63,987	(236,550)
Accounts receivable from related parties	6,843	(12,034)
Other receivables	(481)	(11,855)
Inventories	95,368	(41,046)
Prepayments	15,592	(95,823)
Other current assets	(23,613)	(97,462)
Contract liabilities	(26,972)	-
Notes payable	52,415	36,145
Notes payable to related parties	31,416	-
Accounts payable	(127,446)	167,728
Other payables	5,654	10,561
Advance receipts	-	28,142
Other current liabilities	2,129	(170)
Cash generated from (used in) operations	346,425	(17,037)
Interest paid	(671)	(489)
Income taxes refund (paid)	221	(40,658)
Net cash generated from (used in) operating activities	<u>345,975</u>	<u>(58,184)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from disposal of financial assets at amortized cost	183,880	-
Payments for debt investments with no active market	-	(177,619)
Payments for property, plant and equipment	(183,644)	(260,992)
Decrease (increase) in refundable deposits	158	(457)
Increase in other non-current assets	(14,172)	-
Increase in prepayments for equipment	(6,535)	-
Interest received	5,445	2,214
Net cash used in investing activities	<u>(14,868)</u>	<u>(436,854)</u>

(Continued)

# JINAN ACETATE CHEMICAL CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

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	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term borrowings	\$ 116,717	\$ -
Issuance of convertible bonds	-	500,501
Guarantee deposits refunded	(6)	(1,944)
Dividends paid to owners of the Company	(232,400)	(232,400)
Payments for buy-back of ordinary shares	(52,124)	-
Increase in non-controlling interests	<u>-</u>	<u>88,340</u>
Net cash generated from (used in) financing activities	<u>(167,813)</u>	<u>354,497</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(462)</u>	<u>(17,086)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	162,832	(157,627)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>206,246</u>	<u>363,873</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 369,078</u>	<u>\$ 206,246</u>

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

(Concluded)

# JINAN ACETATE CHEMICAL CO., LTD. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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### 1. GENERAL INFORMATION

Jinan Acetate Chemical Co., Ltd. (the “Company”) was incorporated in Cayman Islands on September 25, 2014. The Company was established mainly for organizational restructuring. In accordance with the equity exchange agreement, the Company has become the holding company of the consolidated entities after the organizational restructuring have been completed on September 25, 2014.

The Company’s shares have been listed on the Taiwan Stock Exchange (TSE) since November 9, 2015.

The Company’s functional currency is Renminbi. However, due to the listing in the TSE, the consolidated financial statements are presented in New Taiwan dollars for greater comparability and consistency of financial reporting.

### 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on March 26, 2019.

### 3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the “IFRSs”) endorsed and issued into effect by the FSC

Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC did not have any material impact on the accounting policies of the Company and its subsidiaries (collectively referred to as the “Group”).

#### 1) Annual Improvements to IFRSs 2014-2016 Cycle

Several standards, including IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures,” were amended in this annual improvement.

The application of the above amendments in 2018 did not have significant impact on the Group’s consolidated financial statements.

#### 2) IFRS 9 “Financial Instruments” and related amendment

IFRS 9 supersedes IAS 39 “Financial Instruments: Recognition and Measurement”, with consequential amendments to IFRS 7 “Financial Instruments: Disclosures” and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Refer to Note 4 for information relating to the relevant accounting policies.



### Classification, measurement and impairment of financial assets

On the basis of the facts and circumstances that existed as of January 1, 2018, the Group has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amount under IAS 39 and the new measurement categories and carrying amount under IFRS 9 for each class of the Group's financial assets and financial liabilities as of January 1, 2018.

Financial Assets	Measurement Category		Carrying Amount		Remark
	IAS 39	IFRS 9	IAS 39	IFRS 9	
Cash and cash equivalents	Loans and receivables	Amortized cost	\$ 206,246	\$ 206,246	*
Time deposits with original maturities of more than 3 months	Loans and receivables	Amortized cost	184,492	184,492	*
Notes receivable, trade receivables and other receivables	Loans and receivables	Amortized cost	395,448	395,448	*
Pledge deposits and refundable deposits	Loans and receivables	Amortized cost	100,178	100,178	*
	<b>IAS 39</b>	<b>IFRS 9</b>	<b>Retained Earnings</b>	<b>Other Equity</b>	
	<b>Carrying Amount as of January 1, 2018</b>	<b>Carrying Amount as of January 1, 2018</b>	<b>Effect on January 1, 2018</b>	<b>Effect on January 1, 2018</b>	<b>Remark</b>
<u>Amortized cost</u>					
Add: Reclassification from loans and receivables (IAS 39)	\$ _____	\$ 886,364	\$ _____	\$ _____	*
Total	\$ _____	\$ 886,364	\$ _____	\$ _____	

\* Cash and cash equivalents, time deposits with original maturities of more than 3 months, notes receivable, trade receivables, other receivables, pledge deposits and refundable deposits, that were previously classified as loans and receivables under IAS 39 were classified as measured at amortized cost with an assessment of expected credit losses under IFRS 9.

The application of the above amendments in 2018 did not have significant impact on the Group's consolidated financial statements.

### 3) IFRS 15 "Revenue from Contracts with Customers" and related amendment

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations. Please refer to Note 4 for related accounting policies.

Any excess of consideration received and receivable over the recognized revenue is recognized as a contract liability.

If the contract is non-cancellable, the Group will recognize a receivable and a contract liability when it has an unconditional right to the consideration in accordance with IFRS 15. Prior to the application of IFRS 15, consideration was recognized as deferred revenue when received.

The impact on liabilities as of January 1, 2018 of the initial application of IFRS 15 is set out below:

	<b>As Originally Stated</b>	<b>Adjustments Arising from Initial Application</b>	<b>Restated</b>
Contract liabilities - current	\$ -	\$ 34,168	\$ 34,168
Advance receipts	<u>34,168</u>	<u>(34,168)</u>	<u>-</u>
Total effect on liabilities	<u>\$ 34,168</u>	<u>\$ -</u>	<u>\$ 34,168</u>

Had the Group applied the prior year's accounting policies in the current year, the following adjustments should have been made to reflect the line items and balances under IFRS 15.

Impact on liabilities for current year

	<b>December 31, 2018</b>
Increase in contract liability - current	\$ 7,196
Decrease in advanced receipts	<u>(7,196)</u>
Increase in liabilities	<u>\$ -</u>

4) Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"

The amendments clarify that the difference between the carrying amount of the debt instrument measured at fair value and its tax base gives rise to a temporary difference, even though there are unrealized losses on that asset, irrespective of whether the Group expects to recover the carrying amount of the debt instrument by sale or by holding it and collecting contractual cash flows.

In addition, in determining whether to recognize a deferred tax asset, the Group should assess a deductible temporary difference in combination with all of its other deductible temporary differences, unless the tax law restricts the utilization of losses as deduction against income of a specific type, in which case, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type. The amendments also stipulate that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the Group's assets for more than their carrying amount if there is sufficient evidence that it is probable that the Group will achieve the higher amount and that the estimate for future taxable profit should exclude tax deductions resulting from the reversal of deductible temporary differences.

Prior to the amendment, in assessing a deferred tax asset, the Group assumed that it will recover the asset at its carrying amount when estimating probable future taxable profit. The Group applied the above amendments retrospectively in 2018.

The application of the above amendments in 2018 did not have significant impact on the Group's consolidated financial statements.

5) IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

IAS 21 stipulated that a foreign currency transaction shall be recorded on initial recognition in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. IFRIC 22 further explains that the date of the transaction is the date on which an entity recognizes a non-monetary asset or non-monetary liability from payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine the date of the transaction for each payment or receipt of advance consideration.

The application of the above amendments in 2018 did not have significant impact on the Group’s consolidated financial statements.

- b. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC) and Interpretations of IAS (SIC) (collectively, the “IFRSs”) endorsed by the FSC for application starting from 2019.

<b>New, Amended or Revised Standards and Interpretations (the “New IFRSs”)</b>	<b>Effective Date Announced by IASB (Note 1)</b>
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 “Prepayment Features with Negative Compensation”	January 1, 2019 (Note 2)
IFRS 16 “Leases”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019 (Note 3)
Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”	January 1, 2019
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The FSC permits the election for early adoption of the amendments starting from 2018.

Note 3: The Group shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

1) IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Definition of a lease

Upon initial application of IFRS 16, the Group will elect to apply the guidance of IFRS 16, in determining whether contracts are, or contain, a lease, only to contracts entered into (or changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 will not be reassessed and will be accounted for in accordance with the transitional provisions under IFRS 16.

### The Group as lessee

Upon initial application of IFRS 16, the Group will recognize right-of-use assets, or investment properties if the right-of-use assets meet the definition of investment properties, and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value and short-term leases will be recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities will be classified within financing activities; cash payments for the interest portion will be classified within operating activities. Currently, payments under operating lease contracts are recognized as expenses on a straight-line basis. Prepaid lease payments for land use rights of land located in China are recognized as prepayments for leases. Cash flows for operating leases are classified within operating activities on the consolidated statements of cash flows.

The Group anticipates applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information will not be restated.

The Group expects to apply the following practical expedients:

- a) The Group will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- b) The Group will account for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.
- c) The Group will exclude initial direct costs from the measurement of right-of-use assets on January 1, 2019.
- d) The Group will use hindsight, such as in determining lease terms, to measure lease liabilities.

### The Group as lessor

The Group will not make any adjustments for leases in which it is a lessor and will account for those leases with the application of IFRS 16 starting from January 1, 2019.

## 2) IFRIC 23 “Uncertainty over Income Tax Treatments”

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Group should assume that the taxation authority will have full knowledge of all related information when making related examinations. If the Group concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the Group should determine the taxable profit, tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatments used or planned to be used in its income tax filings. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Group should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the Group expects to better predict the resolution of the uncertainty. The Group has to reassess its judgments and estimates if facts and circumstances change.

Upon initial application of IFRIC 23, the Group will recognize the cumulative effect of retrospective application in retained earnings on January 1, 2019.

