



Stock Code: 4763

Jinan Acetate Chemical Co., LTD.

2019 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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## 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 2019 is hereby reported as follows:

#### I. Business Result of 2019

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

In 2019, the consolidated revenue of the Company was NT\$2,174,990 thousand, which is 25.06% more than NT\$1,739,194 thousand of last year. The consolidated net profit after tax was NT\$331,257 thousand, which is 47.82% more than NT\$224,091 thousand of last year. This period is mainly affected by the growth of revenue and the reduction of cost. As the tow market is affected by the reduction of production of large international factories, the price of the tow products has increased slightly compared with the same period last year, and the market in Asia has been developed, and the product demand has increased this year. At the same time, the strategic investment in Eleung Ltd., the Hong Kong subsidiary of LA / ES, Italy's second largest acetate plate, has expanded the demand market for plastic grade vinegar chips, making vinegar chips this year. The increase in sales volume and the decrease in the price of acetic anhydride, the favored raw material, resulted in a significant reduction in the unit cost of production in the current year. Combined with the above effects, the gross profit rate of this year is higher than that of last year, and the overall net profit after tax is better than that of last year.

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 2018 | Year 2019 |
|-------------------------|---|-----------|-----------|
| Financial structure (%) | Debt Ratio  | 44.25     | 46.92     |
|                         | Ratio of long-term capital to property, plant and equipment | 206.92    | 167.18    |
| Profitability           | Return on asset (%)   | 10.03     | 14.32     |
|                         | Return on equity (%)  | 16.81     | 24.87     |
|                         | Pre-tax income to paid-in capital (%)                       | 45.19     | 74.08     |
|                         | Profit ratio (%)  | 12.88     | 15.23     |
|                         | Earnings per share (NT\$)                                   | 4.41      | 6.52      |

The ratio of liabilities to assets in 2019 is slightly higher than that in 2018, which is mainly due to the issuance of dividends and borrowing from banks. The ratio of long-term capital to real estate, plant and equipment in 2019 is lower than that in 2018, which is mainly due to convertible corporate bonds, the right to sell back can be exercised in the next year, and the conversion from non current liabilities to current liabilities.

(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 2020

(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.

Last but not least, we would like to thank all the shareholders, customer, and colleagues for your long-term contributions and efforts to the development of the company, and to thank you for your encouragement and support, so that the company can continue to thrive.

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.<br>In June, Acetek Material Co., Ltd. made trial production; successfully produced spinning grade and plastic grade vinegar sheets in Q3.<br>Extended the tows production line capacity to 11,000 tons of theoretical capacity.<br>Jinan Acetate Chemical Co., Ltd.(China) has 80% ownership of Acetek Material Co., Ltd.   |
| 2019 | Increase the tows production line and increase the theoretical capacity to 13,000 tons.   |
|      | In February, Acetek Chemical Co., Ltd. was established, holding 80% of the shares, the strategic investment in Eleung Ltd., the Hong Kong subsidiary of LA / ES, Italy's second largest acetate plate.<br>In December, Acetek Material Co., Ltd passed the qualification of High-Tech Enterprise.   |

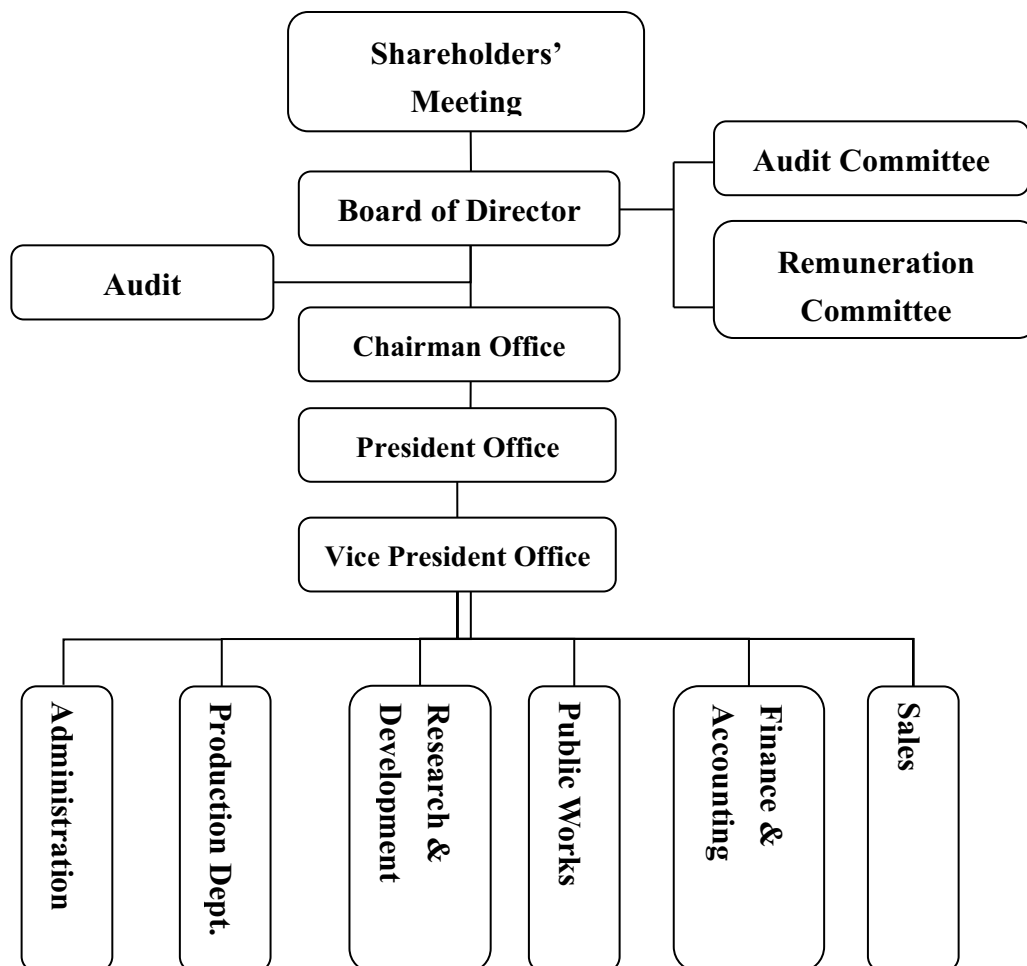
**2.3 Group Structure : Please refer to VIII. Special Disclosure.**

**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.<br>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. 25, 2020

| 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                              | % |   |                | Title   | Name |
| Chairman | Samoa                           | Bright Pearl Enterprises Ltd.          |        |              |              |                    |                           |        |                      |        |                             |   |                                     |   | Bright Pearl Enterprises Ltd.-Director  |                |   |      |
|          | Taiwan                          | Representative: Wang, Ko-Chang         | M      | Jun 28, 2017 | 3            | Sep. 25, 2014      | 16,373,000                | 35.23% | 18,010,300           | 35.26% |                             |   |                                     |   | Fei yue Engineering Ltd.-Director<br>Jinan Hezhen Industry & Trade Co., Ltd.-President<br>Jinan Acetate Chemical Co., Ltd.-President<br>Acetek Material Ltd.-President        |                |   |      |
| Director | Hong Kong                       | Amacron Trading Ltd.,                  |        |              |              |                    |                           |        |                      |        |                             |   |                                     |   | Formosan Rubber Group Inc.-President<br>Frg Development Inc.-President  |                |   |      |
|          | Taiwan                          | Representative: Hsu, Cheng-Tsai        | M      | Jun 28, 2017 | 3            | Dec. 4, 2014       | 3,440,000                 | 7.40%  | 3,774,100            | 7.39%  |                             |   |                                     |   | Formosan Construction Co., - President<br>Rui-Fu International Co., Ltd.- President<br>Fong-Han International Co., Ltd.- Director<br>Chen His Investment Co., Ltd.-Supervisor |                |   |      |
| Director | Brazil                          | Maerfär Trading Sociedad               | M      | Jun 28, 2017 | 3            | Dec. 4, 2014       |                           |        |                      |        |                             |   |                                     |   | CASA LTDA.- Managing Director   |                |   |      |
|          | Uruguay                         | Representative: Erierson Fensterseifer |        |              |              |                    | 11,792,000                | 25.37% | 8,648,200            | 16.93% |                             |   |                                     |   | Head of Leaf Tobacco and Commercial   |                |   |      |







**Major shareholders of the institutional shareholders**

Apr. 25, 2020

| 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. 25, 2020

| 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. 25, 2020

| 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 Otherwise Necessary for the Business of the Company | 1                           | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |   |   |
| Name  |  |   |   |                             |   |   |   |   |   |   |   |   |    |    |    |   |   |
| Wang, Ko-Chang<br>( Representative of Bright Pearl Enterprises Ltd.)            | -  | -   | ✓   | -                           | ✓ | ✓ | ✓ | - | ✓ | ✓ | ✓ | ✓ | ✓  | ✓  | ✓  | ✓   | - |
| HSU Cheng-Tsai<br>( Representative of Amacron Trading Ltd.,)                    | -  | -   | ✓   | -                           | ✓ | ✓ | ✓ | - | ✓ | ✓ | ✓ | ✓ | ✓  | ✓  | ✓  | ✓   | - |
| Ericson Fensterseifer<br>( Representative of MACRIFER TRADING SOCIEDAD ANONIMA) | -  | -   | ✓   | -                           | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓  | ✓  | ✓  | ✓   | - |
| Yang, Li-Min<br>( Representative of MACRIFER TRADING SOCIEDAD ANONIMA)          | -  | -   | ✓   | -                           | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓  | ✓  | ✓  | ✓   | - |
| Lin, Tzer-Jong  | -  | -   | ✓   | -                           | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓  | ✓  | ✓  | ✓   | - |
| Lin, Wen-Cheng  | -  | ✓   | ✓   | -                           | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓  | ✓  | ✓  | ✓   | - |
| Yu, Ching-Hsien   | -  | ✓   | ✓   | -                           | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓  | ✓  | ✓  | ✓   | - |

Note 1: 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. (However, this does not apply, in cases where the person is also an Independent Director of the company or its parent company, subsidiary or the subsidiaries of the same parent company are set up according to this Act or local country ordinances).
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 issued shares of the Company or ranking as one of the top-10 shareholders.
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 specified in the preceding three notes.
5. Not a director, supervisor, or employee of a corporate shareholder that directly holds 5 percent or more of the total number of issued shares of the Company or that ranks among the top-5 in shareholding or the representatives served as directors or supervisors appointed in accordance with Article 27, Paragraph 1 or 2 of the Company Act. (It does not apply in cases where the person is also an Independent Director of the company or its parent company, subsidiary or the subsidiaries of the same parent company are set up according to this Act or local country ordinances).
6. Not a director, supervisor or employees of other companies controlled by the same person had shares over half of the company's director seats or voting rights. (It does not apply in cases where the person is also an Independent Director of the company or its parent company, subsidiary or the subsidiaries of the same parent company are set up according to this Act or local country ordinances).
7. Not a director, supervisor or employees of other companies or institutions whom or his/her spouse is also the chairman, general manager or employee of equivalent position in the company. (It does not apply in cases where the person is also an Independent Director of the company or its parent company, subsidiary or the subsidiaries of the same parent company are set up according to this Act or local country ordinances).
8. Not a director, supervisor, officer, or shareholder holding 5% or more of the shares of a specified company or institution that has financial or business relations with the Company. (This does not apply, in the cases where a specific company or institution held more than 20% of

the total issued shares of the company, but less than 50%, and also served as an Independent Director of the company or its parent company, subsidiary or the subsidiaries of the same parent company are set up according to this Act or local country ordinances).

9. Not a professional individual, sole proprietor, partner, owner of a company or institution, director, supervisor, manager or a spouse thereof of a sole proprietorship, partnership, company, or institution providing auditing or services including commercial, legal, financial, accounting or consultation services to the Company or its related companies with cumulative remuneration less than NT\$500,000 in the past two years. However, this does not apply, in cases where members of the Remuneration Committee, the Review Committee for Public Tender Offer or the Special Committee for Mergers and Acquisitions who performed their functions in accordance with the relevant laws of the Securities and Exchange Act or the Business Mergers and Acquisitions Act.

10. Not a spouse or a relative within the second degree of kinship to any other director of the Company.

11. Not having any of the conditions defined in Article 30 of the Company Law.

12. Not a governmental or judicial person, or a representative of such institutions as defined in Article 27 of the Company Law.

### 3.2.2 Management Team

Apr. 25, 2020, 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 | Relation |
| Chairman         | Taiwan                          | Wang, Ko-Chang  | Dec. 4, 2014   | -            | -    | -                           | - | -                                   | - | Fiber Tech., National Taiwan University of Science and Technology<br>Acelon Chemicals & Fiber Co., - Assistant Vice President<br>Jinan Juda Fiber Ltd. - General Manager<br>Jinan Acetate Chemical Co., LTD.-Chairman<br>Taiwan Business Association of Jinan City- President<br>National Association of Taiwan Enterprises- Vice president | Bright Pearl Enterprises Ltd.- Director<br>Fei yue Engineering Ltd.-Director<br>Jinan Hezhen Industry & Trade Co., Ltd.-President<br>Acetek Material Ltd.-President |   |      |          |
| CFO              | Taiwan                          | Wang, Sheng-pin | Dec.04, 2014   | 589,600      | 1.15 | -                           | - | -                                   | - | Department of Accounting, Soochow University<br>KPMG CPA Firm- Auditor<br>Yuanta Securities Co., Ltd. Investment Banking Dept.- Manager<br>KD Leisure Development Co., Ltd-CFO  | Acetek Material Ltd.-Director   |   |      |          |
| Audit Supervisor | Taiwan                          | Lin, Ya-Fen     | Mar. 26, 2019  | -            | -    | -                           | - | -                                   | - | Guaduate Institute of Finance, National Taiwan University of Science and Technology<br>KPMG CPA Firm-Senior<br>Test Research, Inc.- Financial Manager<br>UC & GN International Corp.-Financial Assistant Vice President   |   |   |      |          |
| General Manager  | China                           | Meng, Ching-Li  | Dec. 01, 2010  | -            | -    | -                           | - | -                                   | - | Department of Industrial electrical and automation, Textile University of China<br>Jinan Chemical Fiber Factory- Engineer<br>Jinan Juda Fiber Co., Ltd.-Factory Manager   | Acetek Material Ltd.- General Manager   |   |      |          |
| Vice President   | China                           | Zhu, Zhang-Chao | Dec. 01, 2007  | -            | -    | -                           | - | -                                   | - | Branch Campus of Beijing University of Aeronautics and Astronautics, Major of Mechanical Design and Manufacturing<br>Jinan Juda Fiber Co., Ltd.-Deputy Factory Manager  | -   |   |      |          |
| Sales Director   | China                           | Sun,Jing        | Jan. 20,       | -            | -    | -                           | - | -                                   | - | Shandong University, Department of Chemistry<br>Jinan Juda Fiber Co., Ltd. -Sale Dept. Assistant Manager  | -   |   |      |          |



### 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) |   | Pension (B) |   | Bonus to Directors (C) |   | Allowances (D)  |       | Salary, Bonuses, and Allowances (E)                                | Pension (F) | Employee Compensation (G) |       | The company   | All companies in the financial statements |   | The company | All companies in the financial statements |
|                      |                       | The company           | All companies in the financial statements | The company | All companies in the financial statements | The company            | All companies in the financial statements | Cash  | Stock |  |             | Cash                      | Stock |   |   |   |             |   |
| Chairman             | Wang, Ko-Chang        |                       |   |             |   |                        |   |   |       |  |             |                           |       |   |   |   |             |   |
| Director             | Hsu, Cheng-Tsai       |                       |   |             |   |                        |   |   |       |  |             |                           |       |   |   |   |             |   |
| Director             | Ericson Fensterseifer | 1,283                 |   | 2,000       | -   | 2,000                  | 6   | 6   | 2,800 | -  | 2,010       | 2,010                     | -     | -   | 2.07                                      | 2.45  | -           |   |
| Director             | Yang, Li-Min          |                       |   |             |   |                        |   |   |       |  |             |                           |       |   |   |   |             |   |
| Independent Director | Lin, Tzer-Jong        |                       |   |             |   |                        |   |   |       |  |             |                           |       |   |   |   |             |   |
| Independent Director | Lin, Wen-Cheng        | 1,500                 |   | -           | -   | -                      | 45  | 45  | -     | -  | -           | -                         | -     | -   | 0.47                                      | 0.47  | -           |   |
| Independent Director | Yu, Ching-Hsien       |                       |   |             |   |                        |   |   |       |  |             |                           |       |   |   |   |             |   |



| 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, Lin, Tzer-Jong, Lin, Wen-Cheng, Yu, Ching-Hsien | Wang, Ko-Chang, Hsu, Cheng-Tsai, Ericson Fensterseifer, Yang, Li-Min, Lin, Tzer-Jong, Lin, Wen-Cheng, Yu, Ching-Hsien | Hsu, Cheng-Tsai, Ericson Fensterseifer, Yang, Li-Min, Lin, Tzer-Jong, Lin, Wen-Cheng, Yu, Ching-Hsien | Hsu, Cheng-Tsai, Ericson Fensterseifer, Yang, Li-Min, Lin, Tzer-Jong, Lin, Wen-Cheng, Yu, Ching-Hsien |
| 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: NT\$ thousands

| Job title  | Name            | Salary (A)  |   | Pension (B) |   | Bonuses and special allowances, etc. |   | Employee remuneration (D) |   |             | Total of A, B, C and D as a percentage (%) of Net Income |      | Receiving the remuneration from the investees other than subsidiaries or parent company |
|--|-----------------|-------------|---|-------------|---|--------------------------------------|---|---------------------------|---|-------------|--|------|---|
|  |                 | The Company | All companies in the financial statements | The Company | All companies in the financial statements | The Company                          | All companies in the financial statements | The Company               | All companies in the financial statements | The Company | All companies in the financial statements                |      |   |
| Chairman   | Wang, Ko-Chang  |             |   |             |   |                                      |   |                           |   |             |  |      |   |
| President<br>(Jinan Acetate<br>Chemical Co., Ltd.) | Meng, Ching-Li  |             |   |             |   |                                      |   |                           |   |             |  |      |   |
| Vice President                                     | Zhu, Chang-Chao | 4,200       | 7,275                                     | 58          | 144                                       | 700                                  | 1,155                                     | 2,680                     | -   | 2,680       | -  | 2.32 | 3.41  |
| Vice President                                     | Zhang, Ai-Feng  |             |   |             |   |                                      |   |                           |   |             |  |      |   |
| Vice President                                     | Liang, Ji-Qiang |             |   |             |   |                                      |   |                           |   |             |  |      |   |
| CFO  | Wang, Sheng-pin |             |   |             |   |                                      |   |                           |   |             |  |      |   |

| 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, Zhang, Ai-Feng, Liang, Ji-Qiang | Meng, Ching-Li, Zhu, Chang-Chao, Zhang, Ai-Feng, Liang, Ji-Qiang |
| NT\$2,000,001 ~ NT\$5,000,000    | Wang, Ko-Chang , Wang, Sheng-pin                                 | Wang, Ko-Chang , Wang, Sheng-pin                                 |
| NT\$5,000,001 ~ NT\$10,000,000   | 0  | 0  |
| 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                            | 6  | 6  |

Unit: NT\$ thousands

| Manager | Title           | Name | Employee Bonus<br>- in Stock<br>(Fair Market Value) | Employee Bonus<br>- in Cash | Total | Ratio of Total Amount<br>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                        | 2018         |  | 2019         |  |
|------------------------------|--------------|--|--------------|--|
|                              | This company | All subsidiaries in the financial report | This company | All subsidiaries in the financial report |
| Director                     | 5.64%        | 7.06%                                    | 3.39%        | 4.88%                                    |
| 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 2019 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, Ko-Chang        | 10                       | -        | 100%                          |  |
| Director             | HSU, Cheng-Tsai       | 7                        | 3        | 70%                           |  |
| Director             | Yang, Li-Min          | 7                        | 3        | 70%                           |  |
| Director             | Ericson Fensterseifer | 9                        | 1        | 90%                           |  |
| Independent director | Lin, Tzer-Jong        | 10                       | -        | 100%                          |  |
| Independent director | Lin, Wen-Cheng        | 10                       | -        | 100%                          |  |
| Independent director | Yu, Ching-Hsien       | 7                        | -        | 100%                          | Took office on June 28,2019 and he attended 7 board of director's meetings |