### 3) Amendments to IFRS 9 “Prepayment Features with Negative Compensation”

IFRS 9 stipulates that if a contractual term of a financial asset permits the issuer (i.e. the debtor) to prepay a debt instrument or permits the holder (i.e. the creditor) to put a debt instrument back to the issuer before maturity and the prepayment amount substantially represents unpaid amounts of the principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination, the financial asset has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The amendments further explain that reasonable compensation may be paid or received by either of the parties, i.e. a party may receive reasonable compensation when it chooses to terminate the contract early.

Upon initial application of the above amendments, the Group will recognize the cumulative effect of retrospective application in retained earnings on January 1, 2019.

### 4) Annual Improvements to IFRSs 2015-2017 Cycle

Several standards, including IFRS 3, IFRS 11, IAS 12 and IAS 23 “Borrowing Costs”, were amended in this annual improvement. IAS 23 was amended to clarify that, if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, the related borrowing costs shall be included in the calculation of the capitalization rate on general borrowings. Upon initial application of the above amendment, the related borrowing costs will be included in the calculation starting from 2019.

Except for the above impacts, as of the date the consolidated financial statements were authorized for issue, the Group continues assessing other possible impacts that the application of the aforementioned amendments and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers will have on the Group’s financial position and financial performance and will disclose these other impacts when the assessment is completed.

### c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note 1)</b>
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note 2)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020 (Note 3)

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The Group shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 3: The Group shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group’s financial position and financial performance and will disclose the relevant impact when the assessment is completed.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### a. Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and IFRSs as endorsed and issued into effect by the FSC.

##### b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments and investment properties which are measured at fair value.

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, are described as follows:

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- 3) Level 3 inputs are unobservable inputs for the asset or liability.

##### c. Classification of current and non-current assets and liabilities

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within 12 months after the reporting period; and
- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within 12 months after the reporting period; and
- 3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

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

##### d. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (i.e. its subsidiaries).

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective dates of acquisitions up to the effective dates of disposals.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the interests of the Group and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

See Note 12, Tables 5 and 6 for detailed information on subsidiaries (including percentages of ownership and main businesses).

e. Foreign currencies

In preparing the financial statements of each individual entity in the Group, transactions in currencies other than the entity's functional currency (i.e. foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising from the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income; in which cases, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

For the purpose of presenting consolidated financial statements, the functional currencies of the Company and the other entities in the Group (including subsidiaries, associates, joint ventures and branches in other countries that use currencies which are different from the currency of the Company) are translated into the presentation currency, the New Taiwan dollar, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income (attributed to the owners of the Company and non-controlling interests as appropriate). The exchange differences accumulated in equity, which resulted from the translation of the assets and liabilities of the Group entities into the presentation currency, are not subsequently reclassified to profit or loss.

f. Inventories

Inventories consist of raw materials, supplies, finished goods and work in progress and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. The net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at the weighted-average cost on the balance sheet date.

g. Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment loss.

Property, plant and equipment in the course of construction are measured at cost less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for their intended use.

Depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in the estimates accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

h. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties also include land held for a currently undetermined future use.

Investment properties are measured initially at cost, including transaction costs, and are subsequently measured using the fair value model. Changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

On derecognition of an investment property, the difference between the net disposal proceeds and the carrying amount of the asset is included in profit or loss.

i. Financial instruments

Financial assets and financial liabilities are recognized when a Group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

1) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

a) Measurement category

2018

Financial assets are classified into financial assets at amortized cost.



Financial assets that meet the following conditions are subsequently measured at amortized cost:

- i. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, accounts receivable at amortized cost and time deposits with original maturities of more than 3 months, are measured at amortized cost, which equals to gross carrying amount determined by the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for:

- i. Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such financial assets; and
- ii. Financial assets that are not credit-impaired on purchase or origination but have subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets in subsequent reporting periods.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

## 2017

Financial assets are classified into loans and receivables.

Loans and receivables (including trade receivables, cash and cash equivalents and debt investments with no active market) are measured using the effective interest method at amortized cost less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

## b) Impairment of financial assets

### 2018

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including accounts receivable).

The Group always recognizes lifetime Expected Credit Loss (i.e. ECL) for accounts receivable. For all other financial instruments, the Group recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Expected credit losses reflect the weighted average of credit losses with the respective risks of a default occurring as the weights. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

## 2017

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence, as a result of one or more events that occurred after the initial recognition of the financial assets, that the estimated future cash flows of the investment have been affected.

For financial assets carried at amortized cost, such as trade receivables, such assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience in debtors not making payments, an increase in the number of delayed payments in the portfolio past the average credit period for 90 days, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

For a financial asset carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment (at the date the impairment is reversed) does not exceed what the amortized cost would have been had the impairment not been recognized.

For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract such as a default or delinquency in interest or principal payments, it is becoming probable that the borrower will enter bankruptcy or financial re-organization, or there is disappearance of an active market for those financial assets because of financial difficulties.

The carrying amount of a financial asset is reduced by the impairment loss directly for all financial assets, with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When trade receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible trade receivables that are written off against the allowance account.

c) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

Before 2018, on derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss which had been recognized in other comprehensive income is recognized in profit or loss. Starting from 2018, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

2) Equity instruments

Debt and equity instruments issued by a Group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by a Group entity are recognized at the proceeds received, net of direct issue costs.

The repurchase of the Company's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3) Financial liabilities

a) Subsequent measurement

Except for the following situations, all financial liabilities are measured at amortized cost using the effective interest method.

Financial liabilities at FVTPL

The Group's financial liabilities held for trading are stated at fair value, with any gain or loss arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 7.

b) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

4) Convertible bonds

The conversion option component of the convertible bonds issued by the Group, which will be settled other than by the exchange of a fixed amount of cash or other financial assets for a fixed number of the Company's own equity instruments, is classified as a derivative financial liability.

On initial recognition, the derivative financial liability component of the convertible bonds is recognized at fair value, and the initial carrying amount of the non-derivative financial liability component is determined by deducting the amount of the derivative financial liability component from the fair value of the hybrid instrument as a whole. In subsequent periods, the non-derivative financial liability component of the convertible bonds is measured at amortized cost using the effective interest method. The derivative financial liability component is measured at fair value, and the changes in fair value are recognized in profit or loss. Transaction costs that relate to the issuance of the convertible notes are allocated to the derivative financial liability component and the non-derivative financial liability component in proportion to their relative fair values. Transaction costs relating to the derivative financial liability component are recognized immediately in profit or loss. Transaction costs relating to the non-derivative financial liability component are included in the carrying amount of the liability component.

j. Revenue recognition

2018

The Group identifies contracts with customers, allocates the transaction price to the performance obligations and recognizes revenue when performance obligations are satisfied.

Revenue from the sale of goods comes from sales of cellulose acetate tow and cellulose acetate. Sales of cellulose acetate tow and cellulose acetate are recognized as revenue when the goods are shipped because it is the time when the customer has the primary responsibility for sales to future customers and bears the risks of obsolescence. Trade receivables are recognized concurrently.

2017

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Allowances for sales returns and liabilities for returns are recognized at the time of sale based on the seller's reliable estimate of future returns and based on past experience and other relevant factors.

1) Revenue from the sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- a) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- b) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- c) The amount of revenue can be measured reliably;
- d) It is probable that the economic benefits associated with the transaction will flow to the Group; and
- e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

2) Interest income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis by reference to the principal outstanding and at the applicable effective interest rate.

k. Leasing

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

1) The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

2) The Group as lessee

Operating lease payments are recognized as expenses on a straight-line basis over the lease term.

3) Leasehold land for own use

Operating leasehold land of the Group refers to land use rights of land located in China. The lease payments are amortized on a straight-line basis over the operating term according to the Articles of Incorporation.

l. Borrowing costs

Borrowing costs directly attributable to an acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Other than that which is stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

m. Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

n. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related services.

2) Retirement benefits

The Group participates in the local government pension plans in accordance with local regulations, contributing pension regularly to the government according to a certain percentage of the employee's salary. Payments to defined contribution retirement benefit plans are recognized as expenses for the current period when employees have rendered services entitling them to the contributions.

o. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

According to the People's Republic of China (PRC) Enterprise Income Tax Law, the tax rate is 25%. Jinan Acetate Chemical Co., Ltd (China) of the Group have acquired the High-tech Enterprise Certificate in 2018 and 2017; therefore, in accordance with Article 28, the applicable tax rate is 15%. The High-tech Enterprise Certificate of Jinan Acetate Chemical Co., Ltd (China) will expire in November 2021.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences and unused loss carryforwards to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liabilities are settled or the assets are realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. If investment properties measured using the fair value model are non-depreciable assets, the carrying amounts of such assets are presumed to be recovered entirely through sale.

3) Current and deferred taxes for the year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity; in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively.

## **5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a. Estimated impairment of financial assets - 2018

The provision for impairment of trade receivables is based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and in selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see Note 10. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

b. Estimated impairment of trade receivables - 2017

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of impairment loss is measured as the difference between an asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

## 6. CASH AND CASH EQUIVALENTS

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
Cash on hand	\$ 119	\$ 123
Demand deposits	353,601	185,291
Cash equivalents (investments with original maturities of less than 3 months)		
Time deposits	<u>15,358</u>	<u>20,832</u>
	<u>\$ 369,078</u>	<u>\$ 206,246</u>

Annual yield rates for bank deposits are 0.001%-0.37% and 0.001%-0.30% at December 31, 2018 and 2017, respectively.

## 7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
<u>Financial liabilities held for trading - non-current</u>		
Derivative financial liabilities		
Convertible options	<u>\$ 46,400</u>	<u>\$ 101,400</u>

## 8. FINANCIAL ASSETS AT AMORTIZED COST - 2018

December 31,  
2018

### Current

Time deposits with original maturity of more than 3 months \$ 616

The interest rate for time deposits with original maturity of more than 3 months was 2.75% as at the end of the reporting period. The time deposits were classified as debt investments with no active market under IAS 39. Refer to Notes 3 and 9 for information relating to their reclassification and comparative information for 2017.