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 opinion |
|----------|---|--|---------------------------------------|--|
| 20190215 | The 13 <sup>th</sup> meeting of the 3 <sup>rd</sup> 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 14 <sup>th</sup> meeting of the 3 <sup>rd</sup> 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> </ol> | Consent                               | Approved as proposed                           |

|          |   |  |         |                      |
|----------|---|--|---------|----------------------|
|          |   | <p>7. The change of audit supervisor and deputy spokesperson of the Company.</p> <p>8. Proposal to amend Articles of Association of the Company is submitted for discussion.</p> <p>9. Proposal to amend the Regulations Governing the Acquisition and Disposal of Assets of the Company is submitted for discussion.</p> <p>10. Proposal to amend the Procedure for the Loaning of Funds is submitted for discussion.</p> <p>11. Proposal to amend the Procedure for Endorsements and Guarantees is submitted for discussion.</p> |         |                      |
| 20190510 | The 15 <sup>th</sup> meeting of the 3 <sup>rd</sup> term. | Nominate the head of corporate governance  | Consent | Approved as proposed |
| 20190628 | The 16 <sup>th</sup> meeting of the 3 <sup>rd</sup> term. | Motion of 2018 distribution of remuneration for employees.   | Consent | Approved as proposed |
| 20190806 | The 17 <sup>th</sup> meeting of the 3 <sup>rd</sup> term. | <p>1. proposal for the record date of the ex-dividend and ex-right date for 2019 dividends.</p> <p>2. proposal for distribution of profits for the first half of 2019.</p> <p>3. The Company's application of credit lines to banks is hereby submitted for the Board's review and discussion.</p>   | Consent | Approved as proposed |
| 20191118 | The 18 <sup>th</sup> meeting of the 3 <sup>rd</sup> term. | <p>1. The Company's application of credit lines to banks is hereby submitted for the Board's review and discussion.</p> <p>2. Proposal to provide endorsement and guarantee for the Company's subsidiary company.</p>  | Consent | Approved as proposed |
| 20191226 | The 19 <sup>th</sup> meeting of the 3 <sup>rd</sup> term. | <p>1. Proposal to have the Company's Remuneration Committee review the managers' 2019 year-end bonus.</p> <p>2. The salary adjustment of the Group's management staff</p> <p>3. Valuation of the qualification on the compliance and independence of certificating accountant and respective reward.</p>   | Consent | Approved as proposed |
| 20200317 | The 20 <sup>th</sup> meeting of the 3 <sup>rd</sup> term. | Proposal to buy back of shares for transferring to employees   | Consent | Approved as proposed |
| 20200327 | The 21 <sup>th</sup> meeting of the 3 <sup>rd</sup> term. | <p>1. Adoption of the Proposal for Distribution of 2019 Profits</p> <p>2. Determine the amount of employees' and directors' remuneration of 2019</p> <p>3. The re-election of directors of the Board of Directors of the company.</p> <p>4. proposed to establish a new company in strategic cooperation with Eastern.</p> <p>5. Proposal to amend Articles of Association of the Company is submitted for discussion.</p> <p>6. To change the Certified Public Accountants from 2020.</p>   | Consent | Approved as proposed |
| 20200508 | The 22 <sup>th</sup> meeting                              | <p>1. Nominate and review the list of candidates for directors .</p> <p>2. The proposal to have new directors released from the obligations under the covenant not to compete is presented</p>   | Consent | Approved as proposed |

|  |                              |  |  |  |
|--|------------------------------|--|--|--|
|  | of the 3 <sup>rd</sup> term. | for discussion<br>3. The Company's application of credit lines to banks is hereby submitted for the Board's review and 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   |
|----------|---|--|--|
| 20190326 | The 14 <sup>th</sup> meeting of the 3 <sup>rd</sup> term. | 1. Determine the amount of employees' and directors' remuneration of 2018<br>2. Nominate and review the list of candidates for independent directors   | 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.<br>After the opinion of other directors in attendance were inquired by chairman, the proposal was approved without objection |
| 20190628 | The 16 <sup>th</sup> meeting of the 3 <sup>rd</sup> term. | Motion of 2018 distribution of remuneration for employees.   | 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.<br>After the opinion of other directors in attendance were inquired by chairman, the proposal was approved without objection |
| 20191226 | The 19 <sup>th</sup> meeting of the 3 <sup>rd</sup> term. | 1. Proposal to have the Company's Remuneration Committee review the managers' 2019 year-end bonus.<br>2. The salary adjustment of the Group's management staff.<br>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.<br>After the opinion of other directors in attendance were inquired by chairman, the proposal was approved without objection  |
| 20200327 | The 21 <sup>th</sup> meeting of the 3 <sup>rd</sup> term. | Determine the amount of employees' and directors' remuneration of 2019   | 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.<br>After the opinion of other directors in attendance were inquired by chairman, the proposal was approved without objection |

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 (%)<br>【 B / A 】 | Remarks   |
|----------------------|-----------------|--------------------------|----------|----------------------------------|---|
| Independent director | Lin, Tzer-Jong  | 8                        | -        | 100%                             | -   |
| Independent director | Lin, Wen-Cheng  | 8                        | -        | 100%                             | -   |
| Independent director | Yu, Ching-Hsien | 5                        | -        | 100%                             | Took office on June 28, 2019 and he attended 5 board of director's meetings |

Other mentionable items:

- 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 Committees | Response to the Committees' opinion |
|----------|--|--|----------------------------|-------------------------------------|
| 20190215 | The 9 <sup>th</sup> meeting of the 2nd term. | 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.<br>1. Proposal to provide endorsement and guarantee for the Company's subsidiary company. | Consent                    | Approved as proposed                |
| 20190326 | The 10 <sup>th</sup>                         | 1. Proposal for capital increase through   | Consent                    | Approved as                         |



|          |   |  |         |                      |
|----------|---|--|---------|----------------------|
|          | meeting of the 2nd term.                      | conversion of capital reserve and issuance of new share<br>2. Determine the amount of employees' and directors' remuneration of 2018<br>3. Nominate and review the list of candidates for independent directors<br>4. Proposal to have new directors released from the obligations under the covenant not to compete is presented<br>5. Proposal to provide endorsement and guarantee for the Company's subsidiary company.<br>6. The change of audit supervisor and deputy spokesperson of the Company.<br>7. Proposal to amend the Regulations Governing the Acquisition and Disposal of Assets of the Company is submitted for discussion.<br>8. Proposal to amend the Procedure for the Loaning of Funds is submitted for discussion.<br>9. Proposal to amend the Procedure for Endorsements and Guarantees is submitted for discussion. |         | proposed             |
| 20190510 | The 11 <sup>th</sup> meeting of the 2nd term. | Adoption of the 2019 Q1 Consolidated Financial Statements.   | Consent | Approved as proposed |
| 20190806 | The 12 <sup>th</sup> meeting of the 2nd term. | 1. Adoption of the 2020 Q2 Consolidated Financial Statements.<br>2. proposal for distribution of profits for the first half of 2019.   | Consent | Approved as proposed |
| 20191108 | The 13 <sup>th</sup> meeting of the 2nd term. | 1. Adoption of the 2020 Q3 Consolidated Financial Statements.<br>2. Proposal to provide endorsement and guarantee for the Company's subsidiary company.  | Consent | Approved as proposed |
| 20191226 | The 14 <sup>th</sup> meeting of the 2nd term. | Valuation of the qualification on the compliance and independence of certificating accountant and respective reward.   | Consent | Approved as proposed |
| 20200327 | The 15 <sup>th</sup> meeting of the 2nd term. | 1. Adoption of the 2019 Business Report and Consolidated Financial Statements.<br>2. proposal for distribution of profits for the 2019<br>3. To change the Certified Public Accountants from 2020  | Consent | Approved as proposed |
| 20200508 | The 16 <sup>th</sup> meeting of the 2nd term. | Adoption of the 2020 Q1 Consolidated Financial Statements.   | Consent | Approved as proposed |

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 | Meeting Agenda | Reason for recusal | The Company's | Result of resolution |
|---------|----------------|--------------------|---------------|----------------------|
|---------|----------------|--------------------|---------------|----------------------|

|                       |    |    |           |    |
|-----------------------|----|----|-----------|----|
| Independent Directors |    |    | Follow-up |    |
| 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)

| Date   | Communication Occurred with the CPAs  | Outcome of communication |
|--|---|--------------------------|
| Mar. 26 <sup>th</sup> , 2019<br>The 10 <sup>th</sup> meeting of the 2 <sup>nd</sup> term | 1. Discuss regarding the 2018 Financial Report, including an explanation of profits and losses.<br>2. Discuss regarding the 2018 Audited Results of Internal Control.<br>3. Discussion and communication regarding questions the CPA has raised to members of the meeting | No objective opinion     |
| Dec. 26 <sup>th</sup> , 2019<br>The 14 <sup>th</sup> meeting of the 2 <sup>nd</sup> term | 1. Discuss regarding the 2019 Key Audit Matters.<br>2. Discussion and communication regarding questions the CPA has raised to members of the meeting.   | No objective opinion     |
| Dec. 26 <sup>th</sup> , 2019<br>The 14 <sup>th</sup> meeting of the 2 <sup>nd</sup> term | 1. Discuss regarding the 2019 Financial Report, including an explanation of profits and losses.<br>2. Discuss regarding the 2019 Audited Results of Internal Control.<br>3. Discussion and communication regarding questions the CPA has raised to members of the meeting | No objective opinion     |

**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                                  |    | There is no big difference.  |
| 2. Shareholding structure & shareholders’ rights<br>(1) Does the company establish an internal operating procedure to deal with shareholders’ suggestions,                            | V                                  |    | Set related interior operating procedures to deal with them per  |

| Evaluation Item   | Implementation Status <sup>1</sup> |    | Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons |
|---|------------------------------------|----|--|
|   | Yes                                | No |  |
| doubts, disputes and litigations, and implement based on the procedure?   |                                    |    | the requirements appeared in the future.   |
| (2) Does the company possess the list of its major shareholders as well as the ultimate owners of those shares?       | V                                  |    | There is no big difference.  |
| (3) Does the company establish and execute the risk management and firewall system within its conglomerate structure? | V                                  |    | There is no big difference.  |
| (4) Does the company establish internal rules against insiders trading with undisclosed information?                  | V                                  |    | 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  |   |
| <p>3. Composition and Responsibilities of the Board of Directors</p> <p>(1) Does the Board develop and implement a diversified policy for the composition of its members?</p> <p>(2) Does the company voluntarily establish other functional committees in addition to the Remuneration Committee and the Audit Committee?</p> <p>(3) Does the company establish a standard to measure the performance of the Board, and implement it annually?</p> <p>(4) Does the company regularly evaluate the independence of CPAs?</p> | V                                  | <p>(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 &amp; accounting experts.</p> <p>(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.</p> <p>(3) The Company will decide the performance evaluation method of the Board of Directors 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</p> | <p>There is no big difference.</p> <p>The company will set up other functional committee on the other that per actual requirements appeared in the future</p> <p>The Company will set that per actual requirements appeared in the future.</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   |  |
|  |                                    |  |  |
|  |                                    | 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. <sup>1</sup>  |  |
| 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                                  | (1) Be approved by the Board of Directors on May 10, 2019, the Company appointed CFO Wang, Sheng-pin, chief financial officer of the financial department, to hold concurrent posts as the supervisor of corporate governance. In order to safeguard shareholder rights and strengthen the functions of the BOD. He has more than 5 years of experience in financial affairs in public | 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  |  |
| handling company registration and change registration, making notes for the meeting of board of directors and board of shareholders)? |                                    | <p>companies.</p> <p>(2) The main responsibilities of the supervisor of corporate governance are as below:</p> <ul style="list-style-type: none"> <li>i. Offering necessary information for the directors to perform their duty.</li> <li>ii. Assisting the directors to follow relevant laws.</li> <li>iii. Organizing the directors’ meetings and the shareholders’ meeting.</li> </ul> <p>(3) The operations during 2019 were as below:</p> <ul style="list-style-type: none"> <li>i. To assist directors and Independent directors in carrying out their respective role, offering information which may be required and on-the-job training courses: <ul style="list-style-type: none"> <li>(i) Review the confidentiality level of relevant information and provide the company’s information required by the directors. To keep smooth communication between the directors and the leaders of different departments.</li> <li>(ii) To assist the independent directors and directors to draw up the on-the-job training courses according to the industrial characteristics of the company and the background of directors’ major and</li> </ul> </li> </ul> |  |

| Evaluation Item | Implementation Status <sup>1</sup> |   | Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons |
|-----------------|------------------------------------|---|--|
|                 | Yes                                | No  |  |
|                 |                                    | <ul style="list-style-type: none"> <li>ii. Organizing the directors’ meetings and the shareholders’ meeting               <ul style="list-style-type: none"> <li>(i) To assist and remind the directors of the laws and regulations to be followed when perform their duty or making a formal resolution of the board of directors.</li> <li>(ii) Responsible for checking major announcements related to important decisions after each meeting, ensuring the content of said announcements are accurate and lawful so as to protect trading information for investors.</li> </ul> </li> <li>iii. Maintain investor relations: Continue to strengthen the communication channels between directors and major shareholders, institutional investors or other shareholders, so that investors can obtain enough information to evaluate and determine the reasonable capital market value of the enterprise, maintain shareholders’ rights.</li> <li>iv. Draft the agenda for Board of Directors and Audit Committee meetings; notify the directors 7 days prior to meetings.</li> </ul> |  |



| 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>However, in case of emergency, it may be call at any time. Prior reminder of recusal if the motion leads to conflicts of interest, and complete the meeting minutes within 20 days after each meeting.</p> <p>v. Carry out preregistration for shareholders' meeting; produce meeting notification, meeting proceeding manuals, memos etc., within the legally allowed time.</p> |  |
| 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? | √                                  | <p>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.</p>   | There is no big difference.  |
| 6. Does the company appoint a professional shareholder service agency to deal with shareholder affairs?   | √                                  | <p>The Company designates Grand Fortune Securities Co., Ltd. to deal with shareholder affairs.</p>  | There is no big difference.  |
| 7. Information Disclosure<br>(1) Does the company have a corporate website to disclose both financial standings and the status of corporate governance?   | √                                  | <p>(1) The Company has built a website and the Company's related information will be disclosed consistently.</p>  | 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  |  |
| (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                                  | (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 the company to buy insurance for directors and Supervisors)? | V                                  | <p>(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.</p> <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</p> | 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   |  |
|                 |                                    | <p>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 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 special department is responsible for customer consultation and complaint pipeline.</p> <p>(9) The liability insurance the Company has purchased for its directors: In 2019 and 2020, the Company insured liability insurance for directors; and reported the 2020 insurance</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   |  |                               |                                |                                     |       |  |  |
|   |  | price, coverage and insurance fee rate were reported to 2020 Board of Directors on March 27, 2020. |  |                               |                                |                                     |       |  |  |
| <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> <table border="1"> <thead> <tr> <th>Business Operation Review No.</th> <th>Business Operation Review Item</th> <th>Improvement and execution condition</th> </tr> </thead> <tbody> <tr> <td>2. 17</td> <td>Does the company’s BOD regularly (at least once a year) evaluate the independence of CPA, and disclose the evaluation procedures in the annual report?</td> <td>It has been disclosed in the 2019 Annual Report -detailed procedures and standards</td> </tr> </tbody> </table> |  |  |  | Business Operation Review No. | Business Operation Review Item | Improvement and execution condition | 2. 17 | Does the company’s BOD regularly (at least once a year) evaluate the independence of CPA, and disclose the evaluation procedures in the annual report? | It has been disclosed in the 2019 Annual Report -detailed procedures and standards |
| Business Operation Review No.   | Business Operation Review Item   | Improvement and execution condition  |  |                               |                                |                                     |       |  |  |
| 2. 17   | Does the company’s BOD regularly (at least once a year) evaluate the independence of CPA, and disclose the evaluation procedures in the annual report? | It has been disclosed in the 2019 Annual Report -detailed procedures and standards                 |  |                               |                                |                                     |       |  |  |

Note: 1. CPA Independence Evaluation Criteria.

| Item | Evaluation Content   | Yes | No |
|------|--|-----|----|
| 1    | The CPA have no direct or significant indirect financial relationship with the Company | √   |    |
| 2    | The CPA have no close commercial relationship with the Company                         | √   |    |

| Item | Evaluation Content   | Yes | No |
|------|--|-----|----|
| 3    | The CPA have no potential employment relationship with the Company   | √   |    |
| 4    | The CPA have no financing and guarantee activities with the Company  | √   |    |
| 5    | The CPA have not received gifts or gifts of great value from the directors and managers of the Company (Its value doesn't exceed the standard of general social etiquette)   | √   |    |
| 6    | The CPA have no offered auditing service to the Company for the past seven years   | √   |    |
| 7    | The CPA have not been disciplined by the competent authority or the CPA Association, or has been punished in accordance with paragraph 3 of Article 37 of the securities and Exchange Act.   | √   |    |
| 8    | The CPA have not holding the shares of the Company   | √   |    |
| 9    | The CPA have no concurrent work at the Company or regular work at its conglomerates and has paid the fixed salary.   | √   |    |
| 10   | The CPA have no join investment or profit sharing relationship with the Company  | √   |    |
| 11   | The CPA have no close personal relationship with the Company's directors, managers or employees who have significant influence on the audit  | √   |    |
| 12   | The CPA, his spouse, dependants or audit team members have no held the position of director or manager of the Company or is in a key position to exert significant influence over the subject matter of the engagement current or in the most recent two year or in the future audit period. | √   |    |
| 13   | Whether the CPA have met the standards of independence in No. 10 statement of professional ethics, and have obtained the CPA's statement of independence   | √   |    |

Attached Table1 : 2019 Training Records of the Company's Directors :

| Title                | Name                  | Date       | Organizations                  | Courses  | Training hours |
|----------------------|-----------------------|------------|--------------------------------|--|----------------|
| Chairman             | Wang, Ko-Chang        | 2019.06.28 | Securities & Futures Institute | Discussion on potential measures associated with economic substance and global anti-tax-avoidance regulations from enterprises and individuals perspective                   | 3              |
|                      |                       |            | Securities & Futures Institute | Discussion on the risks and impacts for Taiwanese enterprises perspective under US-China trade wars  | 3              |
| Director             | Hsu, Cheng-Tsai       | 2019.10.17 | Securities & Futures Institute | Director and Supervisors (including Independent) and Corporate Governance Executives advance practice seminar- early warning and type analysis of corporate financial crisis | 3              |
|                      |                       | 2019.12.19 | Securities & Futures Institute | Director and Supervisors (including Independent) and Corporate Governance Executives advance practice seminar- corporate governance and the latest legal reform              | 3              |
| Director             | Ericson Fensterseifer | 2019.06.28 | Securities & Futures Institute | Discussion on potential measures associated with economic substance and global anti-tax-avoidance regulations from enterprises and individuals perspective                   | 3              |
|                      |                       |            | Securities & Futures Institute | Discussion on the risks and impacts for Taiwanese enterprises perspective under US-China trade wars  | 3              |
| Director             | Yang, Li-Min          | 2019.06.28 | Securities & Futures Institute | Discussion on potential measures associated with economic substance and global anti-tax-avoidance regulations from enterprises and individuals perspective                   | 3              |
|                      |                       |            | Securities & Futures Institute | Discussion on the risks and impacts for Taiwanese enterprises perspective under US-China trade wars  | 3              |
| Independent Director | Lin, Tzer-Jong        | 2019.06.28 | Securities & Futures Institute | Discussion on potential measures associated with economic substance and global anti-tax-avoidance regulations from enterprises and individuals perspective                   | 3              |
|                      |                       |            | Securities & Futures Institute | Discussion on the risks and impacts for Taiwanese enterprises perspective under US-China trade wars  | 3              |
| Independent Director | Lin, Wen-Cheng        | 2019.06.28 | Securities & Futures Institute | Discussion on potential measures associated with economic substance and global anti-tax-avoidance regulations from enterprises and individuals perspective                   | 3              |
|                      |                       |            | Securities & Futures Institute | Discussion on the risks and impacts for Taiwanese enterprises perspective under US-China trade wars  | 3              |
| Independent Director | Yu, Ching-Hsien       | 2019.06.28 | Securities & Futures Institute | Discussion on potential measures associated with economic substance  | 3              |

|  |  |            |   |   |   |
|--|--|------------|---|---|---|
|  |  |            |   | and global anti-tax-avoidance regulations from enterprises and individuals perspective              |   |
|  |  |            | Securities & Futures Institute          | Discussion on the risks and impacts for Taiwanese enterprises perspective under US-China trade wars | 3 |
|  |  | 2019.10.16 | Taiwan Corporate Governance Association | directors and supervisors' responsibility and Corporate Governance Practice Seminar                 | 3 |
|  |  | 2019.11.06 | Taiwan Stock Exchange Corporation       | 2019 Board Functions Enhancement Seminar  | 3 |

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

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

| Title<br>(Note 1)    | Name            | Criteria | Meets One of the Following Professional Qualification Requirements, Together with at Least Five Years' Work Experience   |   |   | Independence Criteria (Note 2) |   |   |   |   |   |   |   |   |    | Number of Other Public Companies in Which the Individual is Concurrently Serving as a Remuneration Committee Member | Remark |
|----------------------|-----------------|----------|--|---|---|--------------------------------|---|---|---|---|---|---|---|---|----|---|--------|
|                      |                 |          | 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 | 9 | 10 |   |        |
| Independent Director | Lin, Tzer-Jong  | -        | -  | ✓   | ✓   | ✓                              | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓  | 0   | -      |
| Independent Director | Lin, Wen-Cheng  | -        | ✓  | ✓   | ✓   | ✓                              | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓  | 0   | -      |
| Independent Director | Yu, Ching-Hsien | -        | -  | ✓   | ✓   | ✓                              | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓  | 0   | -      |

Note 1: The title filled in the director, independent director or other

Note 2: 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 the Company or any of its affiliates (not applicable in cases where the person is an independent director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or

with local laws).

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



## 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 | Lin, Wen-Cheng  | 4                       | -        | 100%                          |                         |
| Committee Member | Yu, Ching-Hsien | 4                       | -        | 100%                          | Feb.15 2019<br>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 Committee's opinions |
|----------|----------------------------------|---|----------------------------------|--------------------------------------|
| 20190326 | The 6th meeting of the 2nd term. | Determine the amount of employees' and directors' remuneration of 2018  | Consent                          | Approved as proposed                 |
| 20190628 | The 7th meeting of the 2nd term. | The distribution of employees' and directors' remuneration of 2018  | Consent                          | Approved as proposed                 |
| 20191226 | The 8th meeting of the 2nd term. | 1. Review the year-end bonus payment of all high-level managers in 2019<br>2. The salary adjustment of the Group's management staff | Consent                          | Approved as proposed                 |
| 20200327 | 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 The difference between the situation of social responsibility fulfillment and the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and its reasons.**

| 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   |   |
| 1. Whether the Company have conducted risk assessments of environmental, social and corporate governance issues related to its operations in accordance with the materiality principles and formulated relevant risk management policies or strategies? | V                                  | <p>Abstract Explanation <sup>2</sup></p> <p>1. 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.</p> <p>2. The Company irregularly announces and publicizes relevant corporate ethics.</p> <p>3. 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.</p> | No obvious discrepancy.   |
| 2. Has the Company set up specialized or concurrent departments to promote CSR, authorized by the Board of Directors to have high-level management and hierarchical operations, and report back to the Board on the status of matters handled?          | V                                  | In the future, the company will promote the establishment of relevant full-time(Part-time) units according to the actual situation.  | No obvious discrepancy.   |
| 3. Environment issues<br>(1) Does the company have an appropriate environmental management system established in accordance with its industrial   | V                                  | The Company has regulated the relevant norms on quality management, safety and health and environmental protection and also complies with the applicable audit standards from the governing institutions.  | 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   |   |      |      |                   |              |              |                           |              |              |                       |              |              |                       |             |             |                         |
| character?  |                                    |  |   |      |      |                   |              |              |                           |              |              |                       |              |              |                       |             |             |                         |
| (2) Is the company committed to enhance the utilization efficiency of resources and use renewable materials that are with low impact on the environmental?  |                                    | 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.  | No obvious discrepancy.   |      |      |                   |              |              |                           |              |              |                       |              |              |                       |             |             |                         |
| (3) Has the company assessed the potential risks and opportunities for business operations now and the future regarding climate change and will it adopt response measures relating to climate issues?  |                                    | The Company has strengthened energy conservation and carbon reduction management in the manufacturing process and fulfilled its responsibility for environmental protection.   | No obvious discrepancy.   |      |      |                   |              |              |                           |              |              |                       |              |              |                       |             |             |                         |
| (4) Has the company calculated the greenhouse gas emissions, water consumption, and total weight of waste in the past 2 years, and formulated policies on energy conservation and carbon reduction, greenhouse gas reduction, water consumption, or other waste management? |                                    | <table border="1"> <thead> <tr> <th>Item</th> <th>2018</th> <th>2019</th> </tr> </thead> <tbody> <tr> <td>Water consumption</td> <td>137,449 Tons</td> <td>107,535 Tons</td> </tr> <tr> <td>Recover water consumption</td> <td>109,176 Tons</td> <td>358,758 Tons</td> </tr> <tr> <td>Waste water discharge</td> <td>246,928 Tons</td> <td>109,500 Tons</td> </tr> <tr> <td>Total weight of waste</td> <td>259.19 Tons</td> <td>368.91 Tons</td> </tr> </tbody> </table> <p>Important water resource management measures include</p> <ol style="list-style-type: none"> <li>1. The steam condensate of the recover production process is cooled and then provided to the cooling system for use.</li> <li>2. High efficiency and energy-saving sewage pool and a special sewage return pipe are added to make more waiting time for discharge and improve the efficiency of sewage treatment.</li> </ol> | Item  | 2018 | 2019 | Water consumption | 137,449 Tons | 107,535 Tons | Recover water consumption | 109,176 Tons | 358,758 Tons | Waste water discharge | 246,928 Tons | 109,500 Tons | Total weight of waste | 259.19 Tons | 368.91 Tons | No obvious discrepancy. |
| Item  | 2018                               | 2019   |   |      |      |                   |              |              |                           |              |              |                       |              |              |                       |             |             |                         |
| Water consumption   | 137,449 Tons                       | 107,535 Tons   |   |      |      |                   |              |              |                           |              |              |                       |              |              |                       |             |             |                         |
| Recover water consumption   | 109,176 Tons                       | 358,758 Tons   |   |      |      |                   |              |              |                           |              |              |                       |              |              |                       |             |             |                         |
| Waste water discharge   | 246,928 Tons                       | 109,500 Tons   |   |      |      |                   |              |              |                           |              |              |                       |              |              |                       |             |             |                         |
| Total weight of waste   | 259.19 Tons                        | 368.91 Tons  |   |      |      |                   |              |              |                           |              |              |                       |              |              |                       |             |             |                         |

| 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  |   |
| 4. Social issues<br>(1) Does the Company formulate appropriate management policies and procedures according to relevant regulations and the International Bill of Human Rights?  |                                    | The Company complies with relevant regulations and follows international human rights conventions, such as the gender equality, right of work and prohibition of discrimination, etc. Its human resource team uses a policy without difference in gender, race, social and economic class, age, marriage and family status to implement equality and fairness in employment, employment condition, pay, benefit, training, assessment and promotion opportunity.  | No obvious discrepancy.   |
| (2) Does the Company formulate and implement reasonable policies of staff welfare (including compensation, vacation and other welfares), and reflect the operating performance or achievement in the compensation of the employees properly? |                                    | The company determines the salary level according to the employee’s academic experience, professional knowledge, seniority experience and personal performance, which conforms to the laws and regulations. The basic salary of employees is not different due to their gender race, religion, political position, marital status, etc. In addition, according to the articles of association, if there is any “profit” in the company’s year, the company shall allocate not less than 1% of the profit as employee compensation.  | No obvious discrepancy.   |
| (3) Does the Company create a safe and healthy working environment and provide safety and health education for employees regularly?  |                                    | 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 provide   |                                    | The Company provides employees with refreshing opportunities to enhance their   | 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  |   |
| employees with opportunities for career development and training?   |                                    | workforce and productivity.   |   |
| (5) Does the Company follow regulations and international standards in the customer health, safety, customer privacy, marketing and labeling of its products and services, and set polices and appeal procedures for protection of consumer’s rights and interests? |                                    | The Company’s marketing and labeling on products and services follow relevant codes/regulations and international standards.  | No obvious discrepancy.   |
| (6) Does the Company formulate the supplier management policies and require suppliers to follow relevant norms on environmental protection, occupational safety and health, or labor’s human rights, and disclose the implementation?                               |                                    | Request supplier to make a statement, commending the non-toxic manufacturing; there are related inspection specification and procedures for R&D and production. When the Company works with suppliers, firstly it will figure out whether or not suppliers have the record of environmental and social impact. 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. |   |
| 5. Does the Company, following internationally recognized guidelines, prepare and publish reports such as its corporate social responsibility report to disclose non-financial information of the Company? Does the Company   | V                                  | My company’s social responsibility report was prepared according to the core options of GRI Sustainability Reporting Standards (GRI Standards) issued by the Global Reporting Initiative (GRI). However, as of the date of printing, the annual report has not been completed. In addition, the report has not been applied for verification by external agencies.  | 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  |   |
| obtain a third-party verification or assurance for such reports?   |                                    |   |   |
| 6. If the Company has established the corporate social responsibility principles based on “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies”, please describe any discrepancy between the Principles and their implementation: None.  | Abstract Explanation <sup>2</sup>  |   |   |
| 7. Other important information to facilitate better understanding of the company’s corporate social responsibility practices :<br>In addition to pursuing product development, the company continues to pursue sustainable operation and strives to practice corporate social responsibility, promote corporate volunteers to serve the good culture, and jointly contribute to caring for society and changing society.<br>The company’s social welfare activities in the last year are as follows: |                                    |   |   |
| N0.  | Recipient                          | Plan Name   | Plan Overview   |
| 1  | Qudi town Government               | A family on both sides of the Taiwan Strait cares for the masses and delivers warmth. Charity donation activities | Jinan Acetate Chemical Co., LTD. donated RMB 198,000 goods to the impoverished families in Qudi town. He Hope that provide more impoverished families with living goods by holding love assistance activities. Actively fulfill corporate social responsibility, promote more enterprises and caring people to participate in poverty alleviation work, and make more impoverished families feel the warmth of society.<br>After the activity, chairman and his team came to Sunjia vil. to visit two impoverished households and sent them red envelopes and caring goods and give them deep greetings. Impoverished households also express their heartfelt thanks to the company for its kindness. |

| 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   | Chitouji primary school, Dawu Town, Tengzhou City | Student who have poor economic conditions for families and difficult conditions for living | <p>Acetek Material Co., Ltd. held a charity donation activity of subsidy in chitouji primary school, Dawu Town, Tengzhou City. He sent RMB 50,000 goods to the students who have poor economic conditions for families and difficult conditions for living. In this donation, Acetek Material Co., Ltd. distributed 1,000 books, 229 schoolbags, 229 sets of stationery and 229 water cups, so that the students of Chitouji primary school could truly feel the care and help of the society for them.</p> <p>Wang, Ko-Chang, chairman of the board of directors, hopes to actively participate in social public welfare activities, actively fulfill corporate social responsibility, sent more goods to more students who ave poor economic conditions for families and difficult conditions for living, promote more enterprises and caring people to participate in poverty alleviation work, and make more impoverished families feel the warmth of society.</p> |
| 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 have a Board-approved ethical corporate management policy and stated in its regulations and external correspondence the ethical corporate management policy and practices, as well as the active commitment of the Board of Directors and management towards enforcement of such policy?</p> <p>(2) Does the company have mechanisms in place to assess the risk of unethical conduct, and perform regular analysis and assessment of business activities with higher risk of unethical conduct within the scope of business? Does the company implement programs to prevent unethical conduct based on the above and ensure the programs cover at least the matters described in Paragraph 2, Article 7 of the Ethical Corporate Management</p> | V                                  |    | No obvious discrepancy.  |
|  | 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 |  |
| <p>Best Practice Principles for TWSE/TPEX Listed Companies?</p> <p>(3) Does the company provide clearly the operating procedures, code of conduct, disciplinary actions, and appeal procedures in the programs against unethical conduct? Does the company enforce the programs above effectively and perform regular reviews and amendments?</p>   |                                    |    | (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.   |
| <p>2. Fulfill operations integrity policy</p> <p>(1) Does the company evaluate business partners' ethical records and include ethics-related clauses in business contracts?</p> <p>(2) Does the company have a unit responsible for ethical corporate management on a full-time basis under the Board of Directors which reports the ethical corporate management policy and programs against unethical conduct regularly (at</p> | 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.<br>(2) The Company sets the Audit Committee, 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 |

| 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>least once a year) to the Board of Directors while overseeing such operations?</p> <p>(3) Does the company establish policies to prevent conflicts of interest and provide appropriate communication channels, and implement it?</p> <p>(4) Does the company have effective accounting and internal control systems in place to implement ethical corporate management? Does the internal audit unit follow the results of unethical conduct risk assessments and devise audit plans to audit the systems accordingly to prevent unethical conduct, or hire outside accountants to perform the audits?</p> <p>(5) Does the company regularly hold internal and external educational trainings on operational integrity?</p> <p>3. Operation of the integrity channel</p> <p>(1) Does the company establish both a reward/punishment system and an integrity</p> | V                                  |    | Directors.   |
|  | V                                  |    | (3) The Company's "Operation Procedure and Conduct Guideline for Integrity Operation Code" provides complete guidelines for employees.   |
|  | 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. |
|  | V                                  |    | (5) The Company's internal advocacy meeting arranges for high-tier management to express the importance of integrity to directors, employees and assignees.  |
|  | V                                  |    | (1) The Company hasn't established an employee report and reward system yet. However, when   |

| 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 |   |
| hotline? Can the accused be reached by an appropriate person for follow-up?  |                                    |    | 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 confidential.  |
| (2) Does the company establish standard operating procedures for confidential reporting on investigating accusation cases? | V                                  |    | (2) 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.<br>The Company hasn’t established the standard investigation operation procedure and related confidentiality mechanism for accepting the report; however, the procedure of accepting 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. |
| (3) Does the company provide proper whistleblower protection?  | V                                  |    | (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.   |
| 4. Strengthening information disclosure  |                                    |    |   |

| 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 |  |
| Does the company disclose its ethical corporate management policies and the results of its implementation on the company’s website and MOPS?  | V                                  |    | No obvious discrepancy.  |
| 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. There have been no differences.   |                                    |    |  |
| 6. Other important information to facilitate a better understanding of the company’s ethical corporate management policies (e.g., review and amend its policies).<br>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. |                                    |    |  |

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 27, 2020

We hereby declare the results of the self-assessment of our internal control system in 2019 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, 2019 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 27, 2020. 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 27, 2020, 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, 2019. 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, 2019, maintaining effectiveness in all major aspects; Jinan Acetate Chemical Co., Ltd. and its subsidiaries issued on March 27, 2020, 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 27, 2020**



**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 | 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>1. 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 spokesperson of the Company.</li> <li>13. Proposal to amend Articles of Association of the Company is submitted for discussion.</li> <li>14. Proposal to amend the Regulations Governing the Acquisition and Disposal of Assets of the Company is submitted for discussion.</li> <li>15. Proposal to amend the Procedure for the Loaning of Funds is submitted for discussion.</li> <li>16. Proposal to amend the Procedure for Endorsements and Guarantees is submitted for discussion.</li> <li>17. Build the Company “Standard operating procedures of handling director’s requirements”.</li> <li>18. Arrangement of the Shareholders' meeting in 2019</li> </ol> |

|               |              |   |
|---------------|--------------|---|
| Board meeting | May 10,2019  | <ol style="list-style-type: none"> <li>1. Important financial affairs report: 2019 Q1 Consolidated Financial Statements report.</li> <li>2. The execution report of internal audit.</li> </ol>  |
| Board meeting | Aug. 06,2019 | <ol style="list-style-type: none"> <li>1. Important financial affairs report: 2019 Q2 Consolidated Financial Statements report.</li> <li>2. The execution report of internal audit.</li> <li>3. Proposal for the record date of the ex-dividend and ex-right date for 2019 dividend.</li> <li>4. proposal for distribution of profits for the first half of 2019.</li> <li>5. The Company's application of credit lines to banks is hereby submitted for the Board's review and discussion.</li> </ol>  |
| Board meeting | Nov. 08,2019 | <ol style="list-style-type: none"> <li>1. Important financial affairs report: 2019 Q3 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 is hereby submitted for the Board's review and discussion.</li> <li>4. Proposal to provide endorsement and guarantee for the Company's subsidiary company.</li> </ol>  |
| Board meeting | Dec. 26,2019 | <ol style="list-style-type: none"> <li>1. 2020 budgetary</li> <li>2. 2020audit plan</li> <li>3. Proposal to have the Company's Remuneration Committee review the managers' 2019year-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 Company's application of credit lines to banks is hereby submitted for the Board's review and discussion.</li> </ol> |
| Board meeting | Mar. 17,2020 | Proposal to buy back of shares for transferring to employees  |
| Board meeting | Mar. 27,2020 | <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 2019 Business Report and Consolidated Financial Statements.</li> <li>4. Adoption of the Proposal for Distribution of 2019 Profits</li> <li>5. Determine the amount of employees' and directors' remuneration of 2019</li> <li>6. Statement of internal control system of 2019</li> <li>7. The re-election of directors of the Board of Directors of the company.</li> </ol>                               |

|                       |              |  |
|-----------------------|--------------|--|
|                       |              | <ol style="list-style-type: none"> <li>8. proposed to establish a new company in strategic cooperation with Eastern</li> <li>9. To change the Certified Public Accountants from 2020.</li> <li>10. Arrangement of the Shareholders' meeting in 2020</li> </ol>   |
| Board meeting         | May 08,2020  | <ol style="list-style-type: none"> <li>1. Important financial affairs report: 2020 Q1 Consolidated Financial Statements report.</li> <li>2. The execution report of internal audit.</li> <li>3. Nominate and review the list of candidates for directors.</li> <li>4. The proposal to have new directors released from the obligations under the covenant not to compete is presented for discussion.</li> <li>5. The Company's application of credit lines to banks is hereby submitted for the Board's review and discussion.</li> </ol>   |
| Board meeting         | May 10,2019  | <ol style="list-style-type: none"> <li>1. Important financial affairs report: 2019 Q1 Consolidated Financial Statements report.</li> <li>2. The execution report of internal audit.</li> </ol>   |
| Shareholders' meeting | Jun.28, 2019 | <ol style="list-style-type: none"> <li>1. Adoption of the 2018 Business Report and Consolidated Financial Statements.<br/>Executing status: Approved</li> <li>2. Adoption of the Proposal for Distribution of 2018 Profits<br/>Executing status: Set September 10, 2019 as the ex-dividend date, October 09, 2019 as the cash dividend distribution date.</li> <li>3. Proposal to amend Articles of Association of the Company is submitted for discussion.<br/>Executing status: Already completes the change registration operation.</li> <li>4. Proposal to amend the Regulations Governing the Acquisition and Disposal of Assets of the Company is submitted for discussion.<br/>Executing status: Already completes the change registration operation.</li> <li>5. Proposal to amend the Procedure for the Loaning of Funds is submitted for discussion.<br/>Executing status: Already completes the change registration operation.</li> <li>6. Proposal to amend the Procedure for Endorsements and Guarantees is submitted for discussion.<br/>Executing status: Already completes the change registration operation.</li> <li>7. Capital surplus transferred to capital increase and issuance of new shares<br/>Executing status: Set September 10, 2019 as the ex-dividend date, October 09, 2019 is the issuance date of new shares.</li> </ol> |

### 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: None**

**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 | 2019.01.01~2019.12.31         |         |

Unit: NT\$ thousands

| Fee Range |                                | Fee Items | Audit Fee | Non-audit Fee | Total |
|-----------|--------------------------------|-----------|-----------|---------------|-------|
| 1         | Under NT\$ 2,000,000           |           |           | 879           | 879   |
| 2         | NT\$2,000,001 ~ NT\$4,000,000  |           | 3,587     |               | 3,587 |
| 3         | NT\$4,000,001 ~ NT\$6,000,000  |           |           |               |       |
| 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    | 3,587     |                  |                      |                | 879    | 879      | 2019.01.01-2019.12.31         | 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

### **3.5 Replacement of CPA**

Information on replacement of CPA: N/A

#### **3.5.1 Audit Independence**

**3.6 The company's Chairman, President, and Officers in charge of Financial or Accounting Affairs has served in its Certified Public Accountant Firm or its Affiliated Enterprise in the Most Recent Year: N/A**

**3.7 Change in shares holding and shares pledged by directors, supervisors, managers and shareholders with 10% shareholdings or more in most recent year and as of the printed date of the annual report**

Unit: Shares

| Title                              | Name                                     | 2018                        |                                     | As of Apr. 25, 2019         |                                     |
|------------------------------------|--|-----------------------------|-------------------------------------|-----------------------------|-------------------------------------|
|                                    |  | Holding Increase (Decrease) | Pledged Holding Increase (Decrease) | Holding Increase (Decrease) | Pledged Holding Increase (Decrease) |
| Chairman<br>(Major Shareholders )  | Bright Pearl Enterprises Ltd.            | 1,637,300                   | -                                   | -                           | -                                   |
|                                    | Representative:<br>Wang, Ko-Chang        | -                           | -                                   | -                           | -                                   |
| Director<br>( Major Shareholders ) | MACRIFER TRADING SOCIEDAD ANONIMA        | 786,200                     | -                                   | -                           | -                                   |
|                                    | Representative:<br>Yang, Li-Min          | -                           | -                                   | -                           | -                                   |
| Director                           | MACRIFER TRADING SOCIEDAD ANONIMA        | 786,200                     | -                                   | -                           | -                                   |
|                                    | Representative:<br>Ericson Fensterseifer | -                           | -                                   | -                           | -                                   |
| Director                           | Amacron Trading Ltd.,                    | 343,100                     | -                                   | -                           | -                                   |
|                                    | Representative:<br>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                          | -                           | -                                   | -                           | -                                   |
| Vice President                     | Chang, Ai-Feng                           | -                           | -                                   | -                           | -                                   |
| Vice President                     | Liang, Ji-Qiang                          |                             |                                     |                             |                                     |
| CFO                                | Wang, Sheng-pin                          | 68,600                      | 450,000                             | -                           | -                                   |
| Sale Director                      | Sun, Ching                               | -                           | -                                   | -                           | -                                   |
| Factory Manager                    | Liu, Chen                                | -                           | -                                   | -                           | -                                   |

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

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

**3.8 Top 10 shareholders who are related parties, spouses, or within second-degree of kinship to each other**

As of 4/25/2020

| 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.                           | 18,030,300           | 35.26 | -                             | - | -                                   | - | -  | -            | -       |
| Representative:<br>Wang, Ko-Chang                       | -                    | -     | -                             | - | -                                   | - | Wang, Song-Lan   | elder sister | -       |
| Macrifer Trading Sociedad Anonima                       | 8,648,200            | 16.93 | -                             | - | -                                   | - | -  | -            | -       |
| Representative:<br>Juan Antonio Bruno Perroni           | -                    | -     | -                             | - | -                                   | - | -  | -            | -       |
| Stanord Ltd.  | 4,323,000            | 8.46  |                               |   |                                     |   |  |              |         |
| Representative:<br>Yang, Li-Min                         |                      |       |                               |   |                                     |   |  |              |         |
| Amacron Trading Ltd.                                    | 3,774,100            | 7.39  | -                             | - | -                                   | - | -  | -            | -       |
| Representative:<br>Hsu, Cheng-Tsai                      | -                    | -     | -                             | - | -                                   | - | -  | -            | -       |
| Lucky Family Ltd.                                       | 1,342,000            | 2.63  | -                             | - | -                                   | - | -  | -            | -       |
| Representative:<br>Wang, Song-Lan                       | -                    | -     | -                             | - | -                                   | - | Wang, Ko-Chang   | elder sister | -       |
| Wang, Sheng-pin   | 589,600              | 1.15  | -                             | - | -                                   | - | -  | -            | -       |
| Hezhen Investment Co., Ltd.                             | 541,200              | 1.06  | -                             | - | -                                   | - | -  | -            | -       |
| Representative:<br>Wang, Song-Lan                       | -                    | -     | -                             | - | -                                   | - | Wang, Ko-Chang   | elder sister | -       |
| Tokio Marine Nawa Insurance Co., Ltd.                   | 418,000              | 0.82  | -                             | - | -                                   | - | -  | -            | -       |
| Standard Chartered Hosting of the Bank of Liechtenstein | 381,700              | 0.75  | -                             | - | -                                   | - | -  | -            | -       |
| Reliance Securities Co.,Ltd.                            | 306,000              | 0.60  | -                             | - | -                                   | - | -  | -            | -       |

**3.9 Number of shares held and shareholding percentage of the Company, the company's directors, supervisors, managers and directly or indirectly controlled entities on the same investee**

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  |
| Acetate Chemical 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/<br>Year | Par<br>Value<br>(NT\$) | Authorized Capital |                               | Paid-in Capital |                               | Remark  |  |        |
|----------------|------------------------|--------------------|-------------------------------|-----------------|-------------------------------|---|--|--------|
|                |                        | Shares             | Amount<br>(NT\$<br>thousands) | Shares          | Amount<br>(NT\$<br>thousands) | Sources of Capital  | Capital<br>Increased by<br>Assets Other<br>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<br>restructuring<br>( Capital increased out of<br>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 |
| 10/2019        | 10                     | 100,000            | 1,000,000                     | 4,596.7         | 510,767                       | Capital increased out of<br>surplus                                       | -  | Note 4 |

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.