## 9. DEBT INVESTMENTS WITH NO ACTIVE MARKET - 2017

December 31,  
2017

### Current

Time deposits with original maturities of more than 3 months \$ 184,492

- a. As of December 31, 2017, the market interest rates of the time deposits with original maturities more than 3 months were 1.68%-1.95%.
- b. Refer to Note 29 for information relating to bond investments with no active market pledged as security.

## 10. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>Notes receivable</u>		
At amortized cost		
Gross carrying amount	\$ 6,733	\$ 1,826
Less: Allowance for impairment loss	<u>-</u>	<u>-</u>
	<u>\$ 6,733</u>	<u>\$ 1,826</u>
<u>Accounts receivable (including related parties)</u>		
At amortized cost		
Gross carrying amount	\$ 305,330	\$ 376,160
Less: Allowance for impairment loss	<u>-</u>	<u>-</u>
	<u>\$ 305,330</u>	<u>\$ 376,160</u>



## In 2018

The Group takes advance payments for the sales of goods through letters of credit. The credit period of sales of goods was between 30 and 180 days. No interest was charged on trade and notes receivable. The Group adopted a policy of only dealing with entities that are rated the equivalent of investment grade or higher and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group uses other publicly available financial information or its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of economic conditions at the reporting date. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished according to the Group's different customer base.

The following table details the loss allowance of trade receivables based on the Group's provision matrix.

### December 31, 2018

	<b>1 to 30 Days</b>	<b>31 to 60 Days</b>	<b>61 to 90 Days</b>	<b>91 to 120 Days</b>	<b>121 to 180 Days</b>	<b>181 to 360 Days</b>	<b>Total</b>
Expected credit loss rate	0%	0%	0%	0%	0%	0%	
Gross carrying amount	\$ 154,113	\$ 84,321	\$ 36,487	\$ 10,160	\$ 26,982	\$ -	\$ 312,063
Loss allowance (Lifetime ECL)	-	-	-	-	-	-	-
Amortized cost	<u>\$ 154,113</u>	<u>\$ 84,321</u>	<u>\$ 36,487</u>	<u>\$ 10,160</u>	<u>\$ 26,982</u>	<u>\$ -</u>	<u>\$ 312,063</u>

## In 2017

The Group recognized an allowance for impairment loss of 100% against all receivables over 360 days because historical experience was that receivables that were past due beyond 360 days are not recoverable. Allowance for impairment loss was recognized against trade receivables between 1 day and 360 days based on the estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial position.

For some trade receivables balances that were past due at the end of the reporting period, the Group did not recognize an allowance for impairment loss because there was no significant change in credit quality and the amounts were still considered recoverable. The Group did not hold any collateral or other credit enhancements for these balances.

The aging of receivable was as follows:

	<b>December 31, 2017</b>
1-30 days	\$ 190,075
31-60 days	115,306
61-90 days	50,381
91-120 days	19,948
121-180 days	2,246
181-360 days	<u>30</u>
	<u>\$ 377,986</u>

The above aging schedule was based on the invoice date.

The aging of receivables that were past due but not impaired was as follows:

	<b>December 31, 2017</b>
1-30 days	\$ -
31-60 days	-
61-90 days	-
91-120 days	-
121-180 days	-
181-360 days	<u>30</u>
	<u>\$ 30</u>

The above aging schedule was based on the invoice date.

The Group did not recognize an allowance for impairment loss on the receivables at December 31, 2018 and 2017, after the assessment.

## 11. INVENTORIES

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
Finished goods	\$ 146,642	\$ 95,952
Work in progress	13,919	10,311
Raw materials	142,677	295,798
Supplies	<u>17,457</u>	<u>13,512</u>
	<u>\$ 320,695</u>	<u>\$ 415,573</u>

The cost of inventories recognized as operating costs for the years ended December 31, 2018 and 2017 was \$1,317,839 thousand and \$1,321,952 thousand, respectively. The inventory write-downs (reversals of inventory write-downs) was \$(490) thousand and \$714 thousand, respectively. The reversals in 2018 of previous write-downs resulted from sales of old-age inventories.

## 12. SUBSIDIARIES

a. Entities included in the consolidated financial statements:

Investor	Investee	Nature of Activities	Proportion of Ownership	
			December 31	
			2018	2017
The Company	My Parents Living Technology Limited (Hong Kong) ("My Parents")	Investments	100.00	100.00
My Parents	Jinan Acetate Chemical Co., Ltd. (China) ("Jinan Acetate Chemical")	Production and sales of cellulose acetate tow	100.00	100.00
Jinan Acetate Chemical	Acetek Material Co., Ltd. (China) ("Acetek Material")	Production and sales of cellulose acetate	52.80	52.80
My Parents	Acetek Material Co., Ltd. (China) ("Acetek Material")	Production and sales of cellulose acetate	27.20	27.20

b. Details of subsidiaries that have material non-controlling interests

Name of Subsidiary	Principal Place of Business	Proportion of Ownership and Voting Rights Held by Non-controlling Interests	
		December 31	
		2018	2017
Acetek Material	Mainland China	20.00%	20.00%

Summarized financial information in respect of Acetek Material that has material non-controlling interests is set out below. The summarized financial information below represents amounts before intragroup eliminations.

	December 31	
	2018	2017
Current assets	\$ 273,692	\$ 188,537
Non-current assets	835,666	801,241
Current liabilities	(577,343)	(426,569)
Non-current liabilities	-	-
Equity	<u>\$ 532,015</u>	<u>\$ 563,209</u>
Equity attributable to:		
Owners of the Company	\$ 425,612	\$ 450,567
Non-controlling interests of Acetek Material	<u>106,403</u>	<u>112,642</u>
	<u>\$ 532,015</u>	<u>\$ 563,209</u>
	For the Year Ended December 31	
	2018	2017
Revenue	<u>\$ 726,431</u>	<u>\$ 237,988</u>
Loss for the year	\$ (20,108)	\$ (27,769)
Other comprehensive income (loss) for the year	<u>11,086</u>	<u>3,011</u>
Total comprehensive income (loss) for the year	<u>\$ (9,022)</u>	<u>\$ (24,758)</u>

(Continued)

**For the Year Ended December 31**  
**2018**                      **2017**

Loss attributable to:		
Owners of the Company	\$ (16,086)	\$ (21,859)
Non-controlling interests of Acetek Material	<u>(4,022)</u>	<u>(5,910)</u>
	<u>\$ (20,108)</u>	<u>\$ (27,769)</u>
Total comprehensive income (loss) attributable to:		
Owners of the Company	\$ (7,218)	\$ (19,489)
Non-controlling interests of Acetek Material	<u>(1,804)</u>	<u>(5,269)</u>
	<u>\$ (9,022)</u>	<u>\$ (24,758)</u>
Net cash inflow from:		
Operating activities	\$ 434,135	\$ (175,223)
Investing activities	(144,955)	(253,652)
Financing activities	(250,604)	442,429
Effects of exchange rate changes	<u>(2,924)</u>	<u>(6,570)</u>
Net cash inflow	<u>\$ 41,500</u>	<u>\$ 6,984</u> (Concluded)

### 13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Equipment	Transportation Equipment	Other Equipment	Construction in Progress Equipment	Total
<u>Cost</u>						
Balance at January 1, 2017	\$ 94,056	\$ 420,346	\$ 5,571	\$ 619	\$ 105,198	\$ 625,790
Additions	7,661	282,295	3,239	6,854	31,889	331,938
Reclassification	95,795	221,274	245	(446)	(95,795)	221,073
Effect of foreign currency exchange differences	<u>272</u>	<u>1,742</u>	<u>(23)</u>	<u>86</u>	<u>(2,009)</u>	<u>68</u>
Balance at December 31, 2017	<u>\$ 197,784</u>	<u>\$ 925,657</u>	<u>\$ 9,032</u>	<u>\$ 7,113</u>	<u>\$ 39,283</u>	<u>\$ 1,178,869</u>
<u>Accumulated depreciation</u>						
Balance at January 1, 2017	\$ 29,115	\$ 274,435	\$ 2,355	\$ 122	\$ -	\$ 306,027
Depreciation expenses	6,876	34,624	1,317	502	-	43,319
Reclassification	-	10	5	(15)	-	-
Effect of foreign currency exchange differences	<u>(239)</u>	<u>(2,645)</u>	<u>(10)</u>	<u>3</u>	<u>-</u>	<u>(2,891)</u>
Balance at December 31, 2017	<u>\$ 35,752</u>	<u>\$ 306,424</u>	<u>\$ 3,667</u>	<u>\$ 612</u>	<u>\$ -</u>	<u>\$ 346,455</u>
Carrying amounts at December 31, 2017	<u>\$ 162,032</u>	<u>\$ 619,233</u>	<u>\$ 5,365</u>	<u>\$ 6,501</u>	<u>\$ 39,283</u>	<u>\$ 832,414</u>
<u>Cost</u>						
Balance at January 1, 2018	\$ 197,784	\$ 925,657	\$ 9,032	\$ 7,113	\$ 39,283	\$ 1,178,869
Additions	6,750	73,766	228	573	50,444	131,761
Reclassification	-	4,375	-	-	-	4,375
Effect of foreign currency exchange differences	<u>(4,160)</u>	<u>(20,366)</u>	<u>(188)</u>	<u>(156)</u>	<u>(1,874)</u>	<u>(26,744)</u>
Balance at December 31, 2018	<u>\$ 200,374</u>	<u>\$ 983,432</u>	<u>\$ 9,072</u>	<u>\$ 7,530</u>	<u>\$ 87,853</u>	<u>\$ 1,288,261</u> (Continued)

	<b>Buildings</b>	<b>Equipment</b>	<b>Transportation Equipment</b>	<b>Other Equipment</b>	<b>Construction in Progress Equipment</b>	<b>Total</b>
<u>Accumulated depreciation</u>						
Balance at January 1, 2018	\$ 35,752	\$ 306,424	\$ 3,667	\$ 612	\$ -	\$ 346,455
Depreciation expenses	11,548	71,991	1,698	1,470	-	86,707
Effect of foreign currency exchange differences	<u>(951)</u>	<u>(7,632)</u>	<u>(107)</u>	<u>(41)</u>	<u>-</u>	<u>(8,731)</u>
Balance at December 31, 2018	<u>\$ 46,349</u>	<u>\$ 370,783</u>	<u>\$ 5,258</u>	<u>\$ 2,041</u>	<u>\$ -</u>	<u>\$ 424,431</u>
Carrying amounts at December 31, 2018	<u>\$ 154,025</u>	<u>\$ 612,649</u>	<u>\$ 3,814</u>	<u>\$ 5,489</u>	<u>\$ 87,853</u>	<u>\$ 863,830</u>

(Concluded)

The above items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Buildings	20 years
Equipment	3-10 years
Transportation equipment	4-5 years
Other equipment	5 years

Property, plant and equipment pledged as collateral for bank borrowings are set out in Note 29.