Note4: For 2018 Stock dividend from capital surplus, each share was distributed NT\$1.0 of stock.

##### B. Type of Stock

As of 04/25/2020/ Unit: shares

| Share Type   | Authorized Capital                                  |                  |              | Remarks |
|--------------|---|------------------|--------------|---------|
|              | Issued Shares                                       | Un-issued Shares | Total Shares |         |
| Common Stock | 51,076,700<br>(Including 1,084,000 treasury shares) | 48,923,300       | 100,000,000  | -       |

### 4.2 Status of Shareholders

As of 04/25/2020/ Unit: shares

| Item                      | Government<br>Agencies | Financial<br>Institutions | Other<br>Juridical<br>Persons | Domestic<br>Natural<br>Persons | Foreign<br>Institutions &<br>Natural Persons | Treasury<br>Stock | Total      |
|---------------------------|------------------------|---------------------------|-------------------------------|--------------------------------|--|-------------------|------------|
| Number of<br>Shareholders | -                      | 4                         | 35                            | 1,749                          | 25   | 1                 | 1,814      |
| Shareholding<br>(shares)  | -                      | 893,000                   | 1,716,800                     | 9,869,504                      | 37,513,396                                   | 1,084,000         | 51,076,700 |
| Percentage                | -                      | 1.75%                     | 3.36 %                        | 19.32%                         | 73.45%                                       | 2.12%             | 100.00%    |

Note: Foreign institutions or individuals without mainland Chinese investors

### 4.3 Shareholding Distribution Status

#### A. Common Shares

As of Apr. 25, 2020; Unit: share/NT\$10 par value

| Class of Shareholding<br>(Unit: Share) | Number of<br>Shareholders | Shareholding (Shares) | Percentage |
|--|---------------------------|-----------------------|------------|
| 1 ~ 999                                | 300                       | 45,856                | 0.09%      |
| 1,000 ~ 5,000                          | 1,142                     | 2,258,545             | 4.42%      |
| 5,001 ~ 10,000                         | 155                       | 1,136,584             | 2.23%      |
| 10,001 ~ 15,000                        | 56                        | 688,500               | 1.35%      |
| 15,001 ~ 20,000                        | 44                        | 789,800               | 1.55%      |
| 20,001 ~ 30,000                        | 36                        | 898,019               | 1.76%      |
| 30,001 ~ 40,000                        | 17                        | 585,700               | 1.15%      |
| 40,001 ~ 50,000                        | 10                        | 455,700               | 0.89%      |
| 50,001 ~ 100,000                       | 24                        | 1,594,900             | 3.12%      |
| 100,001 ~ 200,000                      | 14                        | 1,925,596             | 3.77%      |
| 200,001 ~ 400,000                      | 7                         | 1,967,100             | 3.85%      |
| 400,001 ~ 600,000                      | 3                         | 1,548,800             | 3.03%      |
| 600,001 ~ 800,000                      | 0                         | 0                     | 0.00%      |
| 800,001 ~ 1,000,000                    | 0                         | 0                     | 0.00%      |
| 1,000,001 or over                      | 6                         | 37,181,600            | 72.80%     |
| Total                                  | 1,814                     | 51,076,700            | 100.00%    |

### 4.4 List of Major Shareholders

As of 04/20/2020/ Unit: shares

| Shareholder's Name                                      | Shareholding |            |
|---|--------------|------------|
|   | Shares       | Percentage |
| Bright Pearl Enterprises Ltd.                           | 18,010,300   | 35.26%     |
| Macrifer Trading Sociedad Anonima                       | 8,648,200    | 16.93%     |
| Stanord Ltd.  | 4,323,000    | 8.46%      |
| Amacron Trading Ltd.                                    | 3,774,100    | 7.39%      |
| Lucky Family Ltd.                                       | 1,342,000    | 2.63%      |
| Wang, Sheng-pin   | 589,600      | 1.15%      |
| Hezhen Investment Co., Ltd.                             | 541,200      | 1.06%      |
| Tokio Marine Nawa Insurance Co., Ltd.                   | 418,000      | 0.82%      |
| Standard Chartered Hosting of the Bank of Liechtenstein | 381,700      | 0.75%      |
| Reliance Securities Co.,Ltd.                            | 306,000      | 0.60%      |

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

Unit: NT\$

| Items  | 2018   | 2019            | 01/01/2020-04/30/2020<br>(Note 7) |
|--|--------|-----------------|-----------------------------------|
| <b>Market Price per Share</b>                |        |                 |                                   |
| Highest Market Price                         | 178    | 166             | 137.50                            |
| Lowest Market Price                          | 113.50 | 110             | 85                                |
| Average Market Price                         | 129.27 | 135.51          | 116.89                            |
| <b>Net Worth per Share</b>                   |        |                 |                                   |
| Before Distribution                          | 25.43  | 24.66           | 25.95                             |
| After Distribution                           | 21.48  | Note 5          | -                                 |
| <b>Earnings per Share(Note 1)</b>            |        |                 |                                   |
| Weighted Average Shares<br>(thousand shares) | 46,499 | 54,112          | 54.123                            |
| Diluted Earnings Per Share                   | 3.76   | 6.4             | 1.94                              |
| Adjusted Diluted Earnings Per Share          | 3.43   | Note 6          | -                                 |
| <b>Dividends per Share</b>                   |        |                 |                                   |
| Cash Dividends                               | 4      | 4.7( Note<br>6) | -                                 |
| Stock Dividends                              |        |                 |                                   |
| • Dividends from Retained Earnings           | -      | -               | -                                 |
| • Dividends from Capital Surplus             | 1      | -               | -                                 |
| Accumulated Undistributed Dividends          | -      | -               | -                                 |
| <b>Return on Investment</b>                  |        |                 |                                   |
| Price / Earnings Ratio (Note2)               | 34.38  | 21.17           | -                                 |
| Price / Dividend Ratio (Note 3)              | 32.32  | 28.83           | -                                 |
| Cash Dividend Yield Rate (Note 4)            | 3.09   | 3.47            | -                                 |

Note 1: Net Worth Per Share = (Net Worth - Cash Dividend)/ Number of Common Shares for the the Year.

Note 2: shown as eps diluted by consolidation.

Note 3: Price Earnings Ratio = Average Closing Price Per Share for the Year /Earnings Per Share

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

Note 5: Cash Dividend Yield Rate = Cash Dividends per Share / Average Market Price

Note 6: Pending for shareholders resolution of 2020

Note 7: 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

#### 4.6 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: None.
2. Shareholder's cash dividend: The Company's Board of Directors has agreed the 2019 earnings distribution on March 27, 2020, with an amount of NT\$ 237,649,390 from the 2019 earnings and NT\$4.7 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\$ 3,351,000 ◦

#### **4.7 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):** Not applicable

#### **4.8 Remuneration of employees, directors and supervisors**

##### **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                 | \$ 3,351     |
| Employee Bonus – in Stock                | 0            |
| Directors' and Supervisors' Remuneration | <u>2,000</u> |
| Total                                    | \$ 5,351     |

(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.

#### 4.9 Buyback of Treasury Stock (Completed)

As of 05/31/2020

| Treasury stocks: Batch Order                    | The 1st batch in 2018                     | The 2nd batch in 2020                     |
|---|---|---|
| Purpose of buy-back                             | Transfer ownership of shares to employees | Transfer ownership of shares to employees |
| Timeframe of buy-back                           | November 9, 2018–January 8, 2019          | March 18, 2020–May 17, 2020               |
| Price range                                     | NT\$100 ~ NT\$160                         | NT\$95 ~ NT\$190                          |
| Class, quantity of shares bought back           | 513,000 shares                            | 571,000 shares                            |
| Value of shares bought-back (in NT\$ thousands) | NT\$63,586                                | NT\$52,319                                |
| Shares sold/transferred                         | 0 shares                                  | 0 shares                                  |
| Accumulated number of company shares held       | 513,000 shares                            | 1,084,000 shares                          |
| Percentage of total company shares held (%)     | 1.00%                                     | 2.12%                                     |

## 4.10 Bonds

### 4.10.1 Corporate Bonds

As of 05/31/2019

| Corporate Bond Type  |  | 1 <sup>st</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.<br>The maximum value raised was 505 million NTD   |
| Coupon rate  |  | Denomination rate is 0%  |
| Tenor  |  | 5 years<br>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 Company. |
| 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\$142.3, then 3,513,703 shares have to be issued, which are 6.88% of total issued shares. Its influence on shareholders' equity is limited. |
|  | Transfer agent  | N/A   |

#### 4.10.2 Convertible Bonds

| Corporate bond type                         |         | 1 <sup>st</sup> Unsecured Convertible Corporate Bond                  |           |           |   |
|---|---------|---|-----------|-----------|---|
|   |         | Year  | 2018      | 2019      | As of the printing date of this annual report |
| Market price of the convertible bond        | Highest |   | 114.5     | 112.5     | 108   |
|   | Lowest  |   | 101       | 99        | 100   |
|   | Average |   | 104.62    | 107.44    | 104.70  |
| Convertible Price                           |         |   | NT\$167.8 | NT\$142.3 | NT\$142.3                                     |
| Issue date and conversion price at issuance |         | Issue Date: 2017/06/09<br>Conversion price at issuance: NT\$173/share |           |           |   |
| Conversion methods                          |         | Issuing of new stocks   |           |           |   |

#### 4.10.3 Exchangeable Bonds: None

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

#### 4.10.5 Corporate Bonds with Warrants: None

#### 4.11 Status of New shares issuance in Connection with Preferred stock, Global Depository Receipts(GDR), Employee stock warrants, Employee restricted stock awards, Mergers and Acquisitions: None

#### 4.12 Financing Plans and Implementation:

##### 4.12.1 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.

**4.12.2 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 | 2018         |                     | 2019         |                     |
|---------------|--------|--------------|---------------------|--------------|---------------------|
|               |        | Sales Amount | Business Proportion | Sales Amount | Business Proportion |
| Acetate tow   |        | 429,442      | 24.69%              | 626,973      | 28.83%              |
| Acetate flake |        | 1,309,752    | 75.31%              | 1,548,017    | 71.17%              |

##### 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 oversea 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.

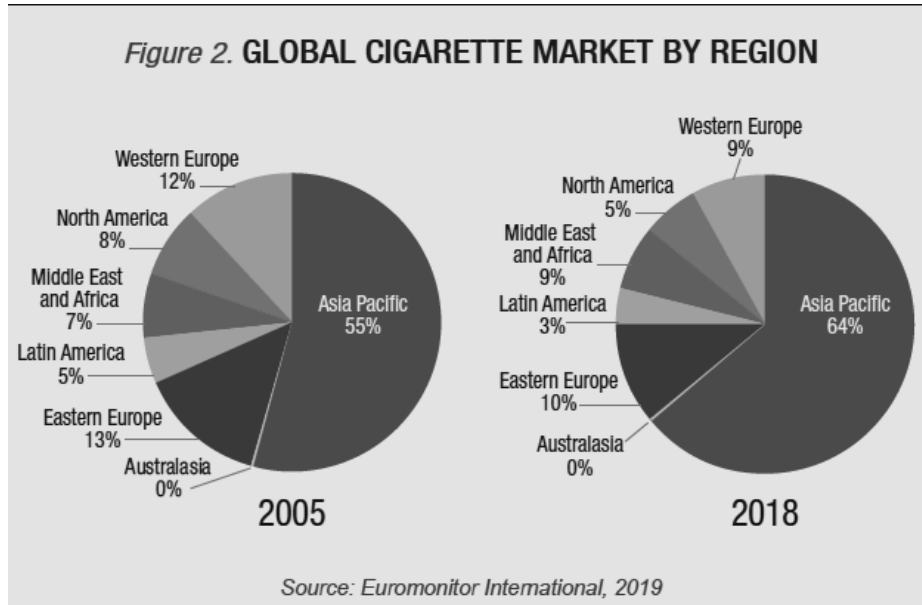
#### **A.Filters**

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 2018, 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 43.6% 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 2018; 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 31.7% within 2013 to 2018, yet, cigarette sales increased by 2%; 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 825 billion cigarettes were sold in India in 2018, which is one of the emerging markets that can be expected to be developed.

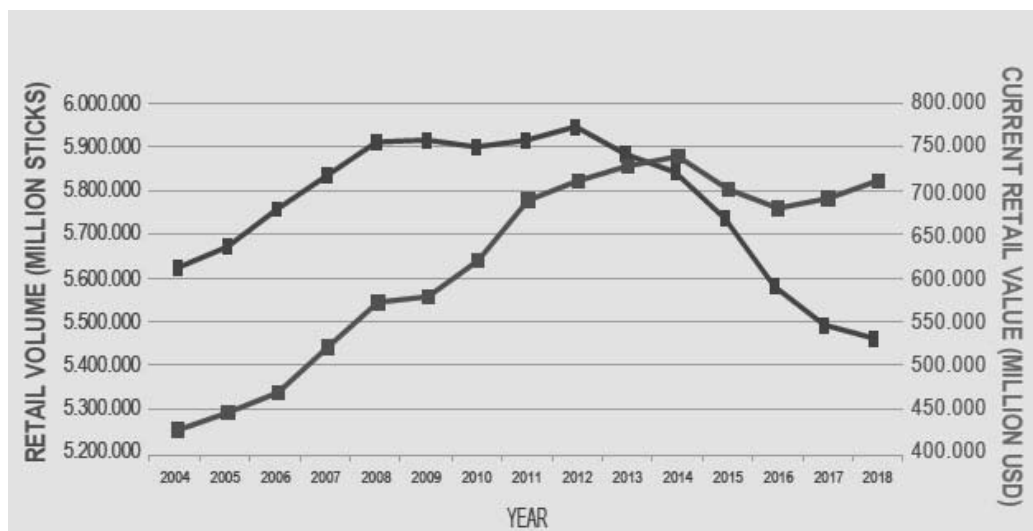
## Global cigarette market per region



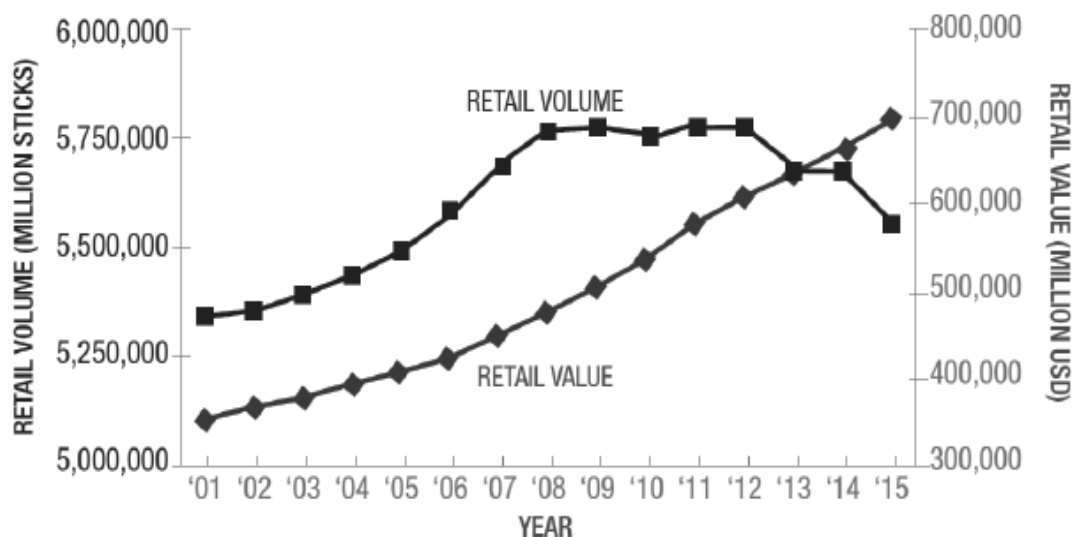
Source: **Euromonitor International, 2019**

According to a market research report released by Euro monitor International in 2018, global cigarette sales decreased by 3.7% from 2004 to 2018; and cigarette sales increased by 24.4%. Euromonitor International predicts that the global cigarette industry will continue to grow in the next five years, and sales are expected to decrease by 6.9%, yet, sales will decrease by 0.2% due to price increasing.

## Global cigarette market 2004-2018 production value and annual output



Source: **Euromonitor International, 2019**



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.)**

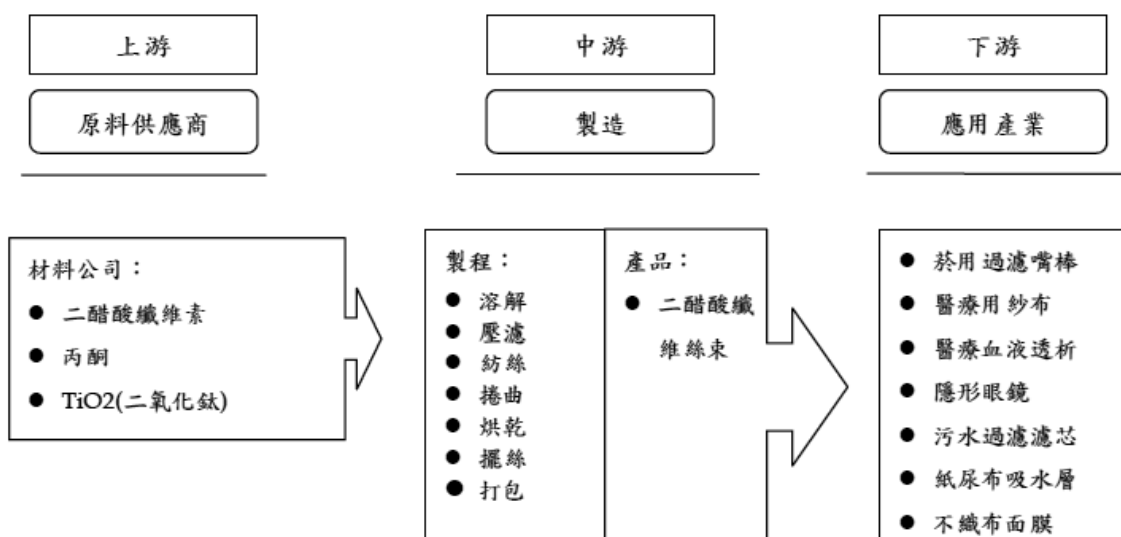
Non-woven fabric made of acetic acid staple fiber (non-woven fabric) can be used for surgical dressing that is non-sticking to the wound which is a high-grade medical and hygienic material, and can also be used as the main material for the absorbent layer of diapers. In addition, acetic acid staple fiber 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                  | 2017      | 2018      | 2019      | Jan. to March in 2020 |
|-----------------------|-----------|-----------|-----------|-----------------------|
| Expense of R&D        | 97,399    | 110,484   | 96,675    | 18,066                |
| Net Sales             | 1,747,987 | 1,739,194 | 2,174,990 | 524,292               |
| Proportion of revenue | 5.57      | 6.35      | 4.44      | 3.45                  |

**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.                                 | Acetate tow |
|      | 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 machine, 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.  | Acetate tow |

|      |   |  |               |
|------|---|--|---------------|
|      | 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.  | Acetate tow   |
|      | 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. | Acetate flake |
|      | 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.   | Acetate flake |

|      |  |  |               |
|------|--|--|---------------|
|      | 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.   |               |
| 2019 | Crushing and drying system of Acetate Flake  | The utility model relates to a device for crushing and drying the finished acetate fiber(Flake) produced by the low temperature method, which belongs to the technical field of crushing the finished acetate piece.                           | Acetate flake |
|      | Automatic packing system of cellulose acetate powder   | The utility model relates to a device for cleaning ash of cellulose acetate flake grinding, belonging to the technical field of cellulose acetate flake grinding.  |               |
|      | Backwash solid-liquid separation filter blade  | The utility model relates to a solid-liquid separation device for removing solids in liquid with large solid particles and uneven particle size, in particular to a filter blade, belonging to the technical field of solid-liquid separation. |               |

|  |  |
|--|--|
| Reverse flow slurry pump   | The utility model relates to a slurry pump for preventing the packing and sealing leakage of slurry in the process of transportation, belonging to the technical field of slurry pump. |
| Concentrated sulfuric acid screening program filter element          | An improvement of filter element of concentrated sulfuric acid screening program, which can be extended to the filtering operation of other highly corrosive liquids.                  |
| Waste oil recovery device of four roll crusher                       | The utility model relates to a device for recovering the spilled lubricating oil of a four roller crusher, which belongs to the technical field of waste oil recovery and utilization. |
| A reaction device of magnesium oxide and dilute acetic acid solution | A device for reaction of magnesium oxide with dilute acetic acid solution belongs to the technical field of reaction of magnesium oxide with acetic acid.                              |

#### **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 | 2017      |        | 2018      |        | 2019      |        |
|-------------|-----------|--------|-----------|--------|-----------|--------|
|             | Amount    | %      | Amount    | %      | Amount    | %      |
| Asia        | 1,163,871 | 66.58  | 1,236,829 | 71.12  | 1,487,505 | 68.39  |
| Africa      | 266,006   | 15.22  | 139,531   | 8.02   | 53,706    | 2.47   |
| America     | 264,099   | 15.11  | 351,951   | 20.24  | 461,674   | 21.23  |
| Other       | 54,011    | 3.09   | 10,883    | 0.62   | 172,105   | 7.91   |
| Total       | 1,747,987 | 100.00 | 1,739,194 | 100.00 | 2,174,990 | 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 2019 is approximately 11,435 tons; the estimated global market share is as follows:

Unit : thousands ton

| Year | Acetate Group     | Global Acetate fiber | Market Share (%) |
|------|-------------------|----------------------|------------------|
|      | Acetate tow yield | Tow yield            |                  |
| 2019 | 11.435            | About 715            | 1.6%             |

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

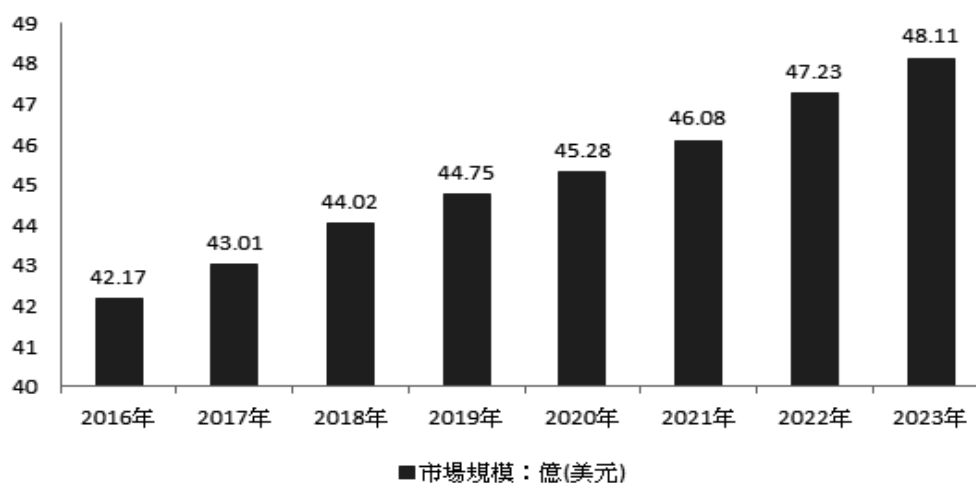
Since cellulose acetate tow entered mass production in 1962, the production of Celanese, Eastman and Rhodia (bought by the Solvay Group in 2011) accounted for the majority of the market share, all three suppliers produced their own cellulose diacetate (vinegar sheets)); after being processed into tows, 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.



### 5.2.3 Supply Status of Main Materials

| Major Raw Materials | Source of Supply   | Supply Situation |
|---------------------|--|------------------|
| Wood /Cotton pulp   | SC, Gaomi Yinying  | Stable           |
| Acetic anhydride    | Lunan Chemicals Co., Ltd.,<br>DingXing Chemicals Co., Ltd.,<br>Kaifong Ronghua | Stable           |
| Acetone             | Jiabo Chemicals  | 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: NTS thousands ; %

| Item | 2018               |         |         |                      | 2019               |         |         |                      | 2020 (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    | SC                 | 246,779 | 27.93   | None                 | SC                 | 238,414 | 26.09   | None                 | SC                    | 119,327 | 47.17   | Note                 |
| 2    | Lunan Chemical     | 222,745 | 25.21   | None                 | Gaomi Yinying      | 191,617 | 20.97   | Note                 | Lunan Chemical        | 31,746  | 12.55   | None                 |
| 3    |                    |         |         |                      | Lunan Chemical     | 151,741 | 16.60   |                      | Gaomi Yinying         | 29,186  | 11.54   | None                 |
|      | Others             | 414,141 | 46.86   | -                    | Others             | 332,153 | 36.34   | -                    | Others                | 72,713  | 28.74   | -                    |
|      | Net Total Supplies | 883,665 | 100.00  | -                    | Net Total Supplies | 913,925 | 100.00  | -                    | Net Total Supplies    | 252,972 | 100.00  | -                    |

Note: Lunan Chemical is Acetate Materia'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 | 2018         |           |         |                      | 2019         |           |         |                      | 2020 (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    | Global       | 235,596   | 13.55   | None                 | Global       | 258,583   | 11.89   | Note                 | Global                | 67,908  | 12.95   | Note                 |
| 2    |              |           |         | None                 |              |           |         |                      |                       |         |         |                      |
| 3    |              |           |         |                      |              |           |         |                      |                       |         |         |                      |
|      | Others       | 1,503,598 | 86.45   | -                    | Others       | 1,916,407 | 88.11   | -                    | Others                | 456,384 | 87.05   | -                    |
|      | Net Sales    | 1,739,194 | 100.00  | -                    | Net Sales    | 2,174,990 | 100.00  | -                    | Net Sales             | 524,292 | 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<br>Year                       | 2018     |          |           | 2019     |          |           |
|--------------------------------------|----------|----------|-----------|----------|----------|-----------|
|                                      | Capacity | Quantity | Amount    | Capacity | Quantity | Amount    |
| Major Products<br>(or by department) |          |          |           |          |          |           |
| Acetate tow                          | 11,000   | 10,133   | 1,011,441 | 13,000   | 11,435   | 954,299   |
| Acetate flake                        | 17,000   | 12,417   | 1,031,792 | 20,000   | 17,538   | 1,279,402 |
| Total                                | 28,000   | 22,550   | 2,043,233 | 33,000   | 28,973   | 2,233,701 |

Reasons for amount change:

In 2019, the capacity and output of cellulose diacetate increased, mainly due to the more stable Acetek Material Co., Ltd. production of the group's subsidiary company, the increased demand in China under the influence of the stable use of quality improvement customers and benefiting from the Sino US trade war; due to the increased demand for orders in Asia, the two production lines were expanded in 2019 and officially put into msaa production in April 2019. In summary, the production capacity and output value increased compared with the same period last year.

## 5.2.6 Shipments and Sales in the Last Two Years

Unit: NT\$ thousands;Mt

| Shipments<br>& Sales<br><br>Major Products<br>(or by departments) | Year | 2018     |        |               |           | 2019     |        |               |           |
|---|------|----------|--------|---------------|-----------|----------|--------|---------------|-----------|
|   |      | Local    |        | Export (Note) |           | Local    |        | Export (Note) |           |
|   |      | Quantity | Amount | Quantity      | Amount    | Quantity | Amount | Quantity      | Amount    |
| Acetate tow   |      | 49       | 6,283  | 9,774         | 1,303,469 | 327      | 38,772 | 11,481        | 1,509,245 |
| Acetate flake   |      | 11       | 1,201  | 4,136         | 428,241   | -        | -      | 6,111         | 626,973   |
| Total   |      | 60       | 7,484  | 13,910        | 1,731,710 | 327      | 38,772 | 17,592        | 2,136,218 |

Note: Export sales refer to areas outside Taiwan

Reasons for amount change:

The increase in sales amount and value of acetate tow and acetate flake in 2019 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                     |                          | 2018  | 2019  | As of March 31,2020 |
|--------------------------|--------------------------|-------|-------|---------------------|
| Number of<br>Employees   | Manager                  | 14    | 14    | 14                  |
|                          | General employee         | 93    | 99    | 104                 |
|                          | Manufacturing staff      | 186   | 182   | 186                 |
|                          | Total                    | 293   | 295   | 304                 |
| Average Age              |                          | 34.08 | 35.19 | 36.05               |
| Average Years of Service |                          | 2.64  | 2.82  | 2.82                |
| Education                | Ph.D.                    | -     | -     | -                   |
|                          | Masters                  | 0.68  | 1.02  | 0.99                |
|                          | Bachelor's Degree        | 43.69 | 41.69 | 41.12               |
|                          | Senior High School       | 27.99 | 30.17 | 30.26               |
|                          | Below Senior High School | 27.64 | 27.12 | 27.63               |



## 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:

1. 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 sewage and air pollution will continue to carry out sewage and cavitation environmental protection equipment maintenance and environmental management system operation.
2. Major environmental capital expenditure in recent years and in progress is as follows

| Company                   | Type of Equipment<br>Invested                | Investment Amount<br>(RMB, thousand) | Purpose  |
|---------------------------|--|--------------------------------------|--|
| Acetek Material Co., Ltd. | Sewage tank and relevant treatment equipment | 2,478                                | Efficient and energy-saving sewage treatment ensures that the sewage discharge meets the environmental protection standards, thus saving electricity and improving the treatment effect. |

## 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 FILTERS S.A. 、<br>CIGA FILTRE 、<br>TAIWAN TOBACCO AND LIQUOR CORPORATION | 2019/01<br>~2020/03 | The party purchased Acetate tow from Jinan Acetate Chemical Co., Ltd. | None         |
| 2        | Sale Contract | LA/ES LAMINATI ESTRUSI TERMOPLASTICI S.P.A                                      | 2019.3<br>~2020.12  | The party purchased Acetate flake from Acetek Material Co., Ltd.      | None         |

|    |                       |   |                     |  |      |
|----|-----------------------|---|---------------------|--|------|
| 3  | Sale Contract         | Jiaozuo Jinye Acetate Fiber Co., Ltd.                       | 2019.4<br>~2020.12  | The party purchased Acetate flake from Acetek Material Co., Ltd.   | None |
| 4  | Purchase Contract     | SC International Macao Commercial Offshoer Limited          | 2019/01<br>~2020/03 | Jinan Acetate Chemical Co., Ltd. purchased dissolving pulp from the party.   | None |
| 5  | Purchase Contract     | Rayonier A.M. Sales and Technology Inc                      | 2019/1<br>~2020/12  | Jinan Acetate Chemical Co., Ltd. and Acetek Material Co., Ltd. purchased dissolving pulp from the party.   | None |
| 6  | Purchase Contract     | Western Japan Trading Co., Ltd.                             | 2019/7<br>~2020/1   | Jinan Acetate Chemical Co., Ltd. purchased dissolving pulp from the party.   | None |
| 7  | Purchase Contract     | Tengzhou Fengming Chemical Co., Ltd.                        | 2019.2<br>~2020.12  | Acetek Material Co., Ltd. purchased Acetic anhydride from the party.   | None |
| 8  | Construction Contract | Jinan Zeyuan Metallurgical Machinery Co., Ltd.              | 2019/02<br>~2021/05 | The party concerned provides Jinan Acetate Chemical Co., Ltd. with I AB line protective cover, phase I CD line protective cover, 3A3B lower movable board/phase I AB line dryer project construction, phase II curler protective cover (AB and R & D line), 40 position spinning machine, air valve (return air), air duct, air valve of air duct, 18 position spinning machine, air valve, air inlet valve, air duct, blower, new foundation Plate, new base plate processing, new frame, new frame processing, new support block, wire swinging machine, crimping machine frame, wire laying device parts, screw feeder, primary filter. | None |
| 9  | Construction Contract | Jinan Xuhai Construction and Installation Co., Ltd.         | 2019/12<br>~2020/12 | The party concerned provides Jinan Acetate Chemical Co., Ltd. with the project of dismantling the old recovery the project of dismantling the old recovery system and manufacturing and installation of the new upper return air pipe, and the project of slurry and circulating water pipe of the new upper spinning machine in phase I.  | None |
| 10 | Construction Contract | Jinan WanXingYuan Ecotechnology                             | 2019/01<br>~2020/02 | The party provides special services of air duct, air valve, installation of spinning machine, compression box, base of compression box, operation trolley of compression box (including explosion-proof motor, reducer, bearing, bearing seat, chain, sprocket, track, air cylinder and accessories), compression box and transport trolley, pre swing wire box of packer to Jinan Acetate Chemical Co., Ltd.  | None |
| 11 | Construction Contract | Jinan Lin Yuan Environment Protection Engineering Co., Ltd. | 2019.8-2020.1       | The party provides seeage treatment construction to Acetek Material Co., Ltd.  | None |
| 12 | Loan Contract         | Qilu Bank Co., Ltd.-Jinan Shunnan Branch                    | 2019/3<br>~2021/1   | The party give Jinan Acetate Chemical Co., Ltd the credit line. The amount is about RMB eighty-three million dollars.  | None |
| 13 | Loan Contract         | Fubon Bank(China) Co., Ltd.-Hongqiao Branch.                | 2018/02<br>~2021/02 | The party give Jinan Acetate Chemical Co., Ltd the credit line. The amount is about twenty 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 |           |           |           |           | As of the March 31, 2020 |
|---|---------------------|---|-----------|-----------|-----------|-----------|--------------------------|
|   |                     | 2015                                      | 2016      | 2017      | 2018      | 2019      |                          |
| Current assets                                    |                     | 1,486,210                                 | 885,987   | 1,415,452 | 1,233,674 | 1,529,769 | 1,643,963                |
| Property, Plant and Equipment                     |                     | 261,386                                   | 319,763   | 832,414   | 863,830   | 826,705   | 799,689                  |
| Intangible assets                                 |                     | -   | -         | -         | -         | -         | -                        |
| Other assets                                      |                     | 110,608                                   | 397,907   | 189,616   | 219,194   | 229,800   | 229,376                  |
| Total assets                                      |                     | 1,858,204                                 | 1,603,657 | 2,437,482 | 2,316,698 | 2,586,274 | 2,673,028                |
| Current liabilities                               | Before distribution | 466,095                                   | 222,586   | 527,200   | 529,224   | 1,204,170 | 1,224,889                |
|   | After distribution  | 698,495                                   | 454,986   | 759,600   | 713,092   | Note 1    | Note 1                   |
| Non-current liabilities                           |                     | 10,929                                    | 12,642    | 535,121   | 496,027   | 9,420     | 9,310                    |
| Total liabilities                                 | Before distribution | 477,024                                   | 235,228   | 1,062,321 | 1,025,251 | 1,213,590 | 1,234,199                |
|   | After distribution  | 709,424                                   | 467,628   | 1,294,721 | 1,209,119 | Note 1    | Note 1                   |
| Equity attributable to shareholders of the parent |                     | 1,381,180                                 | 1,322,844 | 1,262,585 | 1,182,152 | 1,259,304 | 1,325,570                |
| Capital stock                                     |                     | 464,800                                   | 464,800   | 464,800   | 464,800   | 510,767   | 510,767                  |
| Capital surplus                                   |                     | 462,001                                   | 462,001   | 479,542   | 479,542   | 433,575   | 433,575                  |
| Retained earnings                                 | Before distribution | 322,209                                   | 376,677   | 316,298   | 308,996   | 454,805   | 580,971                  |
|   | After distribution  | 89,809                                    | 144,277   | 83,898    | 125,128   | Note 1    | Note 1                   |
| Other equity interest                             |                     | 132,170                                   | 19,366    | 1,945     | (19,062)  | (76,257)  | (95,001)                 |
| Treasury stock                                    |                     | -   | -         | -         | (52,124)  | (63,586)  | (104,742)                |
| Non-controlling interest                          |                     | -   | 45,585    | 112,576   | 109,295   | 113,380   | 113,259                  |
| Total equity                                      | Before distribution | 1,381,180                                 | 1,368,429 | 1,375,161 | 1,291,447 | 1,372,684 | 1,438,829                |
|   | After distribution  | 1,148,780                                 | 1,136,029 | 1,142,761 | 1,107,579 | Note 1    | Note 1                   |

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

Note1: The Company has approved the 2019 surplus distribution issue by the Board of Directors on March 27, 2020, which raised NT\$ 237,649,390 from 2018 surplus and allocated NT\$4.7 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 |           |           |           |           | As of the March 31,2020 |
|---|---|-----------|-----------|-----------|-----------|-------------------------|
|   | 2015                                      | 2016      | 2017      | 2018      | 2019      |                         |
| Operating revenue   | 1,438,715                                 | 1,586,120 | 1,747,987 | 1,739,194 | 2,174,990 | 524,292                 |
| Gross profit  | 396,040                                   | 437,291   | 426,035   | 421,355   | 673,229   | 173,297                 |
| Income from operations  | 242,282                                   | 261,311   | 207,416   | 162,168   | 391,144   | 105,366                 |
| Non-operating revenue and expenses                              | 60,533                                    | 57,628    | (38,814)  | 47,884    | (12,783)  | 33,829                  |
| Income before tax   | 302,815                                   | 318,939   | 168,602   | 210,052   | 378,361   | 139,195                 |
| Net profit of continuing department                             | 264,781                                   | 286,543   | 166,172   | 224,091   | 331,257   | 128,099                 |
| Loss of discontinued department                                 | -   | -         | -         | -         | -         | -                       |
| Net profit (loss)   | 264,781                                   | 286,543   | 166,172   | 224,091   | 331,257   | 128,099                 |
| Other comprehensive income (income after tax)                   | (16,256)                                  | (113,924) | (15,380)  | (23,281)  | (51,226)  | (17,197)                |
| Total comprehensive income                                      | 248,525                                   | 172,619   | 150,792   | 200,810   | 266,785   | 107,301                 |
| Net income attributable to shareholders of the parent           | 264,781                                   | 286,868   | 172,021   | 225,098   | 329,677   | 126,166                 |
| Net income attributable to non-controlling interest             | -   | (325)     | (5,849)   | (1,007)   | 1,580     | 1,933                   |
| Comprehensive income attributable to Shareholders of the parent | 248,525                                   | 174,064   | 154,600   | 204,091   | 272,482   | 107,422                 |
| Comprehensive income attributable to non-controlling interest   | -   | (1,445)   | (3,808)   | (3,281)   | (5,697)   | (121)                   |
| Earnings per share  | 6.33                                      | 6.17      | 3.70      | 4.41      | 6.52      | 2.5                     |

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

### 6.1.2 Auditors' Opinions from 2015 to 2019

| Year | Accounting Firm                  | CPA                                 | Audit Opinion        |
|------|----------------------------------|-------------------------------------|----------------------|
| 2015 | Deloitte Touche Tohmatsu Limited | Lee, Tung-Feng<br>Yang, Ching-Cheng | unqualified opinions |
| 2016 | Deloitte Touche Tohmatsu Limited | Lee, Tung-Feng<br>Yang, Ching-Cheng | unqualified opinions |
| 2017 | Deloitte Touche Tohmatsu Limited | Lee, Tung-Feng<br>Yang, Ching-Cheng | unqualified opinions |
| 2018 | Deloitte Touche Tohmatsu Limited | Lee, Tung-Feng<br>Yang, Ching-Cheng | unqualified opinions |
| 2019 | Deloitte Touche Tohmatsu Limited | Lee, Tung-Feng<br>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 |        |          |          |         | As of the March 31, 2020 |
|---|---|--|--------|----------|----------|---------|--------------------------|
|   |   | 2015                                       | 2016   | 2017     | 2018     | 2019    |                          |
| Financial structure (%)   | Debt Ratio  | 25.67                                      | 14.67  | 43.58    | 44.25    | 46.92   | 46.17                    |
|   | Ratio of long-term capital to property, plant and equipment | 532.58                                     | 431.90 | 229.49   | 206.92   | 167.18  | 181.09                   |
| Solvency (%)  | Current ratio   | 318.86                                     | 398.04 | 268.48   | 233.11   | 127.04  | 134.21                   |
|   | Quick ratio   | 267.59                                     | 226.98 | 170.44   | 156.32   | 102.35  | 106.82                   |
|   | Interest earned ratio (times)                               | 12178.77                                   | -      | 1,909.03 | 1,351.73 | 1,720.6 | 2,392.79                 |
| Operating performance   | Accounts receivable turnover (times)                        | 6.15                                       | 7.61   | 6.92     | 5.04     | 5.80    | 4.92                     |
|   | Average collection period                                   | 59   | 48     | 53       | 72       | 63      | 74                       |
|   | Inventory turnover (times)                                  | 5.83                                       | 3.84   | 3.34     | 3.57     | 5.31    | 4.57                     |
|   | Accounts payable turnover (times)                           | 4.85                                       | 5.33   | 7.07     | 4.94     | 6.42    | 5.65                     |
|   | Average days in sales                                       | 63   | 95     | 109      | 102      | 69      | 80                       |
|   | Property, plant and equipment turnover (times)              | 5.29                                       | 5.46   | 3.03     | 2.05     | 2.57    | 2.52                     |
|   | Total assets turnover (times)                               | 1.00                                       | 0.92   | 0.87     | 0.73     | 0.89    | 0.84                     |
| Profitability   | Return on total assets (%)                                  | 18.57                                      | 16.55  | 8.62     | 10.03    | 14.32   | 21.37                    |
|   | Return on stockholders' equity (%)                          | 25.13                                      | 20.84  | 12.11    | 16.81    | 24.87   | 37.53                    |
|   | Pre-tax income to paid-in capital (%)                       | 65.14                                      | 68.62  | 36.27    | 45.19    | 74.08   | 109.01                   |
|   | Profit ratio (%)  | 18.40                                      | 18.07  | 9.51     | 12.88    | 15.23   | 24.43                    |
|   | Earnings per share (NT\$)                                   | 6.33                                       | 6.17   | 3.70     | 4.41     | 6.52    | 2.50                     |
| Cash flow   | Cash flow ratio (%)   | 97.99                                      | 74.96  | (11.04)  | 65.37    | 40.56   | 2.33                     |
|   | Cash flow adequacy ratio (%)                                | (Note1)                                    | 70.78  | 45.98    | 60.89    | 70.81   | 73.43                    |
|   | Cash reinvestment ratio (%)                                 | 27.24                                      | (3.89) | (12.98)  | 5.22     | 17.18   | 1.53                     |
| Leverage  | Operating leverage  | 1.17                                       | 1.18   | 1.22     | 1.55     | 1.25    | 1.24                     |
|   | Financial leverage  | 1.01                                       | 1.00   | 1.05     | 1.12     | 1.06    | 1.06                     |
| <p>Analysis of financial ratio differences for the last two years. (Not required if the difference does not exceed 20%)</p> <ol style="list-style-type: none"> <li>1. Decrease of Current ratio and Quick ratio: Mainly due to the impact of Acetek Material Co., Ltd. purchase of equipment, the increase of payables for raw materials and equipment, the increase of orders from customers in advance and the issuance of cash dividends from bank loan.</li> <li>2. Increase of interest coverage ratio: Mainly due to capital operation demand, increased bank borrowings and more interest.</li> <li>3. Decrease of turnover rate of Inventory and Average days in sales: Mainly due to the increase of Acetek flake sales in 2019 compared with 2018.</li> </ol> |   |  |        |          |          |         |                          |

4. Increase of turnover rate of payables: Mainly due to the change of Acetek flake's payment term from notes payable to cash.
5. Increase of fixed asset turnover rate and Return on total assets: Mainly due to the growth of revenue in 2019 compared with that in 2018.
6. Increase of profitability: Although the Acetate Material plant construction for acetate flake 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.
7. Increase of cash flow ratio: Due to the increase of conversion right of bank loans and convertible bonds from 2019 to current liabilities.
8. Increase of cash reinvestment ratio: Due to the increase of net cash flow from operation activities in 2019.