#### 14. INVESTMENT PROPERTIES

	<b>Amount</b>
Balance at January 1, 2017	\$ 107,484
Effect of foreign currency exchange differences	<u>(1,211)</u>
Balance at December 31, 2017	<u>\$ 106,273</u>
Balance at January 1, 2018	\$ 106,273
Effect of foreign currency exchange differences	<u>(2,165)</u>
Balance at December 31, 2018	<u>\$ 104,108</u>

The investment properties are leased out for 9 years. The lessees do not have bargain purchase options to acquire the investment properties at the expiry of the lease periods.

The future minimum lease payments receivable under non-cancellable operating leases are as follows:

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
Not later than 1 year	\$ 4,625	\$ 4,280
Later than 1 year and not later than 5 years	19,152	18,288
Later than 5 years	<u>15,503</u>	<u>24,973</u>
	<u>\$ 39,280</u>	<u>\$ 47,541</u>

The fair values of investment properties measured on a recurring basis were as follows:

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
Independent valuation	<u>\$ 104,108</u>	<u>\$ 106,273</u>

The fair values of a single investment property with a carrying amount of at least 20% of the total assets as of December 31, 2018 and 2017 were based on the valuations carried out at January 7, 2019 and January 15, 2018, respectively, by independent qualified professional valuer, Mr. Chang, Yi-Chuan, from Da-Hua Real Estate Appraisal Firm, a Certified Real Estate Appraiser in the ROC.

The movements in the fair value of investment properties within Level 3 of the hierarchy were as follows:

	<b>Amount</b>
Balance at January 1, 2017	\$ 107,484
Recognized in other comprehensive income (exchange differences on translating the financial statements of foreign operations)	<u>(1,211)</u>
Balance at December 31, 2017	<u>\$ 106,273</u>
Balance at January 1, 2018	\$ 106,273
Recognized in other comprehensive income (exchange differences on translating the financial statements of foreign operations)	<u>(2,165)</u>
Balance at December 31, 2018	<u>\$ 104,108</u>

The fair value of investment properties, except for undeveloped land, was measured using the income approach. The significant assumptions used are stated below. The increase in estimated future net cash inflows, or the decrease in discount rates would result in an increase in the fair value.

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
Expected future cash inflows	\$ 287,172	\$ 289,240
Expected future cash outflows	<u>(6,136)</u>	<u>(6,075)</u>
Expected future cash inflows, net	<u>\$ 281,036</u>	<u>\$ 283,165</u>
Discount rates	6%	6%

The market rentals in the area where the investment property is located were RMB7.17 per square meter. The market rentals for comparable properties were between RMB6.48 and RMB7.80 per square meter.

The investment property has 1 floor above ground, and the floor had been leased out under operating leases. The rental income generated for the years ended December 31, 2018 and 2017 was \$4,433 thousand and \$4,224 thousand, respectively.

The expected future cash inflows to be generated by investment properties included rental income, interest income on rental deposits and disposal value. The rental income was extrapolated using the Group's current rental rate taking into account the annual rental growth rate; the income analysis covers a 10-year period, the interest income on rental deposits was extrapolated using the time deposit interest rate for a 1-year period; there was no disposal value since after the land lease expires, no land owner will be paid back the above-ground houses. The expected future cash outflows to be incurred by investment properties included expenditures such as enterprise-establishing brokerage fee, related taxes and management costs, insurance premiums and maintenance costs. These expenditures were extrapolated on the basis of the current level of expenditures, taking into account the future adjustments.

The discount rate of 6% was determined by reference to the interest rate for 3-year time deposits as posted by The People's Bank of China of 2.75% and any asset-specific risk premiums of 3.25%.

The Group has free hold interests in all of its investment properties. The investment properties pledged as collateral for bank borrowings are set out in Note 29.

## 15. PREPAYMENTS FOR LEASES

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
Current assets (included in prepayments)	<u>\$ 2,356</u>	<u>\$ 2,405</u>
Non-current assets	<u>\$ 57,448</u>	<u>\$ 61,104</u>

As of December 31, 2018 and 2017, prepaid lease payments include land use rights, which are located in mainland China. The prepayments for leases pledged as collateral for bank borrowings are set out in Note 29.

## 16. BORROWINGS

### Short-term Borrowings

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
<u>Unsecured borrowings</u>		
Line of credit borrowings	<u>\$ 116,717</u>	<u>\$ _____</u>

The range of interest rates on bank loans was 3.18%-3.67% per annum as of December 31, 2018.

## 17. BONDS PAYABLE

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
First-time unsecured domestic convertible bonds (R.O.C.)	<u>\$ 439,842</u>	<u>\$ 423,732</u>

As of June 9, 2017, the Company issued \$500,000 thousand, 0% NTD-denominated unsecured convertible bonds in Taiwan, with a total issue amount of \$500,000 thousand.

Each bond entitles the holder to convert it into ordinary shares of the Company at a conversion price of \$173. In case of ex-right or ex-dividend, the price should be adjusted according to the conversion price adjustment formula. Conversion may occur at any time between September 10, 2017 and June 9, 2022. If the bonds have not been converted and the closing price of ordinary shares has exceeded 30% of the current conversion price for 30 consecutive business days, the Company may send a copy of “Debt Rebate Notice” with expiration of one month by registered mail within the next 30 business days. The aforementioned period is calculated from the delivery of mail, and the expiration date of the period is determined as the base date for recovery of bonds. The Company redeems the bonds at their par value within 5 business days following the base date.

The convertible bonds shall be resold in advance by bondholders on the date of the issuance of 3 years (June 9, 2020) and the date of the issuance of 4 years (June 9, 2021). The Company should send a copy of “Notice of Put Provision” to the bondholders by registered mail in 40 days before the base date of resale. The bondholders may require the Company to add interest compensation to the par value of the bonds (101.5075% for 3 years and 102.0151% for 4 years) and to redeem the bonds in cash. Upon receiving the request for resale, the Company shall redeem the bonds in cash within 5 business days after the resale date.

The components of liabilities are classified as embedded derivatives and non-derivative liabilities. The embedded derivatives are measured at fair value of \$46,400 thousand on December 31, 2018; the non-derivative liabilities are measured at amortized cost of \$439,842 thousand on December 31, 2018. The original effective interest rate was 3.7371%.

Proceeds from issuance (less transaction costs of \$4,499 thousand)	<u>\$ 500,501</u>
Liability component at the date of issue	\$ 500,501
Interest charged at an effective interest rate of 3.7371%	8,831
Valuation loss on financial investments	<u>15,800</u>
Liability component at December 31, 2017 (bonds payable of \$423,732 thousand and financial liabilities at fair value through profit or loss - non-current of \$101,400 thousand)	<u>\$ 525,132</u>
Interest charged at an effective interest rate of 3.7371%	16,110
Valuation profit on financial investments	<u>(55,000)</u>
Liability component at December 31, 2018 (bonds payable of \$439,842 thousand and financial liabilities at fair value through profit or loss - non-current of \$46,400 thousand)	<u>\$ 486,242</u>

## 18. OTHER PAYABLES

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Payables for purchases of equipment	\$ 71,324	\$ 123,207
Payables for salaries	21,827	21,962
Payables for steam fee	14,127	20,172
Payables for freight	13,133	10,756
Accrued remuneration to employees and directors	5,536	4,410
Others	<u>31,432</u>	<u>23,101</u>
	<u>\$ 157,379</u>	<u>\$ 203,608</u>



## 19. RETIREMENT BENEFIT PLANS

Jinan Acetate Chemical and Acetek Material of the Group adopted a defined contribution plan. Under the plan, an entity makes contributions to employees' pension account at percentages of the salary of employees. The pension account is managed by the authorized insurance institution located in China. The employees can withdraw the pension contributed by the Company and by themselves as well as the interest upon retirement.

## 20. EQUITY

### a. Ordinary shares

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Number of shares authorized (in thousands)	<u>100,000</u>	<u>100,000</u>
Shares authorized	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>46,480</u>	<u>46,480</u>
Shares issued	<u>\$ 464,800</u>	<u>\$ 464,800</u>

### b. Capital surplus

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)</u>		
Issuance of ordinary shares	\$ 462,001	\$ 462,001
<u>May be used to offset a deficit only</u>		
Changes in percentage of ownership interest in subsidiary (2)	<u>17,541</u>	<u>17,541</u>
	<u>\$ 479,542</u>	<u>\$ 479,542</u>

1) Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and once a year).

2) Such capital surplus arises from the effect of changes in ownership interest in a subsidiary that resulted from equity transactions other than actual acquisition.

### c. Retained earnings and dividend policy

The Company is in the growing stage. According to the Articles of Incorporation, the board of directors should propose the distribution of shareholders' dividends and submit it to the shareholders' meeting for appropriations of earnings, only after taking into consideration the Company's earnings, overall development, financial planning, capital requirements, industry outlook and future prospects of the Company for each of the fiscal year.

During the period when the shares are listed or traded in Taipei Exchange or Taiwan Stock Exchange, the board of directors when making proposal for distribution of earnings shall first appropriate the earnings in each fiscal year as follows: (i) reserve for tax of the relevant fiscal year; (ii) amount to offset past losses; (iii) from the remaining amount, 10% for legal reserve; and (iv) special reserve required by the securities authorities of the Republic of China in accordance with the rules of a public company. For the policies on the distribution of employees' compensation and remuneration of directors and supervisors after the amendment, refer to employees' compensation and remuneration of directors and supervisors in Note 22-7.