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

Note2: 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

#### 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 2019. 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 2020.

Jinan Acetate Chemical Co., LTD.

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

On the Date of March 27, 2020

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

Please refer to page 134 to page 195

**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   |
|-----------------------------------|------------------|------------------|----------------|--------------|----------|
|                                   | 2018             | 2018             | Amount         | %            |          |
| Current Assets                    | 1,233,674        | 1,529,769        | 296,095        | 24           | 1        |
| Property, plant and equipment     | 863,830          | 826,705          | (37,125)       | (4.3)        | -        |
| Intangible assets                 | -                | -                | -              | -            | -        |
| Other assets                      | 219,194          | 229,800          | 10,606         | (4.84)       | -        |
| <b>Total Assets</b>               | <b>2,316,698</b> | <b>2,586,274</b> | <b>269,576</b> | <b>11.64</b> | <b>-</b> |
| Current Liabilities               | 529,224          | 1,204,170        | 674,946        | 127.54       | 2        |
| Non-current liabilities           | 496,027          | 9,420            | (486,607)      | (98.10)      | 2        |
| <b>Total Liabilities</b>          | <b>1,025,251</b> | <b>1,213,590</b> | <b>188,339</b> | <b>18.37</b> | <b>-</b> |
| Capital stock                     | 464,800          | 510,767          | 45,967         | 9.89         | -        |
| Capital surplus                   | 479,542          | 433,575          | (45,967)       | (9.59)       | -        |
| Retained Earnings                 | 308,996          | 454,805          | 145,809        | 47.19        | 3        |
| Other equity                      | (19,062)         | (76,257)         | (57,195)       | 300.05       | 4        |
| Non-controlling interest          | 109,295          | 113,380          | 4,085          | 3.74         | -        |
| <b>Total Stockholders' Equity</b> | <b>1,291,447</b> | <b>1,372,684</b> | <b>81,237</b>  | <b>6.29</b>  | <b>-</b> |

##### Analysis of changes in financial ratios:

1. Increase of Current Assets: It is mainly due to the increase of overall revenue in 2019 compared with that in 2018, resulting in the increase of receivables and other related business activities.
2. Increase of Current Liabilities and Decrease of Non-current liabilities: Mainly due to the fact that the conversion right of convertible bonds will be sold back to the creditor in advance in June 2020, so that bonds due within one year will be reclassified to current liabilities in 2019.
3. Increase of Retained Earnings: Mainly due to the profit of the company's operation in 2019
4. Increase of Other equity: 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 Operation Results

### (1) Operation result analysis table

Unit: NT\$ thousands

| Item                              | Year        |             | Difference |          |        |
|-----------------------------------|-------------|-------------|------------|----------|--------|
|                                   | 2018        | 2019        | Amount     | %        | Remark |
| Net Sales                         | 1,739,194   | 2,174,990   | 435,796    | 25.06    | 1      |
| Cost of Sales                     | (1,317,839) | (1,501,761) | 183,922    | 13.96    | -      |
| Gross Profit                      | 421,355     | 673,229     | 251,874    | 59.78    | 1      |
| Operating Expenses                | (259,187)   | (282,085)   | 22,898     | 8.83     |        |
| Operating Income                  | 162,168     | 391,144     | 228,976    | 141.20   | 1      |
| Non-operating Income and Expenses | 47,884      | (12,783)    | (60,667)   | (126.7)  | 2      |
| Income Before Tax                 | 210,052     | 378,361     | 168,309    | 80.13    | 4      |
| Tax Benefit (Expense)             | 14,039      | (47,104)    | (61,143)   | (435.52) | 3      |
| Net profit                        | 224,091     | 331,257     | 107,166    | 47.82    | 4      |

#### Analysis of changes in financial ratios:

1. Increase of Net Sales and Gross profit and Operating Income: It is mainly affected by the growth of revenue and the reduction of cost. The market of tow and flake is affected by the merger of large international factories and the Sino US trade war, which increases the demand for products in 2019, and the price of beneficiary raw materials is lower than that in 2018, which greatly reduces the cost of production unit, higher gross profit rate and increases the net operation profit.
2. Decrease 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.
3. Increase of income tax Expense: It is mainly due to the increase of pre-tax net profit in 2019 compared with that in 2018, Acetate Material Co., Ltd. posts first profit in 2 years and the acquisition of high-tech to reduce the income tax rate, resulting in the reversal of deferred income tax assets generated by the deduction of loss on account.
4. Increase of pre-tax and current net profit: This is mainly due to the significant growth of revenue in 2019 and the exchange benefits caused by the fluctuation of RMB/USD exchange rate and the CB evaluation benefits caused by the fluctuation of stock price. There is no major abnormality in the overall performance of the Company, and thus there is no need to develop a response plan.

### (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  | 2018      | 2018      | Increase<br>(decrease)<br>amount | Increase<br>(decrease)<br>ratio(%) |
|--|-----------|-----------|----------------------------------|------------------------------------|
| Operating activities   | 345,975   | 488,468   | 142,493                          | 41.19                              |
| Investing activities   | (14,868)  | (258,175) | (243,307)                        | (1,636.45)                         |
| Financial activities   | (167,813) | 7,424     | 175,237                          | 104.42                             |
| Analysis of financial ratio change:  |           |           |                                  |                                    |
| 1. Increase of cash inflow from operating activities: Mainly due to the increase of demand for acetate tow and acetate flake in 2019 and the decrease of raw materials, resulting in the decrease of unit production cost, and the increase of cash inflow from operating activities in 2019 compared with that in 2018. |           |           |                                  |                                    |
| 2. Increase of cash outflow from Investing activities: Main due to the increase of fixed assets and investment in Eleung Ltd..   |           |           |                                  |                                    |
| 3. Increase of cash inflow from Financial activities: Mainly due to the expansion of production capacity and the demand for funds to purchase treasury shares, the increase of bank loans and the decrease of dividend distribution amount and the reduction of repurchase of treasury shares.                           |           |           |                                  |                                    |

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

The Company's operating activities will constantly produce cash inflow and there is sufficient cash and cash equivalents which can be sufficient to cover the cash outflow of investing and financing activities. There is no doubt of insufficient financial liquidity or capital shortage. With the continuous growth operation scale, the group has close contacts with banks and has established good financing credit conditions. If there is insufficient cash liquidity, the company will respond with bank loans.

#### 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 2017~2019 was NT\$260,992,000, NT\$ 183,644,000 and NT\$ 107,198,000 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                                       | 2017 | 2018 | 2019 |
|--|------|------|------|
| 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<br>Recognized investment<br>Gain/(Loss) | Main causes for profit or loss and<br>Improving Plan   |
|--|------------|--|--|
| My Parents Living<br>Technology Limited    | 100%       | 362,067                                      | The investing holding company To recognize the investment profit or loss from the subsidiary |
| Jinan Acetate Chemical<br>Co., LTD.(China) | 100%       | 369,542                                      | The company is good operating performance and stable profitability.                          |

|                                    |     |       |  |
|------------------------------------|-----|-------|--|
| Acetate Material Co., Ltd. (China) | 80% | 6,303 | It is mainly due to the growth of revenue, the economic scale of production and the effectiveness of profits |
| Acetate Chemical Co., LTD.         | 80% | 31    | Initial stage of investment  |

(3) Investment plan in the coming year:

As required by the group's operation and expand, Jinan Acetate Chemical Co., Ltd. And Acetate Material Co., Ltd. expanded their product lines in the first half of 2020 respectively to meet customer's future capacity demand. Other than that, the Company does not have any clear investment plans as of now which is submitted for a discussion to the board of directors. Relevant measures will be handled if there are any related investment plans.

## **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 2018 and 2019 were NT\$ 4,013,000 and NT\$ 2,833,000 respectively, which account for 0.23% and 0.13% of the combined net operating income for the respective year; the bank interest expenses were NT\$ 671,000 and NT\$ 6,625,000 respectively, which account for 0.04% and 0.30% 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 2018 and 2019 were (1,472,000) and (16,503,000), the net exchange gains (losses) in 2018 and 2019 account for 0.08% and 0.76% of the net operating income and (0.70%) and (4.36%) for the pre-tax net profit ratio respectively. Due to the appreciation of US dollar in 2018 and 2019, 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 2018 and 2019 accounted for 6.35% and 4.44% 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 2020 will be CNY 276,632,000.

### **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**

The expansion of the group's production capacity has been carefully planned to meet the need of customers and optimize the utilization of capital expenditure. Therefore, in April 2020, the group expanded the production line of acetate tow and acetate flake, 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 purchase objects are scattered according to the nature and source of raw materials, and the proportion of purchase to each supplier in the last two years is less than 30%, and there are more than two suppliers of main raw materials, so as to ensure the stability and autonomy of the source of goods, and maintain a good cooperative relationship with each supplier. Therefore, there was no shortage of goods in the most recent year or up to the date of printing of the annual report, which had a significant impact on the overall operation or the rights and interests of customers.

**(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 2018 and 2019 accounted for 20.39% and 15.93% 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</li> </ol> |

|   |   |  |
|---|---|--|
|   |   | storage device.  |
| 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.**

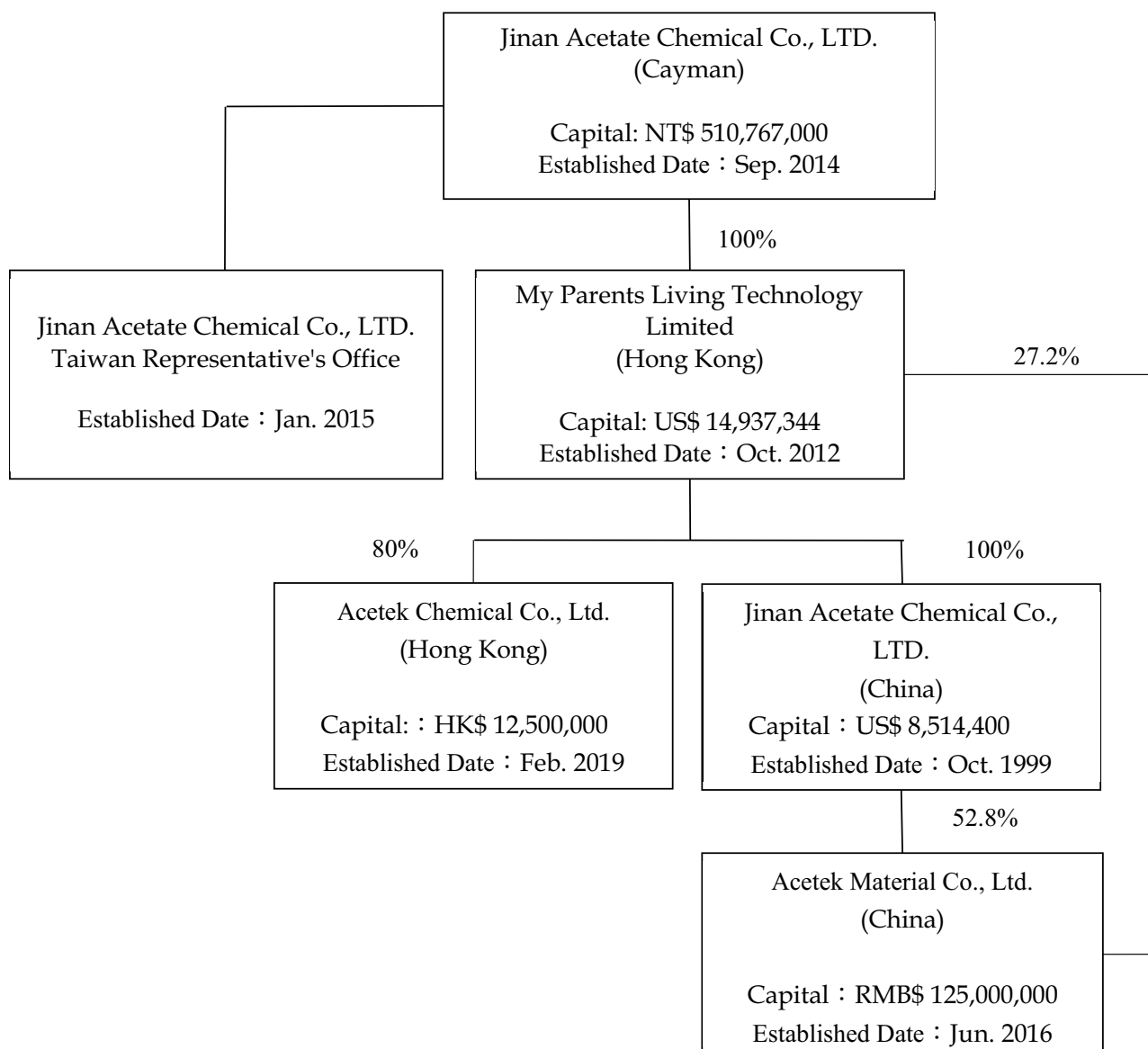
## VIII. Special Disclosure

### 8.1 Summary of Affiliated Companies

#### 8.1.1 Consolidated operating report of affiliates

##### (1) Investment Structure

As of Dec. 31, 2019



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

As of Dec. 31, 2019; 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     | 14,937,344 | Holding Company                        |
| Jinan Acetate Chemical Co., LTD.     | Oct. 1999        | China     | USD     | 8,514.4    | Manufacturing and sale of acetate tow  |
| Acetek Material Co., Ltd.            | Jun. 2016        | China     | RMB     | 125,000    | Manufacturing and sale of acetate lake |
| Acetek Material Co., Ltd.            | Feb. 2019        | Hong Kong | RMB     | 12,500     | Holding Company                        |

**(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 | Hsu, Cheng-Tsai         |
|                                      | President  | Meng, Ching-Li          |



### 8.1.2 Operation Status of affiliate companies

| 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 | 451,853        | 2,286,579    | 225,724           | 2,060,855 | -                 | (76)                 | 362,067                | (Note)                |
| Jinan Acetate Chemical Co., LTD.     | 264,171        | 2,278,829    | 264,721           | 2,014,108 | 1,968,809         | 365,658              | 369,542                | (Note)                |
| Acetek Material Co., Ltd.            | 581,452        | 1,004,155    | 481,296           | 522,859   | 1,042,238         | 26,674               | 11,126                 | (Note)                |
| Acetek Chemical Co., Ltd.            | 48,977         | 33,251       | -                 | 33,251    | -                 | (100)                | 31                     | (Note)                |

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

### 8.1.3 Consolidated Financial Statements of Affiliates:

Please refer to page 134 to page 195.

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

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

### 8.3 The 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  |
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| 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 | 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 | 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 |

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|   | the conclusion of the Board of Directors or the shareholders obtain the permission from the competent authority.  | company's Articles of Association) on December 4, 2014, during the period that the shares are listed on the 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.   | Cayman, Article 18.3 of the issuing company's Articles of Association only stipulates that TWSE shall be notified in 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   | 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   | 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  |

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|   | <p>rights in writing or electronic way are deemed to be present in person at the shareholder convention. However, the 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>vote, it is deemed to assign the meeting chairperson to act for him/her to perform voting right at the 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>shareholder convention in person or not? Cayman's lawyers have not found any relevant cases on it. For the other arrangement, Article 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> <p>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.</p> | <p>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:</p> <p>(a) Change its name;</p> <p>(b) Amend or add Articles of Association;</p> <p>(c) Amend or add the Articles of Association outline on the company's purpose, powers or other matters specifically stated;</p> <p>(d) Reduce capital and capital redeem reserve; or</p> <p>(e) Consolidation</p> <p>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:</p>   | <p>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.</p> <p>2.In accordance with the provisions of the Cayman Company Act, the following matters</p>   |

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| <p>2. Change the Articles of Association.</p> <p>3. If the change in Articles of 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>(a) Capitalize the dividends and/or 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 been</p> | <p>shall be governed by special resolutions:</p> <p>(1) Change the Articles of Association</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</p> |
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|   |   | <p>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>resolution specified in Article 12.4(b) of the issuing company's Articles of 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;</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>  |

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|   | <p>timely investigate the company's 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</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; Within 30 days after the request (a) or</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</p> |

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|  | <p>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>(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>court of first 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.</p> <p>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.</p> <p>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</p> |
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|   |   |  | <p>the company is superficial and the 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</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</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</p>  |



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|  | <p>scopes.</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>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 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>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>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, 2019 and 2018, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the “consolidated financial statements”).

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

### **Basis for Opinion**

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

### **Key Audit Matters**

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

Key audit matters of the Group's consolidated financial statements for the year ended December 31, 2019 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 the Group's 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 obtained an understanding of the Group's policies and procedures and internal controls for accounts receivable and tested the effectiveness and efficiency of operations of the key controls over the impairment of accounts receivable.
2. We verified the correctness of the aging of accounts receivable through audit sampling.
3. We assessed the appropriateness of the assumptions used in the evaluation of the recoverability of overdue accounts and possible uncollectible receivables, and verified the collection after the reporting period.
4. 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 obtained an understanding of the Group's policies and procedures and internal controls for revenue accounting and tested the effectiveness and efficiency of operations of the key controls over the timing of revenue recognition.
2. We 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, 2019 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 27, 2020

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, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

| ASSETS  | 2019                |            | 2018                |            |
|---|---------------------|------------|---------------------|------------|
|   | Amount              | %          | Amount              | %          |
| <b>CURRENT ASSETS</b>   |                     |            |                     |            |
| Cash and cash equivalents (Notes 4 and 6)   | \$ 589,261          | 23         | \$ 369,078          | 16         |
| Financial assets at amortized cost - current (Notes 4, 9 and 29)                                | 98,106              | 4          | 616                 | -          |
| Notes and accounts receivable, net (Notes 4, 10 and 22)   | 350,644             | 14         | 262,913             | 11         |
| Accounts receivable from related parties (Notes 4, 10, 22 and 28)                               | 87,249              | 3          | 49,150              | 2          |
| Other receivables (Notes 4 and 28)  | 26,128              | 1          | 16,511              | 1          |
| Current tax assets (Notes 4 and 24)   | 14,028              | -          | 5,447               | -          |
| Inventories, net (Notes 4 and 11)   | 242,969             | 9          | 320,695             | 14         |
| Prepayments (Notes 16 and 29)   | 54,319              | 2          | 85,674              | 4          |
| Other current assets (Notes 4, 28 and 29)   | 67,065              | 3          | 123,590             | 5          |
| Total current assets  | 1,529,769           | 59         | 1,233,674           | 53         |
| <b>NON-CURRENT ASSETS</b>   |                     |            |                     |            |
| Financial assets at fair value through other comprehensive income - non-current (Notes 4 and 8) | 31,716              | 1          | -                   | -          |
| Property, plant and equipment (Notes 4, 13 and 29)  | 826,705             | 32         | 863,830             | 37         |
| Right-of-use assets (Notes 3, 4, 5, 14 and 29)  | 55,248              | 2          | -                   | -          |
| Investment properties, net (Notes 4, 15 and 29)   | 100,220             | 4          | 104,108             | 5          |
| Deferred tax assets (Notes 4 and 24)  | 21,533              | 1          | 37,550              | 2          |
| Prepayments for equipment   | 19,679              | 1          | 6,409               | -          |
| Refundable deposits (Notes 4 and 27)  | 26                  | -          | 41                  | -          |
| Long-term prepayments for leases (Notes 3, 16 and 29)   | -                   | -          | 57,448              | 2          |
| Other non-current assets (Note 16)  | 1,378               | -          | 13,638              | 1          |
| Total non-current assets  | 1,056,505           | 41         | 1,083,024           | 47         |
| <b>TOTAL</b>  | <b>\$ 2,586,274</b> | <b>100</b> | <b>\$ 2,316,698</b> | <b>100</b> |
| <b>LIABILITIES AND EQUITY</b>   |                     |            |                     |            |
| <b>CURRENT LIABILITIES</b>  |                     |            |                     |            |
| Short-term borrowings (Notes 17 and 29)   | \$ 299,800          | 12         | \$ 116,717          | 5          |
| Financial liabilities at fair value through profit or loss - current (Notes 4, 7 and 18)        | 46,300              | 2          | -                   | -          |
| Contract liabilities - current (Note 22)  | 16,450              | 1          | 7,196               | -          |
| Notes payable   | 68,234              | 3          | 92,131              | 4          |
| Notes payable to related parties (Note 28)  | 13,561              | -          | 31,416              | 2          |
| Accounts payable  | 140,591             | 5          | 121,652             | 5          |
| Other payables (Notes 19 and 28)  | 157,288             | 6          | 157,379             | 7          |
| Current portion of bonds payable (Notes 4 and 18)   | 456,564             | 18         | -                   | -          |
| Other current liabilities   | 5,382               | -          | 2,733               | -          |
| Total current liabilities   | 1,204,170           | 47         | 529,224             | 23         |
| <b>NON-CURRENT LIABILITIES</b>  |                     |            |                     |            |
| Financial liabilities at fair value through profit or loss - non-current (Notes 4, 7 and 18)    | -                   | -          | 46,400              | 2          |
| Bonds payable (Notes 4 and 18)  | -                   | -          | 439,842             | 19         |
| Deferred tax liabilities (Notes 4 and 24)   | 9,420               | -          | 9,785               | -          |
| Total non-current liabilities   | 9,420               | -          | 496,027             | 21         |
| Total liabilities   | 1,213,590           | 47         | 1,025,251           | 44         |
| <b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Note 21)</b>                                   |                     |            |                     |            |
| Share capital   |                     |            |                     |            |
| Ordinary Shares   | 510,767             | 20         | 464,800             | 20         |
| Capital surplus   | 433,575             | 17         | 479,542             | 21         |
| Retained earnings   |                     |            |                     |            |
| Legal reserve   | 100,620             | 4          | 78,110              | 3          |
| Special reserve   | 21,406              | 1          | 2,344               | -          |
| Unappropriated earnings   | 332,779             | 13         | 228,542             | 10         |
| Total retained earnings   | 454,805             | 18         | 308,996             | 13         |
| Other equity  |                     |            |                     |            |
| Exchange differences on translating the financial statements of foreign operations              | (130,806)           | (5)        | (84,208)            | (4)        |
| Unrealized valuation loss on financial assets at fair value through other comprehensive income  | (10,597)            | -          | -                   | -          |
| Revaluation surplus   | 65,146              | 2          | 65,146              | 3          |
| Total other equity  | (76,257)            | (3)        | (19,062)            | (1)        |
| Treasury shares   | (63,586)            | (3)        | (52,124)            | (2)        |
| Total equity attributable to owners of the Company  | 1,259,304           | 49         | 1,182,152           | 51         |
| <b>NON-CONTROLLING INTERESTS</b>  | 113,380             | 4          | 109,295             | 5          |
| Total equity  | 1,372,684           | 53         | 1,291,447           | 56         |
| <b>TOTAL</b>  | <b>\$ 2,586,274</b> | <b>100</b> | <b>\$ 2,316,698</b> | <b>100</b> |

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, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

|   | 2019               |             | 2018               |             |
|---|--------------------|-------------|--------------------|-------------|
|   | Amount             | %           | Amount             | %           |
| OPERATING REVENUE (Notes 4, 22 and 28)  | \$ 2,174,990       | 100         | \$ 1,739,194       | 100         |
| OPERATING COSTS (Notes 11, 23 and 28)   | <u>(1,501,761)</u> | <u>(69)</u> | <u>(1,317,839)</u> | <u>(76)</u> |
| GROSS PROFIT  | <u>673,229</u>     | <u>31</u>   | <u>421,355</u>     | <u>24</u>   |
| OPERATING EXPENSES (Notes 23 and 28)  |                    |             |                    |             |
| Selling and marketing expenses  | (116,685)          | (5)         | (84,843)           | (5)         |
| General and administrative expenses   | (68,725)           | (3)         | (63,860)           | (4)         |
| Research and development expenses   | <u>(96,675)</u>    | <u>(5)</u>  | <u>(110,484)</u>   | <u>(6)</u>  |
| Total operating expenses  | <u>(282,085)</u>   | <u>(13)</u> | <u>(259,187)</u>   | <u>(15)</u> |
| PROFIT FROM OPERATIONS  | <u>391,144</u>     | <u>18</u>   | <u>162,168</u>     | <u>9</u>    |
| NON-OPERATING INCOME AND EXPENSES<br>(Note 23)  |                    |             |                    |             |
| Other income  | 29,692             | 1           | 12,659             | 1           |
| Other gains and losses  | (19,128)           | (1)         | 52,006             | 3           |
| Finance costs (Note 4)  | <u>(23,347)</u>    | <u>(1)</u>  | <u>(16,781)</u>    | <u>(1)</u>  |
| Total non-operating income and expenses   | <u>(12,783)</u>    | <u>(1)</u>  | <u>47,884</u>      | <u>3</u>    |
| PROFIT BEFORE INCOME TAX  | 378,361            | 17          | 210,052            | 12          |
| INCOME TAX BENEFIT (EXPENSE) (Notes 4<br>and 24)  | <u>(47,104)</u>    | <u>(2)</u>  | <u>14,039</u>      | <u>1</u>    |
| NET PROFIT FOR THE YEAR   | <u>331,257</u>     | <u>15</u>   | <u>224,091</u>     | <u>13</u>   |
| OTHER COMPREHENSIVE INCOME (LOSS)<br>(Note 4)   |                    |             |                    |             |
| Items that will not be reclassified subsequently to<br>profit or loss                                       |                    |             |                    |             |
| Unrealized loss on investments in equity<br>instruments at fair value through other<br>comprehensive income | (13,246)           | (1)         | -                  | -           |
| Exchange differences arising on translation to the<br>presentation currency                                 | <u>(51,226)</u>    | <u>(2)</u>  | <u>(23,281)</u>    | <u>(1)</u>  |
| Total other comprehensive income (loss)   | <u>(64,472)</u>    | <u>(3)</u>  | <u>(23,281)</u>    | <u>(1)</u>  |
| TOTAL COMPREHENSIVE INCOME FOR THE<br>YEAR  | <u>\$ 266,785</u>  | <u>12</u>   | <u>\$ 200,810</u>  | <u>12</u>   |

(Continued)

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

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

|                                    | 2019              |           | 2018              |           |
|------------------------------------|-------------------|-----------|-------------------|-----------|
|                                    | Amount            | %         | Amount            | %         |
| NET PROFIT ATTRIBUTABLE TO:        |                   |           |                   |           |
| Owners of the Company              | \$ 329,677        | 15        | \$ 225,098        | 13        |
| Non-controlling interests          | <u>1,580</u>      | <u>-</u>  | <u>(1,007)</u>    | <u>-</u>  |
|                                    | <u>\$ 331,257</u> | <u>15</u> | <u>\$ 224,091</u> | <u>13</u> |
| TOTAL COMPREHENSIVE INCOME (LOSS)  |                   |           |                   |           |
| ATTRIBUTABLE TO:                   |                   |           |                   |           |
| Owners of the Company              | \$ 272,482        | 12        | \$ 204,091        | 12        |
| Non-controlling interests          | <u>(5,697)</u>    | <u>-</u>  | <u>(3,281)</u>    | <u>-</u>  |
|                                    | <u>\$ 266,785</u> | <u>12</u> | <u>\$ 200,810</u> | <u>12</u> |
| EARNINGS PER SHARE (NT\$, Note 25) |                   |           |                   |           |
| Basic                              | <u>\$ 6.52</u>    |           | <u>\$ 4.41</u>    |           |
| Diluted                            | <u>\$ 6.40</u>    |           | <u>\$ 3.43</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, 2019 AND 2018  
(In Thousands of New Taiwan Dollars)

|   | Equity Attributable to Owners of the Company |            |                 |               |                   |                         |            |  |   |                               |                 |              |                           |              |
|---|--|------------|-----------------|---------------|-------------------|-------------------------|------------|--|---|-------------------------------|-----------------|--------------|---------------------------|--------------|
|   | Share Capital                                |            |                 |               | Retained Earnings |                         |            | Other Equity   |   |                               |                 |              |                           |              |
|   | Shares (in Thousands)                        | Amount     | Capital Surplus | Legal Reserve | Special Reserve   | Unappropriated Earnings | Total      | Exchange Differences on Translating the Financial Statements of Foreign Operations | Unrealized Valuation Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income | Gains on Property Revaluation | Treasury Shares | Total        | Non-controlling Interests | Total Equity |
| BALANCE AT JANUARY 1, 2018  | 46,480                                       | \$ 464,800 | \$ 479,542      | \$ 60,908     | \$ 2,344          | \$ 253,046              | \$ 316,298 | \$ (63,201)  | \$ -  | \$ 65,146                     | \$ -            | \$ 1,945     | \$ 112,576                | \$ 1,375,161 |
| Appropriation of 2017 earnings  | -  | -          | -               | 17,202        | -                 | (17,202)                | (232,400)  | -  | -   | -                             | -               | -            | -                         | -            |
| Legal reserve   | -  | -          | -               | -             | -                 | (232,400)               | (232,400)  | -  | -   | -                             | -               | (232,400)    | -                         | (232,400)    |
| Cash dividends distributed by the Company   | -  | -          | -               | 17,202        | -                 | (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)   | -   | -                             | -               | (21,007)     | (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)  | \$ -  | \$ 65,146                     | \$ (52,124)     | \$ 1,182,152 | \$ 109,295                | \$ 1,291,447 |
| Appropriation of 2018 earnings  | -  | -          | -               | 22,510        | 19,062            | (22,510)                | -          | -  | -   | -                             | -               | -            | -                         | -            |
| Legal reserve   | -  | -          | -               | -             | -                 | (19,062)                | -          | -  | -   | -                             | -               | -            | -                         | -            |
| Special reserve   | -  | -          | -               | -             | -                 | (183,868)               | (183,868)  | -  | -   | -                             | -               | (183,868)    | -                         | (183,868)    |
| Cash dividends distributed by the Company   | -  | -          | -               | 22,510        | 19,062            | (225,440)               | (183,868)  | -  | -   | -                             | -               | (183,868)    | -                         | (183,868)    |
| Net profit (loss) for the year ended December 31, 2019                                    | -  | -          | -               | -             | -                 | 329,677                 | 329,677    | -  | -   | -                             | -               | 329,677      | 1,580                     | 331,257      |
| Other comprehensive income (loss) for the year ended December 31, 2019, net of income tax | -  | -          | -               | -             | -                 | -                       | -          | (46,598)   | (10,597)  | -                             | -               | (57,195)     | (7,277)                   | (64,472)     |
| Total comprehensive income (loss) for the year ended December 31, 2019                    | -  | -          | -               | -             | -                 | 329,677                 | 329,677    | (46,598)   | (10,597)  | -                             | -               | (57,195)     | (6,697)                   | 266,785      |
| Issuance of share dividends from capital surplus  | 4,597  | \$ 45,967  | (45,967)        | -             | -                 | -                       | -          | -  | -   | -                             | -               | -            | -                         | -            |
| Buy-back of ordinary shares   | -  | -          | -               | -             | -                 | -                       | -          | -  | -   | -                             | (11,462)        | (11,462)     | -                         | (11,462)     |
| Non-controlling interests   | -  | -          | -               | -             | -                 | -                       | -          | -  | -   | -                             | -               | -            | 9,782                     | 9,782        |
| BALANCE AT DECEMBER 31, 2019  | 51,077                                       | \$ 510,767 | \$ 433,575      | \$ 100,620    | \$ 21,406         | \$ 332,779              | \$ 454,805 | \$ (130,806)   | \$ (10,597)   | \$ 65,146                     | \$ (63,586)     | \$ 1,259,304 | \$ 113,380                | \$ 1,372,684 |

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, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

|  | 2019             | 2018            |
|--|------------------|-----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                  |                 |
| Income before income tax   | \$ 378,361       | \$ 210,052      |
| Adjustments for:   |                  |                 |
| Depreciation expenses  | 98,227           | 86,707          |
| Amortization expenses  | -                | 2,403           |
| Net gain on fair value changes of financial liabilities at fair value through profit or loss | (100)            | (55,000)        |
| Finance costs  | 23,347           | 16,781          |
| Interest income  | (2,833)          | (4,013)         |
| Loss on disposal of property, plant and equipment  | 34               | -               |
| Write-downs (reversal) of inventories  | 657              | (490)           |
| Changes in operating assets and liabilities  |                  |                 |
| Notes receivable   | (15,768)         | (4,907)         |
| Accounts receivable  | (71,963)         | 63,987          |
| Accounts receivable from related parties   | (38,099)         | 6,843           |
| Other receivables  | (8,741)          | (481)           |
| Inventories  | 77,069           | 95,368          |
| Prepayments  | 28,999           | 15,592          |
| Other current assets   | 56,525           | (23,613)        |
| Contract liabilities   | 9,254            | (26,972)        |
| Notes payable  | (23,897)         | 52,415          |
| Notes payable to related parties   | (17,855)         | 31,416          |
| Accounts payable   | 18,939           | (127,446)       |
| Other payables   | 22,654           | 5,654           |
| Other current liabilities  | <u>1,331</u>     | <u>2,129</u>    |
| Cash generated from operations   | 536,141          | 346,425         |
| Interest paid  | (6,625)          | (671)           |
| Income taxes refund (paid)   | <u>(41,048)</u>  | <u>221</u>      |
| Net cash generated from operating activities   | <u>488,468</u>   | <u>345,975</u>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                  |                 |
| Purchase of financial assets at fair value through other comprehensive income                | (47,308)         | -               |
| Purchase of financial assets at amortized cost   | (98,106)         | (616)           |
| Proceeds from disposal of financial assets at amortized cost                                 | 633              | 184,496         |
| Payments for property, plant and equipment   | (107,198)        | (183,644)       |
| Proceeds from disposal of property, plant and equipment                                      | 14               | -               |
| Decrease in refundable deposits  | 15               | 158             |
| Decrease (increase) in other non-current assets  | 12,260           | (14,172)        |
| Increase in prepayments for equipment  | (20,442)         | (6,535)         |
| Interest received  | <u>1,957</u>     | <u>5,445</u>    |
| Net cash used in investing activities  | <u>(258,175)</u> | <u>(14,868)</u> |

(Continued)

# JINAN ACETATE CHEMICAL CO., LTD. AND SUBSIDIARIES

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

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|   | 2019              | 2018              |
|---|-------------------|-------------------|
| CASH FLOWS FROM FINANCING ACTIVITIES  |                   |                   |
| Proceeds from short-term borrowings   | \$ 191,654        | \$ 116,717        |
| Proceeds (refund) of guarantee deposits received                                      | 1,318             | (6)               |
| Dividends paid to owners of the Company   | (183,868)         | (232,400)         |
| Payments for buy-back of ordinary shares  | (11,462)          | (52,124)          |
| Increase in non-controlling interests   | <u>9,782</u>      | <u>-</u>          |
| Net cash generated from (used in) financing activities                                | <u>7,424</u>      | <u>(167,813)</u>  |
| EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE<br>OF CASH HELD IN FOREIGN CURRENCIES | <u>(17,534)</u>   | <u>(462)</u>      |
| NET INCREASE IN CASH AND CASH EQUIVALENTS   | 220,183           | 162,832           |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE<br>YEAR                             | <u>369,078</u>    | <u>206,246</u>    |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR                                      | <u>\$ 589,261</u> | <u>\$ 369,078</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, 2019 AND 2018 (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.

The consolidated financial statements include the accounts of the Company and its subsidiaries (collectively referred to as the “Group”). See Note 4.d for the basis of consolidation, and Note 12. Tables 6 and 7 for the detailed information of subsidiaries (including percentages of ownership and main business).

### 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on March 27, 2020.

### 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), IFRS Interpretations (IFRIC), and SIC Interpretations (SIC) (collectively, the “IFRSs”) endorsed and issued into effect by the Financial Supervisory Commission (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 Group’s accounting policies.

#### IFRS 16 “Leases”

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessee and lessor. It supersedes IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, and a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

#### Definition of a lease

The Group elected 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 are not reassessed and are accounted for in accordance with the transitional provisions under IFRS 16.

### The Group as lessee

The Group recognizes right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value asset and short-term leases are recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group presents 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 are classified within financing activities; cash payments for the interest portion are classified within operating activities. Prior to the application of IFRS 16, payments under operating lease contracts were recognized as expenses on a straight-line basis. Prepaid lease payments for land use rights in China were recognized as prepayments for leases. Cash flows for operating leases were classified within operating activities on the consolidated statements of cash flows.

The Group also applies the following practical expedients:

- 1) The Group applies a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- 2) The Group accounts for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.
- 3) The Group excludes initial direct costs from the measurement of right-of-use assets on January 1, 2019.
- 4) The Group uses hindsight, such as in determining lease terms, to measure lease liabilities.

The difference between the lease liabilities recognized and operating lease commitments disclosed under IAS 17 on December 31, 2018 is explained as follows:

|   |             |
|---|-------------|
| The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018 | \$ 465      |
| Less: Recognition exemption for short-term leases   | (458)       |
| Less: Recognition exemption for leases of low-value assets  | <u>(7)</u>  |
| Undiscounted amounts on January 1, 2019   | <u>\$ -</u> |

### The Group as lessor

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

The impact on assets, liabilities and equity as of January 1, 2019 from the initial application of IFRS 16 is set out as follows:

|                                      | <b>As Originally<br/>Stated on<br/>January 1, 2019</b> | <b>Adjustments<br/>Arising from<br/>Initial<br/>Application</b> | <b>Restated on<br/>January 1, 2019</b> |
|--------------------------------------|--|---|--|
| Prepayments for leases (prepayments) | \$ 2,356   | \$ (2,356)  | \$ -                                   |
| Prepayment for long term leases      | 57,448   | (57,448)  | -                                      |
| Right-of-use assets                  | <u>-</u>   | <u>59,804</u>   | <u>59,804</u>                          |
| Total effect on assets               | <u>\$ 59,804</u>                                       | <u>\$ -</u>   | <u>\$ 59,804</u>                       |

- b. The IFRSs endorsed by the Financial Supervisory Commission (FSC) for application starting from 2020

| New IFRSs  | Effective Date<br>Announced by IASB |
|--|-------------------------------------|
| Amendments to IFRS 3 “Definition of a Business”                          | January 1, 2020 (Note 1)            |
| Amendments to IFRS 9, IAS 39 and IFRS 7 “Interest Rate Benchmark Reform” | January 1, 2020 (Note 2)            |
| Amendments to IAS 1 and IAS 8 “Definition of Material”                   | January 1, 2020 (Note 3)            |

Note 1: 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 2: The Group shall apply these amendments retrospectively for annual reporting periods beginning on or after January 1, 2020.

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

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.

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

| New IFRSs  | Effective Date<br>Announced by IASB (Note) |
|--|--|
| 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 “Classification of Liabilities as Current or Non-current”  | January 1, 2022                            |

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

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 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 the 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, as appropriate.

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 6 and 7 for the detailed information of subsidiaries (including percentages of ownership and main businesses).

e. Foreign currencies

In preparing the financial statements of each individual group entity, 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 not retranslated.

For the purpose of presenting consolidated financial statements, the functional currencies of the Company and the other entities in the Group (including subsidiaries and branches in other countries that use currency 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).

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 initially measured at cost and subsequently 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.



The 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 the Group 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 fair value through profit or loss) 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 fair value through profit or loss 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

Financial assets are classified into the following categories: Financial assets at amortized cost and financial assets at FVTOCI.

##### i. 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, notes receivable, accounts receivable, other receivables, other current financial assets and refundable deposits, are measured at amortized cost, which equals to gross carrying amount determined using 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.

A financial asset is credit impaired when the disappearance of an active market for that financial asset because of financial difficulties have occurred.

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.

ii. Investments in equity instruments at FVTOCI

On initial recognition, the Group may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, it will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

b) Impairment of financial assets

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

The Group always recognizes lifetime expected credit losses (ECLs) for accounts receivable. For all other financial instruments, the Group recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a 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 ECLs.

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

For internal credit risk management purposes, the Group determines that internal or external information show that the debtor is unlikely to pay its creditors indicate that a financial asset is in default.

The impairment loss of all financial assets is recognized in profit or loss by a reduction in their carrying amounts through a loss 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.

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. On derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through loss.

2) Equity instruments

Debt and equity instruments issued by the Group 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 the Group 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, issuance or cancellation of the Company's own equity instruments.

3) Financial liabilities

a) Subsequent measurement

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

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when such financial liabilities are either held for trading or are designated as at FVTPL. Fair value is determined in the manner described in Note 27.

b) Derecognition of financial liabilities

The difference between the carrying amount of a 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.

j. Revenue recognition

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.

k. Leasing

2019

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease.

1) The Group as lessor

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.

Lease payments (less any lease incentives payable) from operating leases are recognized as income on a straight-line basis over the terms of the relevant leases. Initial direct costs incurred in obtaining operating leases are added to the carrying amounts of the underlying assets and recognized as expenses on a straight-line basis over the lease terms.

2) The Group as lessee

The Group recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets, and less any lease incentives received. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the consolidated balance sheets.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

## 2018

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 has acquired the High-tech Enterprise Certificate in 2019 and 2018; Acetek Material Co., Ltd (China) of the Group has acquired the High-tech Enterprise Certificate in 2019. The applicable tax rate for both companies 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.

### Estimated impairment of financial assets

The provision for impairment of accounts receivable is based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Group's historical experience, existing market conditions as well as forward looking estimates as of 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.

## 6. CASH AND CASH EQUIVALENTS

|   | <u>December 31</u> |                   |
|---|--------------------|-------------------|
|   | <u>2019</u>        | <u>2018</u>       |
| Cash on hand  | \$ 162             | \$ 119            |
| Demand deposits   | 453,953            | 353,601           |
| Cash equivalents (investments with original maturities of less than 3 months) |                    |                   |
| Time deposits   | <u>135,146</u>     | <u>15,358</u>     |
|   | <u>\$ 589,261</u>  | <u>\$ 369,078</u> |

Annual yield rates for bank deposits are 0.001%-1.92% and 0.001%-2.84% at December 31, 2019 and 2018, respectively.