After considering the financial, business and operational factors, according to the Cayman Company Law and the Public Company Rules, all or parts of the unappropriated earnings accumulated in previous years, plus no less than 10% of the after-tax earnings in the current year, can be distributed as shareholders' dividends according to the shareholding ratio. Shareholders' dividends are distributed as stock dividends, cash dividends, or both; cash dividends must not be less than 10% of total dividends.

Appropriation of earnings to legal reserve shall be made until the legal reserve equals the Company's paid-in capital. The legal reserve may be used to offset deficits. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Items referred to under Rule No. 1030006415 issued by the FSC should be appropriated to or reversed from a special reserve by the Company.

The appropriations of earnings for 2017 and 2016 approved in the shareholders' meetings on June 22, 2018 and June 28, 2017, respectively, were as follows:

	<b>Appropriation of Earnings</b>		<b>Dividends Per Share (NT\$)</b>	
	<b>For the Year Ended December 31</b>		<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Legal reserve	\$ 17,202	\$ 28,687		
Cash dividends	232,400	232,400	\$ 5	\$ 5

The appropriations of earnings for 2018 had been proposed by the Company's board of directors on March 26, 2019. The appropriations and dividends per share were as follows:

	<b>Appropriation of Earnings</b>	<b>Dividends Per Share (NT\$)</b>
Legal reserve	\$ 22,510	
Special reserve	19,062	
Cash dividends	183,868	\$ 4

The appropriation of earnings for 2018 are subject to the resolution in the shareholders' meeting to be held on June 28, 2019.

The Company's board of directors, at the meeting on March 26, 2018, also resolved to transfer capital surplus of \$45,967 thousand to capital.

d. Special reserves

On the initial application of the fair value model to investment properties, the Company appropriated to retained earnings a special reserve in the amount of \$2,344 thousand that was the same as the net increase in the fair value.

e. Non-controlling interests

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Balance at January 1	\$ 112,576	\$ 45,585
Attributable to non-controlling interests:		
Share of loss for the year	(1,007)	(5,849)
Exchange difference arising on translation of foreign entities	(2,274)	2,041
Issuance of common stock of subsidiaries	<u>-</u>	<u>70,799</u>
Balance at December 31	<u>\$ 109,295</u>	<u>\$ 112,576</u>

f. Treasury shares

<b>Purpose of Buy-back</b>	<b>Shares Transferred to Employees (In Thousands of Shares)</b>
Number of shares at January 1, 2018	-
Increase during the year	<u>426</u>
Number of shares at December 31, 2018	<u>426</u>

Under the Securities and Exchange Act, the Company shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as the rights to dividends and to vote.

## 21. REVENUE

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Revenue from contracts with customers		
Revenue from sale of goods	<u>\$ 1,739,194</u>	<u>\$ 1,747,987</u>

a. Contract information

The goods are sold at the fair value of the consideration received or receivable. The Company eliminates the estimated customer returns, discounts and other similar discounts from the amount of goods sold to determine the revenue from sale of goods.

b. Contract balances

	<b>December 31, 2018</b>
Accounts receivables (Note 10)	<u>\$ 305,330</u>
Contract liabilities - current	<u>\$ 7,196</u>

c. Disaggregation of revenue

Refer to Note 34 for information about disaggregation of revenue.

## 22. NET PROFIT

### a. Other income

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Rental income	\$ 4,433	\$ 4,224
Interest income	4,013	2,976
Miscellaneous income	<u>4,213</u>	<u>6,342</u>
	<u>\$ 12,659</u>	<u>\$ 13,542</u>

### b. Other gains and losses

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Gain (loss) on financial liabilities at FVTPL	\$ 55,000	\$ (15,800)
Net foreign exchange loss	(1,472)	(25,421)
Others	<u>(1,522)</u>	<u>(1,815)</u>
	<u>\$ 52,006</u>	<u>\$ (43,036)</u>

### c. Finance costs

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Interest on bonds	\$ 16,110	\$ 8,831
Interest on bank loans	<u>671</u>	<u>489</u>
	<u>\$ 16,781</u>	<u>\$ 9,320</u>

### d. Depreciation and amortization

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Depreciation of property, plant and equipment	\$ 86,707	\$ 43,319
Amortization of prepayments for leases	<u>2,403</u>	<u>2,374</u>
	<u>\$ 89,110</u>	<u>\$ 45,693</u>
An analysis of depreciation by function		
Operating costs	\$ 74,951	\$ 34,977
Operating expenses	<u>11,756</u>	<u>8,342</u>
	<u>\$ 86,707</u>	<u>\$ 43,319</u>
An analysis of amortization by function		
Operating costs	<u>\$ 2,403</u>	<u>\$ 2,374</u>

e. Operating expenses directly related to investment properties

	<b><u>For the Year Ended December 31</u></b>	
	<b>2018</b>	<b>2017</b>
Direct operating expenses of investment properties generating rental income	\$ <u>566</u>	\$ <u>563</u>

f. Employee benefits expense

	<b><u>For the Year Ended December 31</u></b>	
	<b>2018</b>	<b>2017</b>
Short-term benefits	\$ 94,330	\$ 70,895
Post-employment benefits	8,180	5,628
Other employee benefits	<u>4,700</u>	<u>3,177</u>
Total employee benefits expense	<u>\$ 107,210</u>	<u>\$ 79,700</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 55,939	\$ 31,984
Operating expenses	<u>51,271</u>	<u>47,716</u>
	<u>\$ 107,210</u>	<u>\$ 79,700</u>

g. Employees' compensation and remuneration of directors and supervisors

According to the Articles of Incorporation of the Company, the Company accrues employees' compensation at a rate of no less than 1% when the Company earned profits in the year. Employees' compensation is paid to employees of subordinate companies that meet certain conditions. When the Company is able to increase the amount of profit, it accrues directors' remuneration at a rate of no more than 3% of the profit of the year. However, if the Company has accumulated losses, it should first retain the amount to offset the losses before accruing employees' and directors' remuneration in accordance with the above-mentioned proportion. The aforementioned profit refers to the Company's pre-tax net profit. To avoid confusion, the pre-tax net profit refers to the amount before the accrual for employees and directors' remuneration.

The employees' compensation and the remuneration of directors for the years ended December 31, 2018 and 2017, which were approved by the Company's board of directors on March 26, 2019 and March 28, 2018, respectively, were as follows:

Accrual rate

	<b><u>For the Year Ended December 31</u></b>	
	<b>2018</b>	<b>2017</b>
Employees' compensation	1.20%	1.25%
Remuneration of directors	1.20%	1.25%

Amount

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
	<b>Cash</b>	<b>Cash</b>
Employees' compensation	\$ 2,768	\$ 2,205
Remuneration of directors	2,768	2,205

If there is a change in the proposed amounts after the annual consolidated financial statements are authorized for issue, the differences are recorded as a change in accounting estimate in the subsequent period.

There is no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2017 and 2016.

Further information on the employees' compensation and remuneration of directors approved in the meetings of the board of directors in 2019 and 2018 is available at the "Market Observation Post System" website of the TSE.

h. Gains or losses on foreign currency exchange

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
	Foreign exchange gains	\$ 4,787
Foreign exchange losses	<u>(6,259)</u>	<u>(29,349)</u>
Net loss	<u>\$ (1,472)</u>	<u>\$ (25,421)</u>

**23. INCOME TAXES**

a. Income tax expense recognized in profit or loss

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
	<u>Current tax</u>	
Recognized in the current year	\$ 8,161	\$ 20,296
Adjustments for prior years	(1,549)	(993)
<u>Deferred tax</u>		
Recognized in the current year	(21,128)	(16,873)
Adjustments for prior years	<u>477</u>	<u>-</u>
Income tax expense (benefit) recognized in profit or loss	<u>\$ (14,039)</u>	<u>\$ 2,430</u>

A reconciliation of accounting profit and income tax expense (benefit) is as follows:

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Profit before income tax	<u>\$ 210,052</u>	<u>\$ 168,602</u>
Income tax expense calculated at the statutory rate	\$ 18,369	\$ 45,027
Research and development credits	(31,491)	(42,723)
Nondeductible expenses in determining taxable income	563	1,946
Adjustments of tax expense in prior years	(1,072)	(993)
Others	<u>(408)</u>	<u>(827)</u>
Income tax expense (benefit) recognized in profit or loss	<u>\$ (14,039)</u>	<u>\$ 2,430</u>

Jinan Acetate Chemical of the Group has obtained the High-tech Enterprise Certificate in 2018 and 2017, thus applying tax rate at 15%. The tax rate applicable to Acetek Material of the Group is 25%.

b. Current tax assets and liabilities

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
Current tax assets		
Tax refund receivable	<u>\$ 5,447</u>	<u>\$ 12,401</u>

c. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2018

	<b>Opening Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Exchange Differences</b>	<b>Closing Balance</b>
<u>Deferred tax assets</u>				
Temporary differences				
Allowance for inventory valuation and obsolescence loss	\$ 162	\$ (74)	\$ (1)	\$ 87
Unrealized compensation	342	(171)	(3)	168
Tax losses	<u>17,154</u>	<u>20,896</u>	<u>(755)</u>	<u>37,295</u>
	<u>\$ 17,658</u>	<u>\$ 20,651</u>	<u>\$ (759)</u>	<u>\$ 37,550</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Unrealized revaluation increments	<u>\$ 9,989</u>	<u>\$ -</u>	<u>\$ (204)</u>	<u>\$ 9,785</u>

For the year ended December 31, 2017

	Opening Balance	Recognized in Profit or Loss	Exchange Differences	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Allowance for inventory valuation and obsolescence loss	\$ 54	\$ 107	\$ 1	\$ 162
Unrealized compensation	520	(169)	(9)	342
Tax losses	<u>-</u>	<u>16,935</u>	<u>219</u>	<u>17,154</u>
	<u>\$ 574</u>	<u>\$ 16,873</u>	<u>\$ 211</u>	<u>\$ 17,658</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Unrealized revaluation increments	<u>\$ 10,102</u>	<u>\$ -</u>	<u>\$ (113)</u>	<u>\$ 9,989</u>

d. Income tax declarations

The income tax declarations of Jinan Acetate Chemical and Acetek Material of the Group have been completed within the deadlines set by the local tax collection office.

**24. EARNINGS PER SHARE**

Unit: NT\$ Per Share

	<u>For the Year Ended December 31</u>	
	2018	2017
Basic earnings per share	<u>\$ 4.85</u>	<u>\$ 3.70</u>
Diluted earnings per share	<u>\$ 3.76</u>	<u>\$ 3.70</u>

The earnings and weighted average number of ordinary shares outstanding used in the computation of earnings per share were as follows:

**Net Profit for the Year**

	<u>For the Year Ended December 31</u>	
	2018	2017
Profit for the year attributable to owners of the Company	\$ 225,098	\$ 172,021
Effect of potentially dilutive ordinary shares		
Interest and evaluation of convertible bonds	<u>(38,890)</u>	<u>-</u>
Profit for the year attributable to owners of the Company	<u>\$ 186,208</u>	<u>\$ 172,021</u>



## Number of Shares

Unit: Thousand Shares

	<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Weighted average number of ordinary shares used in the computation of basic earnings per share	46,436	46,480
Effect of potentially dilutive ordinary shares		
Convertible bonds	3,106	-
Employees' compensation or bonuses issued to employees	<u>29</u>	<u>21</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>49,571</u>	<u>46,501</u>

If the Group offered to settle the compensation or bonuses paid to employees in cash or shares, then the Group should assume that the entire amount of the compensation or bonuses will be settled in shares, and the resulting potential shares are included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, if the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

Since the exercise price of the outstanding convertible bonds converted to ordinary shares issued by the Company exceeded the average market price of the shares during 2017, they were anti-dilutive and excluded from the computation of diluted earnings per share in 2017.

## 25. OPERATING LEASE ARRANGEMENTS

### a. The Group as lessee

Operating leases relate to leases of lands by Jinan Acetate Chemical with terms between 10 and 30 years. The Group does not have a bargain purchase option to acquire the leased lands at the expiration of the lease periods.

### b. The Group as lessor

For investment properties that are leased out under operating lease agreements, refer to Note 14.

## 26. CAPITAL MANAGEMENT

The Group manages its capital to ensure that it has the necessary financial resources and operating plans to meet the working capital, capital expenditure and debt repayment requirements for the next 12 months, and that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance.

Key management personnel of the Group review the capital structure on a regular basis. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Group may adjust the amount of dividends paid to shareholders, the number of new shares issued or repurchased, and/or the amount of new debt issued or existing debt redeemed.

## 27. FINANCIAL INSTRUMENTS

- a. Fair value of financial instruments that are not measured at fair value

In the management's opinion, the carrying value of financial instruments that are not measured at fair value approximates the fair value of the financial instruments.

- b. Fair value of financial instruments that are measured at fair value on a recurring basis

- 1) Fair value hierarchy

December 31, 2018

	Level 1	Level 2	Level 3	Total
Financial liabilities at FVTPL				
Held for trading	\$ <u>-</u>	\$ <u>46,400</u>	\$ <u>-</u>	\$ <u>46,400</u>

December 31, 2017

	Level 1	Level 2	Level 3	Total
Financial liabilities at FVTPL				
Held for trading	\$ <u>-</u>	\$ <u>101,400</u>	\$ <u>-</u>	\$ <u>101,400</u>

There were no transfers between Levels 1 and 2 for the years ended December 31, 2018 and 2017.

- 2) Valuation techniques and inputs used in Level 2 fair value measurement

<u>Financial Instruments</u>	<u>Valuation Techniques and Inputs</u>
Convertible bonds	The convertible bonds are assumed to be redeemed on June 9, 2022, and the discount rate is calculated by the 5-year public bond yield by the differential method.

- c. Categories of financial instruments

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>Financial assets</u>		
Loans and receivables (Note 1)	\$ -	\$ 886,364
Financial assets at amortized cost (Note 2)	821,896	-
<u>Financial liabilities</u>		
Financial liabilities at amortized cost (Note 3)	959,727	916,154
Financial liabilities at FVTPL	46,400	101,400

- 1) The balances include loans and receivables measured at amortized cost, which comprise cash and cash equivalents, debt investments with no active market, accounts and other receivables, other current assets (pledged deposits) and refundable deposits.
- 2) The balances include financial assets at amortized cost, which comprise cash and cash equivalents, debt investments, notes receivable and accounts receivable, other current assets (pledged deposits) and refundable deposits.

- 3) The balances include financial liabilities at amortized cost, which comprise short-term loans, notes payable, accounts and other payables, bonds issued and guarantee deposit received.

d. Financial risk management objectives and policies

The Group's major financial instruments include cash and cash equivalents, debt investments, trade receivables, trade payables, bonds payable. The Group's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

1) Market risk

The Group's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see (a) below) and interest rates (see (b) below).

There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

a) Foreign currency risk

The Company has foreign currency sales and purchases, which exposes the Group to foreign currency risk. Exchange rate exposures are managed within approved policy parameters utilizing foreign exchange forward contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) and of the derivatives exposed to foreign currency risk at the end of the reporting period are set out in Note 32.

Sensitivity analysis

The Group is mainly exposed to the USD.

The following table details the Group's sensitivity to a 1% increase and decrease in the RMB (i.e. the functional currency) against the relevant foreign currencies. The sensitivity rate used when reporting foreign currency risk internally to key management personnel and representing management's assessment of the reasonably possible change in foreign exchange rates is 1%. The sensitivity analysis included only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 1% change in foreign currency rates. A positive number below indicates a decrease in pre-tax profit and other equity associated with the RMB strengthening 1% against the relevant currency. For a 1% weakening of the RMB against the relevant currency, there would be an equal and opposite impact on pre-tax profit and the balances below would be negative.

	<b>USD Impact</b>	
	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Profit or loss	\$ 3,030	\$ 6,351

The above impact was mainly attributable to the exposure on outstanding receivables and payables in USD which were not hedged at the end of the reporting period.

In the management's opinion, the sensitivity analysis is not representative of the inherent foreign currency risk because the exposure at the end of the reporting period does not reflect the exposure during the period.

b) Interest rate risk

The carrying amounts of the Group's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
Fair value interest rate risk		
Financial assets	\$ 20,955	\$ 243,848
Financial liabilities	531,987	423,732
Cash flow interest rate risk		
Financial assets	471,761	246,286
Financial liabilities	24,572	-

Sensitivity analysis

The sensitivity analysis below was based on the Group's exposure to interest rates for both derivative and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of each liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2018 and 2017 would have increased/decreased by \$4,472 thousand and \$2,463 thousand, respectively, which was mainly attributable to the Group's exposure to interest rates of its variable-rate bank deposits and borrowings.

2) Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Group. As at the end of the reporting period, the Group's maximum exposure to credit risk, which would cause a financial loss to the Group due to the failure of the counterparty to discharge its obligation, could be equal to the carrying amount of the respective recognized financial assets as stated in the balance sheets.

In order to mitigate credit risk, the management of the Group assigns a team responsible for credit facilities, credit approvals and other monitoring procedures to ensure that appropriate actions are taken for the recovery of overdue receivables. In addition, the Group reviews the recoverable amount of the receivables on the date of the financial statements to ensure that receivables that cannot be recovered have been provided with allowance for impairment loss. Accordingly, the management reckons that the credit risk of the Group has been significantly reduced.

Accounts receivable cover a wide range of customers and are spread across different industries and geographic regions. The Company continuously evaluates the financial position of customers.

In addition, since the counterparty of current funds are financial institutions and companies with good credit ratings, the credit risk is limited.

The Group transacts with a large number of unrelated customers and, thus, no concentration of credit risk was observed.

### 3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As of December 31, 2018 and 2017, the Group had available unutilized short-term bank loan facilities as set out in (b) below.

#### a) Liquidity and interest rate risk tables for non-derivative financial liabilities

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay. The table included both interest and principal cash flows. Specifically, bank loans with a repayment on demand clause were included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities were based on the agreed repayment dates.

To the extent that interest flows are at floating rates, the undiscounted amount was derived from the interest rate curve at the end of the reporting period.

#### December 31, 2018

	<b>On Demand or Less than 1 Month</b>	<b>1-3 Months</b>	<b>3 Months to 1 Year</b>	<b>1-5 Years</b>	<b>Total</b>
<u>Non-derivative financial liabilities</u>					
Non-interest bearing	\$ 101,902	\$ 144,791	\$ 158,467	\$ -	\$ 405,160
Variable interest rate liabilities	13	24,572	-	-	24,585
Fixed interest rate liabilities	<u>92,283</u>	<u>-</u>	<u>-</u>	<u>500,000</u>	<u>592,283</u>
	<u>\$ 194,198</u>	<u>\$ 169,363</u>	<u>\$ 158,467</u>	<u>\$ 500,000</u>	<u>\$ 1,022,028</u>

#### December 31, 2017

	<b>On Demand or Less than 1 Month</b>	<b>1-3 Months</b>	<b>3 Months to 1 Year</b>	<b>1-5 Years</b>	<b>Total</b>
<u>Non-derivative financial liabilities</u>					
Non-interest bearing	\$ 82,463	\$ 311,410	\$ 99,159	\$ -	\$ 493,032
Fixed interest rate liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>500,000</u>	<u>500,000</u>
	<u>\$ 82,463</u>	<u>\$ 311,410</u>	<u>\$ 99,159</u>	<u>\$ 500,000</u>	<u>\$ 993,032</u>

The amount of the variable interest rate liabilities will vary depending on the floating interest rate and the interest rate estimated on the reporting date.

b) Financing facilities

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
Unsecured bank loan facilities which may be extended by mutual agreement:		
Amount used	\$ 264,075	\$ -
Amount unused	<u>407,598</u>	<u>180,755</u>
	<u>\$ 671,673</u>	<u>\$ 180,755</u>
Secured bank loan facilities which may be extended by mutual agreement:		
Amount used	\$ 95,436	\$ -
Amount unused	<u>43,644</u>	<u>41,542</u>
	<u>\$ 139,080</u>	<u>\$ 41,542</u>

## 28. TRANSACTIONS WITH RELATED PARTIES

The Company's ultimate parent is Jinan Acetate Chemical Co., Ltd.

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. In addition to those disclosed in other notes, transactions between the Group and its related parties are disclosed below:

a. Related party and relationship with the Group

<u>Related Party Name</u>	<u>Relationship with the Group and Other Related Parties</u>
Global Filters S.A. (GF)	Substantive related party
Tabacalera Hernandarias S.A. (TH)	Substantive related party
SAF - INDUSTRIA E COMERCIO DE FILTEROS LTDA (SAF)	Substantive related party
Yankuang Lunan Chemical Co., Ltd. (Yankuang Lunan Chemical)	Substantive related party (shareholder of a subsidiary)
JINAN HEZHEN INDUSTRY AND TRADE CO., LTD. (HEZHEN)	Substantive related party (with the same chairman)
Wang, Ke-Chang	Key management

b. Operating revenue

<b>Line Item</b>	<b>Related Party Category/Name</b>	<b>For the Year Ended December 31</b>	
		<b>2018</b>	<b>2017</b>
Sales	Substantive related party		
	GF	\$ 235,596	\$ 177,038
	Others	<u>91,267</u>	<u>75,061</u>
		<u>\$ 326,863</u>	<u>\$ 252,099</u>

The selling prices and payment period in related-party transactions were not significantly different from those for transactions with third parties.

c. Purchases of goods

<b>Related Party Category</b>	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Substantive related party/Yankuang Lunan Chemical	<u>\$ 222,745</u>	<u>\$ 57,541</u>

The purchase prices in related-party transactions were not significantly different from those for transactions with third parties.

d. Accounts receivable from related parties

<b>Line Item</b>	<b>Related Party Category/Name</b>	<b>December 31</b>	
		<b>2018</b>	<b>2017</b>
Accounts receivable	Substantive related party		
	GF	\$ 26,133	\$ 21,773
	TH	19,710	27,909
	SAF	<u>3,307</u>	<u>6,311</u>
		<u>\$ 49,150</u>	<u>\$ 55,993</u>
Other receivables	Substantive related party/ Yankuang Lunan Chemical	<u>\$ 22</u>	<u>\$ -</u>

The outstanding accounts receivable from related parties were unsecured. For the years ended December 31, 2018 and 2017, no impairment loss was recognized on accounts receivable from related parties.

e. Accounts payable to related parties

<b>Line Item</b>	<b>Related Party Category/Name</b>	<b>December 31</b>	
		<b>2018</b>	<b>2017</b>
Notes payable	Substantive related party/ Yankuang Lunan Chemical	\$ 31,416	\$ -
Other payables	Substantive related party/ Yankuang Lunan Chemical	<u>14,127</u>	<u>16,977</u>
		<u>\$ 45,543</u>	<u>\$ 16,977</u>

The outstanding accounts payable to related parties were unsecured and payable in cash.

f. Refundable deposits (other current assets)

<b>Related Party Category</b>	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
Substantive related party/Yankuang Lunan Chemical	<u>\$ 447</u>	<u>\$ 457</u>

g. Other transactions with related parties

Line Item	Related Party Category/Name	For the Year Ended December 31	
		2018	2017
Manufacturing expense - steam fee	Substantive related party/ Yankuang Lunan Chemical	\$ 169,001	\$ 67,424
Research and development expense - steam fee	Substantive related party/ Yankuang Lunan Chemical	10,226	11,682
Operating expense - rental	Key management	360	360
Operating expense - rental	Substantive related party/ Yankuang Lunan Chemical	<u>142</u>	<u>-</u>
		<u>\$ 179,729</u>	<u>\$ 79,466</u>

The substantive related party provides steam to the Company for use in production and provides rental service.

The key management provides rental service to the Company.

h. Endorsements and guarantees

Endorsements and guarantees given by related parties

	December 31	
	2018	2017
Substantive related party/HEZHEN		
Amount endorsed	\$ 26,832	\$ 27,390
Amount utilized (reported as secured bank loans)	<u>-</u>	<u>-</u>
	<u>\$ 26,832</u>	<u>\$ 27,390</u>

i. Compensation of key management personnel

	For the Year Ended December 31	
	2018	2017
Short-term employee benefits	\$ 18,418	\$ 13,397
Post-employment benefits	<u>91</u>	<u>86</u>
	<u>\$ 18,509</u>	<u>\$ 13,483</u>

The remunerations of directors and key executives were determined by the remuneration committee on the basis of individual performance and market trends.



## 29. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank borrowings, letters of credit and bank's acceptance bills:

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Purchases of debt investments with no active market	\$ -	\$ 1,173
Pledge deposits (classified as other current assets)	123,141	99,519
Property, plant and equipment, net	54,005	227,623
Prepayments for leases	17,324	18,579
Investment properties, net	<u>76,513</u>	<u>78,104</u>
	<u>\$ 270,983</u>	<u>\$ 424,998</u>

## 30. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Group were as follows:

As of December 31, 2018 and 2017, unused letters of credit for purchases of raw materials and machinery and equipment amounted to approximately \$124,879 thousand and \$27,521 thousand, respectively.

Unrecognized commitments were as follows:

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Payments for property, plant and equipment	<u>\$ 4,622</u>	<u>\$ -</u>

## 31. SIGNIFICANT EVENTS AFTER REPORTING PERIOD

On February 15, 2019, the board of directors of subsidiary My Parents passed a resolution to establish Acetek Chemicals Limited ("Acetek Chemicals") in Hong Kong by joint venture with other companies through investment of HK\$10,000 thousand, and obtained 80% equity of Acetek Chemicals. Then Acetek Chemicals invested in Yiliang the amount of HK\$12,250 thousand, and the settlement is expected to be completed by the end of March 2019.

### 32. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Group entities' significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currencies and the related exchange rates between foreign currencies and respective functional currencies were as follows:

	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>
<u>December 31, 2018</u>			
<u>Financial assets</u>			
Monetary items			
USD	\$ 16,428	6.863 (USD:RMB)	\$ 505,054
<u>Financial liabilities</u>			
Monetary items			
USD	6,579	6.863 (USD:RMB)	202,013
<u>December 31, 2017</u>			
<u>Financial assets</u>			
Monetary items			
USD	27,708	6.534 (USD:RMB)	826,119
<u>Financial liabilities</u>			
Monetary items			
USD	6,300	6.534 (USD:RMB)	190,982

The significant net foreign exchange gains (losses) were as follows:

	<b>For the Year Ended December 31</b>			
	<b>2018</b>		<b>2017</b>	
<b>Functional Currency</b>	<b>Exchange Rate</b>	<b>Net Foreign Exchange Losses</b>	<b>Exchange Rate</b>	<b>Net Foreign Exchange Losses</b>
USD	6.612 (USD:RMB)	<u>\$ (1,472)</u>	6.755 (USD:RMB)	<u>\$ (25,421)</u>

### 33. SEPARATELY DISCLOSED ITEMS

a. Information on significant transactions and investees:

- 1) Financing provided to others. (Table 1)
- 2) Endorsements/guarantees provided. (Table 2)
- 3) Marketable securities held (excluding investment in subsidiaries, associates and joint ventures). (None)
- 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital. (None)
- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital. (None)
- 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital. (None)
- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 3)
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (None)
- 9) Trading in derivative instruments. (None)
- 10) Intercompany relationships and significant intercompany transactions. (Table 4)
- 11) Information on investees. (Table 5)

b. Information on investments in mainland China

- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area. (Table 6)
- 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses: (None)
  - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.
  - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.
  - c) The amount of property transactions and the amount of the resultant gains or losses.

- d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes.
- e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds.
- f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services.

### 34. SEGMENT INFORMATION

#### a. Financial information of the operating segment

Information reported to the chief operating decision maker for resource allocation and assessment of segment performance focuses on the types of goods and services to be delivered. The Group focuses its business mainly on the manufacturing and sales of cellulose acetate products. According to IFRS 8, the Group has organized management and resource allocation in a single department. The operating activities are related to R&D and manufacturing of acetate products, and the operating income of the operating activities accounts for more than 90% of the total revenue.

#### b. Revenue from major products and services

The following is an analysis of the Group's revenue from continuing operations from its major products and services.

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Cellulose acetate tow	\$ 1,309,752	\$ 1,445,886
Cellulose acetate	<u>429,442</u>	<u>302,101</u>
	<u>\$ 1,739,194</u>	<u>\$ 1,747,987</u>

#### c. Geographical information

The Group operates in three principal geographical areas - Asia, Africa, America and others.

The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of assets are detailed below.

	<b>Revenue from External Customers</b>	
	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Asia	\$ 1,236,829	\$ 1,163,871
America	351,951	264,099
Africa	139,531	266,006
Others	<u>10,883</u>	<u>54,011</u>
	<u>\$ 1,739,194</u>	<u>\$ 1,747,987</u>

d. Information about major customers

Single customers contributing 10% or more to the Group's revenue were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Customer A	\$ 235,596	\$ 177,038
Customer B	(Note)	245,792
Customer C	<u>-</u>	<u>186,958</u>
	<u>\$ 235,596</u>	<u>\$ 609,788</u>

Note: Revenue was less than 10% of the Group's revenue.

## JINAN ACETATE CHEMICAL CO., LTD. AND SUBSIDIARIES

FINANCING PROVIDED TO OTHERS  
FOR THE YEAR ENDED DECEMBER 31, 2018  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Lender	Borrower	Financial Statement Account	Related Party	Highest Balance for the Period (Note 1)	Ending Balance (Note 1)	Actual Borrowing Amount	Interest Rate (%)	Nature of Financing	Business Transaction Amount	Reasons for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower	Aggregate Financing Limit	Note
													Item	Value			
0	Jinan Acetate Chemical Co., Ltd.	My Parents Living Technology Limited (Hong Kong)	-	Y	\$ 24,572 (US\$ 800 thousand)	\$ 24,572 (US\$ 800 thousand)	\$ 24,572 (US\$ 800 thousand)	5.0	Short-term financing	\$ -	Operation turnover	\$ -	-	\$ 354,645	\$ 1,182,152	Note 2	
1	Jinan Acetate Chemical Co., Ltd. (China)	Acetek Material Co., Ltd. (China)	-	Y	268,320 (RMB 60,000 thousand)	-	-	4.5	Short-term financing	-	Operation turnover and purchase of equipment	-	-	516,809	689,079	Note 3	
0	My Parents Living Technology Limited (Hong Kong)	Acetek Material Co., Ltd. (China)	-	Y	24,572 (US\$ 800 thousand)	24,572 (US\$ 800 thousand)	24,572 (US\$ 800 thousand)	5.0	Short-term financing	-	Operation turnover	-	-	522,159	696,211	Note 3	

Note 1: The maximum balance for the period and ending balance represent the amounts approved by the board of directors.

Note 2: For foreign subsidiaries whose voting shares are 100% owned, directly or indirectly, by the Company, when the funds are used for financing, the total amount shall not exceed 100% of the net worth of the lender. The total amount for lending to a company for funding shall not exceed 30% of the net worth of the Company.

Note 3: For companies with short-term funding needs, the amount for lending to a company shall not exceed 30% of the net worth of the lender. The total amount for lending shall not exceed 40% of the net worth of the Company.

Note 4: The limit on the amount for lending is calculated according to the recent financial statements audited by the Company's independent accountants.

Note 5: Spot buy/sell average exchange rates of Bank of Taiwan on December 31, 2018 are used to estimate the amount in New Taiwan dollar.

Note 6: All transactions listed in the table have been eliminated in the preparation of the consolidated statements.

TABLE 2

## JINAN ACETATE CHEMICAL CO., LTD. AND SUBSIDIARIES

ENDORSEMENTS/GUARANTEES PROVIDED  
FOR THE YEAR ENDED DECEMBER 31, 2018  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No. (Note 1)	Endorser/ Guarantor	Endorsee/Guarantee Receiver		Limit on Endorsement/ Guarantee Given on Behalf of Each Party (Note 3)	Maximum Amount Endorsed/ Guaranteed During the Period	Outstanding Endorsement/ Guarantee at the End of the Period	Actual Borrowing Amount	Amount Endorsed/ Guaranteed by Collaterals	Ratio of Accumulated Endorsement/ Guarantee to Net Equity in Latest Financial Statements (%)	Aggregate Endorsement/ Guarantee Limit (Note 3)	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given on Behalf of Companies in Mainland China	Note
		Name	Relationship (Note 2)											
0	Jinan Acetate Chemical Co., Ltd.	Jinan Acetate Chemical Co., Ltd. (China)	b	\$ 2,955,380	\$ 89,440	\$ 89,440	\$ 47,381	\$ -	7.57	\$ 2,955,380	Y	N	Y	-
		Acetek Material Co., Ltd. (China)	b	118,215	44,720	44,720	-	-	3.78	1,182,152	Y	N	Y	Note 4
		Acetek Material Co., Ltd. (China)	b	118,215	61,430	61,430	-	-	5.20	1,182,152	Y	N	Y	-
1	Jinan Acetate Chemical Co., Ltd. (China)	Acetek Material Co., Ltd. (China)	b	344,540	44,720	44,720	-	-	2.60	861,349	Y	N	Y	Note 4

Note 1: Significant transactions between the Company and its subsidiaries or among subsidiaries are numbered as follows:

- "0" for the Company.
- Subsidiaries are numbered from "1"

Note 2: Relationships between the endorser/guarantor and the endorsee/guarantee receiver:

- The Company in relation to business.
- The Company which holds, directly or indirectly, over 50% of the voting shares.
- The Company which holds, directly or indirectly, over 50% of the shares.
- The Company which holds, directly or indirectly, over 90% of the voting shares.
- Based on contract projects among their peers in accordance with contract provisions which need mutual insurance company.
- Owing to the joint venture funded by the shareholders on its endorsement of its holding company.
- Compliance guarantees for the performance of the sales contracts of pre-sold homes within the same industry in accordance with the Consumer Protection Law.

Note 3: The calculation for the amount of endorsement is as follows:

- The total amount of guarantee provided by the Company to any entity whose voting shares are 100% owned, directly and indirectly, shall not exceed two-hundred-and-fifty percent (250%) of the Company's net worth.
- The total amount of guarantee provided by the Company to any individual entity shall not exceed ten percent (10%) of the Company's net worth. Except for the guarantee provided to any entity whose voting shares are 100% owned, the total balance of guarantee shall not exceed the Company's total net worth.
- The total amount of guarantee provided by Jinan Acetate Chemical Co., Ltd. (China) shall not exceed fifty percent (50%) of its net worth. The total amount of guarantee provided to any individual entity shall not exceed twenty percent (20%) of its net worth.

Note 4: The Company and Jinan Acetate Chemical Co., Ltd. (China) provide guarantees for Acetek Material Co., Ltd. (China). The balance is RMB10,000,000.

Note 5: The limit on the amount for lending is calculated according to the recent financial statements audited by the Company's independent accountants.

Note 6: Spot buy/sell average exchange rates of Bank of Taiwan on December 31, 2018 are used to estimate the amount in New Taiwan dollar.

## JINAN ACETATE CHEMICAL CO., LTD. AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2018  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Buyer	Related Party	Relationship	Transaction Details			Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note	
			Purchase/Sales	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance		% to Total
Jinan Acetate Chemical Co., Ltd. (China)	Global Filters S.A.	Substantive related party	Sales	\$ (235,596)	13.55	60 days against B/L date	No significant difference	No significant difference	\$ 26,133	8.37	-
Acetek Material Co., Ltd. (China)	Yankuang Lunan Chemical Co., Ltd.	Substantive related party	Purchase	222,745	25.21	Same as those for unrelated parties	No significant difference	No significant difference	13,080	5.33	-



TABLE 4

**JINAN ACETATE CHEMICAL CO., LTD. AND SUBSIDIARIES**

**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT TRANSACTIONS  
FOR THE YEAR ENDED DECEMBER 31, 2018  
(In Thousands of New Taiwan Dollars)**

No. (Note 1)	Company	Counterparty	Flow of Transactions (Note 2)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms  % to Total Sales or Assets (Note 3)	
0	Jinan Acetate Chemical Co., Ltd.	Jinan Acetate Chemical Co., Ltd. (China) My Parents Living Technology Limited (Hong Kong)	1 1	Other receivables Other receivables	\$ 23,879 24,572	In accordance with mutual contracts In accordance with mutual contracts	1.03 1.06
1	My Parents Living Technology Limited (Hong Kong)	Jinan Acetate Chemical Co., Ltd. (China) Acetek Material Co., Ltd. (China)	3 3	Other current liabilities Other receivables	23,591 24,572	In accordance with mutual contracts In accordance with mutual contracts	1.02 1.06
2	Jinan Acetate Chemical Co., Ltd. (China)	Acetek Material Co., Ltd. (China) Acetek Material Co., Ltd. (China)	3 3	Prepayments Purchases	429,169 653,894	In accordance with mutual contracts In accordance with mutual contracts	18.53 37.60

Note 1: Companies are identified by number, as follows:

- a. "0" represents the parent company.
- b. "1" represents the subsidiary.

Note 2: The flow of transactions is as follows:

- a. 1 - from the parent company to the subsidiary.
- b. 2 - from the subsidiary to the parent company.
- c. 3 - between subsidiaries.

Note 3: Percentage of consolidated operating revenues or consolidated total assets: If the account is in the balance sheet, it was calculated by dividing the ending balance by the consolidated total assets; if the account is in the income statement, it was calculated by dividing the interim cumulative balance by the consolidated operating revenue.

Note 4: The important transactions listed accord with the materiality principle of the Company.

Note 5: All transactions listed in the table have been eliminated in the preparation of the consolidated statements.

## JINAN ACETATE CHEMICAL CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTEEES  
FOR THE YEAR ENDED DECEMBER 31, 2018  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Business and Product	Original Investment Amount December 31, 2018	As of December 31, 2018		Net Income (Loss) of the Investee	Share of Profit (Loss) (Note 1)	Note
					Shares	Carrying Amount			
Jinan Acetate Chemical Co., Ltd.	My Parents Living Technology Limited (Hong Kong)	Hong Kong	Investments	\$ 822,593	Note 3	\$ 1,740,529	\$ 184,572	\$ 184,572	-

Note 1: The amount was calculated according to the investee company's financial statement reviewed by accountants and the Company's shareholding ratio.

Note 2: The share of profit or loss among investee companies and the net worth between investor and investee companies under the equity method are all eliminated at the time the consolidated financial statements are prepared.

Note 3: The investee company is limited and has no shares.

Note 4: Information on investments in Mainland China, please refer to Table 6.

## JINAN ACETATE CHEMICAL CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA  
FOR THE YEAR ENDED DECEMBER 31, 2018  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company	Main Businesses and Products	Paid-in Capital	Method of Investment (Note 1)	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2018	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2018	Net Income (Loss) of the Investee	Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2)	Carrying Amount as of December 31, 2018	Accumulated Repatriation of Investment Income as of December 31, 2018	Note
					Outward	Inward							
Jinan Acetate Chemical Co., Ltd. (China)	Manufacturing and sales of cellulose acetate tow	\$ 264,171 (RMB 62,593 thousand)	c	\$ -	\$ -	\$ -	\$ -	\$ 185,975	100	\$ 185,975 (Note 2 b (2))	\$ 1,722,698	\$ -	-
Acetek Material Co., Ltd. (China)	Manufacturing and sales of cellulose acetate	\$ 581,452 (RMB 125,000 thousand)	c	\$ -	\$ -	\$ -	\$ -	(20,108)	80	(4,029) (Note 2 b (2))	437,178	\$ -	Note 3

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2018	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
\$ -	\$ -	\$ -

Note 1: Investment is divided into the following three categories which can be marked:

- Direct investment in mainland China.
- Reinvestment in mainland China companies through the third region (please indicated the third area of investment company).
- Others.

Note 2: The investment income (loss) recognized in current period:

- No investment income (loss) has been recognized due to the investment is still in development stage.
- The investment income (loss) was determined on the following basis:

- The financial report was audited and certified by an international accounting firm in cooperation with accounting firm in the ROC.
- The financial statements were audited by the CPA of the parent company in Taiwan.
- Others.

Note 3: The realized and unrealized profits and losses among the companies were considered.