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

|   | <u>December 31</u> |                  |
|---|--------------------|------------------|
|   | <u>2019</u>        | <u>2018</u>      |
| <u>Financial liabilities held for trading - current</u>     |                    |                  |
| Derivative financial liabilities                            |                    |                  |
| Convertible options   | <u>\$ 46,300</u>   | <u>\$ -</u>      |
| <u>Financial liabilities held for trading - non-current</u> |                    |                  |
| Derivative financial liabilities                            |                    |                  |
| Convertible options   | <u>\$ -</u>        | <u>\$ 46,400</u> |

## 8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

|   | <u>December 31</u> |             |
|---|--------------------|-------------|
|   | <u>2019</u>        | <u>2018</u> |
| <u>Non-current</u>  |                    |             |
| Investments in equity instruments at fair value through other comprehensive income (FVTOCI) | <u>\$ 31,716</u>   | <u>\$ -</u> |
| <u>Investments in equity instruments at FVTOCI</u>  |                    |             |

|                                  | <u>December 31</u> |             |
|----------------------------------|--------------------|-------------|
|                                  | <u>2019</u>        | <u>2018</u> |
| <u>Non-current</u>               |                    |             |
| Foreign investments              |                    |             |
| Unlisted shares                  |                    |             |
| Ordinary shares - ELEUNG LIMITED | <u>\$ 31,716</u>   | <u>\$ -</u> |

The Group holds 25% of the ordinary shares of ELEUNG LIMITED. However, according to the shareholders' agreement, the owner shareholders shall have the control in the composition of company's board of directors, moreover, the Group has no authority to participate in the investee's financial and operating policy decisions; therefore, the investment is not accounted for as an associated company.

These investments in equity instruments are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes.

## 9. FINANCIAL ASSETS AT AMORTIZED COST

|  | <u>December 31</u> |               |
|--|--------------------|---------------|
|  | <u>2019</u>        | <u>2018</u>   |
| <u>Current</u>   |                    |               |
| Domestic investments   |                    |               |
| Time deposits with original maturities of more than 3 months | <u>\$ 98,106</u>   | <u>\$ 616</u> |

- a. The ranges of interest rates for time deposits with original maturities of more than 3 months were approximately 1.69%-2.85% and 2.75% per annum as of December 31, 2019 and 2018, respectively.
- b. Refer to Note 29 for information relating to investments in financial assets at amortized cost pledged as security.



## 10. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

|  | <u>December 31</u> |                   |
|--|--------------------|-------------------|
|  | <u>2019</u>        | <u>2018</u>       |
| <u>Notes receivable</u>                                |                    |                   |
| At amortized cost                                      |                    |                   |
| Gross carrying amount                                  | \$ 22,501          | \$ 6,733          |
| Less: Allowance for impairment loss                    | -                  | -                 |
|  | <u>\$ 22,501</u>   | <u>\$ 6,733</u>   |
| <u>Accounts receivable (including related parties)</u> |                    |                   |
| At amortized cost                                      |                    |                   |
| Gross carrying amount                                  | \$ 415,392         | \$ 305,330        |
| Less: Allowance for impairment loss                    | -                  | -                 |
|  | <u>\$ 415,392</u>  | <u>\$ 305,330</u> |

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 measures the loss allowance for trade receivables at an amount equal to lifetime ECLs. The expected credit losses on accounts receivable are estimated using a provision matrix by reference to the 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 forecasted 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 accounts receivable based on the Group's provision matrix.

### December 31, 2019

|                               | <u>1 to 30 Days</u> | <u>31 to 60 Days</u> | <u>61 to 90 Days</u> | <u>91 to 120 Days</u> | <u>121 to 180 Days</u> | <u>181 to 360 Days</u> | <u>Total</u>      |
|-------------------------------|---------------------|----------------------|----------------------|-----------------------|------------------------|------------------------|-------------------|
| Expected credit loss rate     | 0%                  | 0%                   | 0%                   | 0%                    | 0%                     | 0%                     |                   |
| Gross carrying amount         | \$ 191,560          | \$ 109,729           | \$ 33,355            | \$ 43,659             | \$ 59,590              | \$ -                   | \$ 473,893        |
| Loss allowance (Lifetime ECL) | -                   | -                    | -                    | -                     | -                      | -                      | -                 |
| Amortized cost                | <u>\$ 191,560</u>   | <u>\$ 109,729</u>    | <u>\$ 33,355</u>     | <u>\$ 43,659</u>      | <u>\$ 59,590</u>       | <u>\$ -</u>            | <u>\$ 473,893</u> |

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) | <u>-</u>            | <u>-</u>             | <u>-</u>             | <u>-</u>              | <u>-</u>               | <u>-</u>               | <u>-</u>          |
| 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> |

The total balance of accounts receivable increased by \$125,830 thousand and decreased \$65,923 thousand as of December 31, 2019 and 2018 compared to the beginning balance, respectively. After the assessment, the Group did not recognize allowance for impairment loss on receivables as of December 31, 2019 and 2018.

## 11. INVENTORIES

|                  | <b>December 31</b> |                   |
|------------------|--------------------|-------------------|
|                  | <b>2019</b>        | <b>2018</b>       |
| Finished goods   | \$ 77,927          | \$ 146,642        |
| Work in progress | 17,648             | 13,919            |
| Raw materials    | 125,622            | 142,677           |
| Supplies         | <u>21,772</u>      | <u>17,457</u>     |
|                  | <u>\$ 242,969</u>  | <u>\$ 320,695</u> |

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2019 and 2018 was \$1,501,761 thousand and \$1,317,839 thousand, respectively. The inventory write-downs (reversals of inventory write-downs) was \$657 thousand and \$(490) 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:

| <b>Investor</b>        | <b>Investee</b>   | <b>Nature of Activities</b>                   | <b>Proportion of Ownership</b> |             |
|------------------------|---|---|--------------------------------|-------------|
|                        |   |   | <b>December 31</b>             |             |
|                        |   |   | <b>2019</b>                    | <b>2018</b> |
| 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       |
| My Parents             | Acetek Chemical Co., Ltd. (China) (“Acetek Chemical”)               | Investments                                   | 80.00                          | -           |
|                        |   |   | (Note)                         |             |

Note: The Group invested in Acetek Chemical in March 2019.

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   |        |
|                    |                             | 2019  | 2018   |
| 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                    |                    |
|--|--------------------------------|--------------------|
|  | 2019                           | 2018               |
| Current assets                                     | \$ 238,642                     | \$ 273,692         |
| Non-current assets                                 | 765,513                        | 835,666            |
| Current liabilities                                | <u>(481,296)</u>               | <u>(577,343)</u>   |
| Equity   | <u>\$ 522,859</u>              | <u>\$ 532,015</u>  |
|  | For the Year Ended December 31 |                    |
|  | 2019                           | 2018               |
| Equity attributable to:                            |                                |                    |
| Owners of the Company                              | \$ 418,287                     | \$ 425,612         |
| Non-controlling interests of Acetek Material       | <u>104,572</u>                 | <u>106,403</u>     |
|  | <u>\$ 522,859</u>              | <u>\$ 532,015</u>  |
| Revenue  | <u>\$ 1,042,238</u>            | <u>\$ 726,431</u>  |
| Profit (loss) for the year                         | \$ 11,126                      | \$ (20,108)        |
| Other comprehensive income for the year            | <u>20,283</u>                  | <u>11,086</u>      |
| Total comprehensive income (loss) for the year     | <u>\$ 31,409</u>               | <u>\$ (9,022)</u>  |
| Profit (loss) attributable to:                     |                                |                    |
| Owners of the Company                              | \$ 8,901                       | \$ (16,086)        |
| Non-controlling interests of Acetek Material       | <u>2,225</u>                   | <u>(4,022)</u>     |
|  | <u>\$ 11,126</u>               | <u>\$ (20,108)</u> |
| Total comprehensive income (loss) attributable to: |                                |                    |
| Owners of the Company                              | \$ 25,127                      | \$ (7,218)         |
| Non-controlling interests of Acetek Material       | <u>6,282</u>                   | <u>(1,804)</u>     |
|  | <u>\$ 31,409</u>               | <u>\$ (9,022)</u>  |

(Continued)

**For the Year Ended December 31**

**2019                      2018**

|                                  |        |                                  |
|----------------------------------|--------|----------------------------------|
| Net cash inflow from:            |        |                                  |
| Operating activities             | \$     | 53,119              \$ 434,135   |
| Investing activities             |        | (69,555)              (144,955)  |
| Financing activities             |        | -                      (250,604) |
| Effects of exchange rate changes |        | <u>6,950</u> <u>(2,924)</u>      |
| <br>Net cash inflow (outflow)    | <br>\$ | <br><u>(9,486)</u> <u>41,500</u> |
|                                  |        | (Concluded)                      |

**13. PROPERTY, PLANT AND EQUIPMENT**

|  | Buildings         | Equipment           | Transportation<br>Equipment | Other<br>Equipment | Construction in<br>Progress<br>Equipment | Total               |
|--|-------------------|---------------------|-----------------------------|--------------------|--|---------------------|
| <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<br>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> |
| <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<br>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<br>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>   |
| <u>Cost</u>  |                   |                     |                             |                    |  |                     |
| Balance at January 1, 2019                         | \$ 200,374        | \$ 983,432          | \$ 9,072                    | \$ 7,530           | \$ 87,853                                | \$ 1,288,261        |
| Additions  | 25,596            | 42,756              | 279                         | -                  | 15,822                                   | 84,453              |
| Disposals  | -                 | (1,240)             | -                           | -                  | -  | (1,240)             |
| Reclassification                                   | 4,924             | 87,133              | 2,205                       | -                  | (87,553)                                 | 6,409               |
| Effect of foreign currency<br>exchange differences | <u>(8,621)</u>    | <u>(41,507)</u>     | <u>(432)</u>                | <u>(281)</u>       | <u>(593)</u>                             | <u>(51,434)</u>     |
| Balance at December 31, 2019                       | <u>\$ 222,273</u> | <u>\$ 1,070,574</u> | <u>\$ 11,124</u>            | <u>\$ 7,249</u>    | <u>\$ 15,229</u>                         | <u>\$ 1,326,449</u> |
| <u>Accumulated depreciation</u>                    |                   |                     |                             |                    |  |                     |
| Balance at January 1, 2019                         | \$ 46,349         | \$ 370,783          | \$ 5,258                    | \$ 2,041           | \$ -                                     | \$ 424,431          |
| Depreciation expenses                              | 12,224            | 80,442              | 1,733                       | 1,472              | -  | 95,871              |
| Disposals  | -                 | (1,192)             | -                           | -                  | -  | (1,192)             |
| Effect of foreign currency<br>exchange differences | <u>(2,188)</u>    | <u>(16,785)</u>     | <u>(262)</u>                | <u>(131)</u>       | <u>-</u>                                 | <u>(19,366)</u>     |
| Balance at December 31, 2019                       | <u>\$ 56,385</u>  | <u>\$ 433,248</u>   | <u>\$ 6,729</u>             | <u>\$ 3,382</u>    | <u>\$ -</u>                              | <u>\$ 499,744</u>   |
| Carrying amounts at<br>December 31, 2019           | <u>\$ 165,888</u> | <u>\$ 637,326</u>   | <u>\$ 4,395</u>             | <u>\$ 3,867</u>    | <u>\$ 15,229</u>                         | <u>\$ 826,705</u>   |

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. LEASE ARRANGEMENTS

##### a. Right-of-use assets - 2019

|  |   |
|--|---|
|  | <b>December 31,<br/>2019</b>                            |
| <u>Carrying amounts</u>                            |   |
| Land   | <u>\$ 55,248</u>  |
|  | <b>For the Year<br/>Ended<br/>December 31,<br/>2019</b> |
| <u>Depreciation charge for right-of-use assets</u> |   |
| Land   | <u>\$ 2,356</u>   |

##### b. Material leasing activities and terms

As lessees, Jinan Acetek Chemical Co., Ltd. and Acetek Material Co., Ltd. are leasing certain lands for the use of factory with lease terms of 20 to 30 years. These arrangements do not contain purchase options at the end of the lease terms.

##### c. Other lease information

As lessor, the Group's operating leases of investment properties and freehold property, plant and equipment are set out in Notes 15, and finance leases of assets are set out in Note 29.

2019

|   |   |
|---|---|
|   | <b>For the Year<br/>Ended<br/>December 31,<br/>2019</b> |
| Expenses relating to short-term leases      | <u>\$ 411</u>   |
| Expenses relating to low-value asset leases | <u>\$ 12</u>  |
| Total cash outflow for leases               | <u>\$ (423)</u>   |

As lessee, the Group leases certain office equipment which qualify as short-term leases and certain computer equipment which qualify as low-value asset leases. The Group has elected to apply the recognition exemption and thus, did not recognize right-of-use assets and lease liabilities for these leases.

2018

The future minimum lease payments of non-cancellable operating lease commitments are as follows:

|                       | <b>December 31,<br/>2018</b> |
|-----------------------|------------------------------|
| Not later than 1 year | <u>\$ 465</u>                |

## 15. INVESTMENT PROPERTIES

|                          | <b>Total</b>      |
|--------------------------|-------------------|
| <u>December 31, 2019</u> |                   |
| Measured at fair value   | <u>\$ 100,220</u> |
| <u>December 31, 2018</u> |                   |
| Measured at fair value   | <u>\$ 104,108</u> |

As lessor, the Group is leasing the abovementioned investment properties for 9 years. The lessees do not have bargain purchase options to acquire the investment properties at the expiry of the lease periods.

The maturity analysis of lease payments receivable under operating leases of investment properties at December 31, 2019 was as follows:

|                | <b>December 31,<br/>2019</b> |
|----------------|------------------------------|
| Year 1         | \$ 4,535                     |
| Year 2         | 4,671                        |
| Year 3         | 4,671                        |
| Year 4         | 4,905                        |
| Year 5         | 4,905                        |
| Year 6 onwards | <u>10,299</u>                |
|                | <u>\$ 33,986</u>             |

The future minimum lease payments of non-cancellable operating lease commitments at December 31, 2018 are as follows:

|  | <b>December 31,<br/>2018</b> |
|--|------------------------------|
| Not later than 1 year                        | \$ 4,625                     |
| Later than 1 year and not later than 5 years | 19,152                       |
| Later than 5 years                           | <u>15,503</u>                |
|  | <u>\$ 39,280</u>             |

a. Investment properties measured at fair value

|  | <b>Total</b>      |
|--|-------------------|
| Balance at January 1, 2019                       | \$ 104,108        |
| Effects of foreign currency exchange differences | <u>(3,888)</u>    |
| Balance at December 31, 2019                     | <u>\$ 100,220</u> |
| Balance at January 1, 2018                       | \$ 106,273        |
| Effects of foreign currency exchange differences | <u>(2,165)</u>    |
| Balance at December 31, 2018                     | <u>\$ 104,108</u> |

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

|                       | <b>December 31</b> |                   |
|-----------------------|--------------------|-------------------|
|                       | <b>2019</b>        | <b>2018</b>       |
| Independent valuation | <u>\$ 100,220</u>  | <u>\$ 104,108</u> |

The fair values of a single investment property with a carrying amount at least 20% of the paid-in capital at December 31, 2019 and 2018 were based on the valuations carried out on March 9, 2020 and January 7, 2018, respectively, by an independent qualified professional valuer, Mr. Yi-chuan Chang, 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>Total</b>      |
|---|-------------------|
| Balance at January 1, 2019  | \$ 104,108        |
| Recognized in other comprehensive income (exchange differences on translating the financial statements of foreign operations) | <u>(3,888)</u>    |
| Balance at December 31, 2019  | <u>\$ 100,220</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 as follows:

|                                   | <b>December 31</b> |                   |
|-----------------------------------|--------------------|-------------------|
|                                   | <b>2019</b>        | <b>2018</b>       |
| Expected future cash inflows      | \$ 262,310         | \$ 287,172        |
| Expected future cash outflows     | <u>(5,841)</u>     | <u>(6,136)</u>    |
| Expected future cash inflows, net | <u>\$ 256,469</u>  | <u>\$ 281,036</u> |
| Discount rates                    | 6%                 | 6%                |

The market rentals in the area where the investment property is located were between RMB7.77 per square meter. The market rentals for comparable properties were between RMB7.50 and RMB9.00 per square meter.

The investment property has 1 floor above ground level, and the floor had been leased out under operating leases. The rental income generated for the years ended December 31, 2019 and 2018 was \$4,479 thousand and \$4,433 thousand, respectively.

The expected future cash inflows to be generated by investment properties include 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 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 incurred by investment properties included the 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 using 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.

## 16. OTHER ASSETS

|  | <u>December 31</u> |                  |
|--|--------------------|------------------|
|  | <u>2019</u>        | <u>2018</u>      |
| <u>Current</u>                         |                    |                  |
| Prepayments                            |                    |                  |
| Prepayment                             | \$ 39,100          | \$ 63,229        |
| Advanced payments                      | 5,992              | 5,109            |
| Prepayments for lease (Note)           | -                  | 2,356            |
| Others                                 | <u>9,227</u>       | <u>14,980</u>    |
|  | <u>\$ 54,319</u>   | <u>\$ 85,674</u> |
| <u>Non-current</u>                     |                    |                  |
| Prepayments for long term lease (Note) | <u>\$ -</u>        | <u>\$ 57,448</u> |
| Other non-current assets               |                    |                  |
| Prepayments for house                  | <u>\$ 1,378</u>    | <u>\$ 13,638</u> |

Note: As of December 31, 2018, 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.



## 17. BORROWINGS

### Short-term Borrowings

|                             | <u>December 31</u> |                   |
|-----------------------------|--------------------|-------------------|
|                             | <b>2019</b>        | <b>2018</b>       |
| <u>Unsecured borrowings</u> |                    |                   |
| Line of credit borrowings   | <u>\$ 299,800</u>  | <u>\$ 116,717</u> |

The range of interest rates on bank loans was 2.52%-3.05% and 3.18%-3.67% per annum at December 31, 2019 and 2018, respectively.

## 18. BONDS PAYABLE

|   | <u>December 31</u> |                   |
|---|--------------------|-------------------|
|   | <b>2019</b>        | <b>2018</b>       |
| First-time unsecured domestic convertible bonds (ROC) | <u>\$ 456,564</u>  | <u>\$ 439,842</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. The conversion price as of December 31, 2019 was \$142.3. 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 \$46,300 thousand on December 31, 2019; the non-derivative liabilities are measured at amortized cost of \$456,564 thousand on December 31, 2019. 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   | <u>\$ 500,501</u> |
| Liability component at January 1, 2018 (bonds payable of \$423,732 thousand and financial liabilities at fair value through profit or loss - non-current of \$101,400 thousand)  | \$ 525,132        |
| 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> |
| Liability component at January 1, 2019 (bonds payable of \$439,842 thousand and financial liabilities at fair value through profit or loss - non-current of \$46,400 thousand)   | \$ 486,242        |
| Interest charged at an effective interest rate of 3.7371%  | 16,722            |
| Valuation profit on financial investments  | <u>(100)</u>      |
| Liability component at December 31, 2019 (bonds payable of \$456,564 thousand and financial liabilities at fair value through profit or loss - current of \$46,300 thousand)     | <u>\$ 502,864</u> |

## 19. OTHER PAYABLES

|   | <u>December 31</u> |                   |
|---|--------------------|-------------------|
|   | <u>2019</u>        | <u>2018</u>       |
| Payables for purchases of equipment             | \$ 48,579          | \$ 71,324         |
| Payables for salaries                           | 21,244             | 21,827            |
| Payables for steam fee                          | 20,606             | 14,127            |
| Payables for security production fee            | 13,389             | -                 |
| Payables for freight                            | 11,897             | 13,133            |
| Accrued remuneration to employees and directors | 5,351              | 5,536             |
| Others  | <u>36,222</u>      | <u>31,432</u>     |
|   | <u>\$ 157,288</u>  | <u>\$ 157,379</u> |

## 20. 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.

## 21. EQUITY

### a. Ordinary shares

|   | <u>December 31</u>  |                     |
|---|---------------------|---------------------|
|   | <u>2019</u>         | <u>2018</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>51,077</u>       | <u>46,480</u>       |
| Shares issued   | <u>\$ 510,767</u>   | <u>\$ 464,800</u>   |

On March 26, 2019, the Company's board of directors resolved to issue 4,597 thousand ordinary shares from capital surplus with a par value of \$10, of which increased the share capital issued and fully paid to \$510,767 thousand.

### b. Capital surplus

|  | <u>December 31</u> |                   |
|--|--------------------|-------------------|
|  | <u>2019</u>        | <u>2018</u>       |
| <u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)</u> |                    |                   |
| Issuance of ordinary shares  | \$ 416,034         | \$ 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>\$ 433,575</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 23-7.

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 2018 and 2017 approved in the shareholders' meetings on June 28, 2019 and June 22, 2018, respectively, were as follows:

|                                 | <b>Appropriation of Earnings</b>      |                   |
|---------------------------------|---------------------------------------|-------------------|
|                                 | <b>For the Year Ended December 31</b> |                   |
|                                 | <b>2018</b>                           | <b>2017</b>       |
| Legal reserve                   | <u>\$ 22,510</u>                      | <u>\$ 17,202</u>  |
| Special reserve                 | <u>\$ 19,062</u>                      | <u>\$ -</u>       |
| Cash dividends                  | <u>\$ 183,868</u>                     | <u>\$ 232,400</u> |
| Cash dividends per share (NT\$) | <u>\$ 4</u>                           | <u>\$ 5</u>       |

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.

The appropriations of earnings for 2019 had been proposed by the Company's board of directors on March 27, 2020. The appropriations and dividends per share were as follows:

|                                 | <b>For the Year<br/>Ended<br/>December 31,<br/>2019</b> |
|---------------------------------|---|
| Legal reserve                   | <u>\$ 32,968</u>  |
| Special reserve                 | <u>\$ 57,195</u>  |
| Cash dividends                  | <u>\$ 237,649</u>                                       |
| Cash dividends per share (NT\$) | <u>\$ 4.7</u>   |

The appropriation of earnings for 2019 are subject to the resolution in the shareholders' meeting to be held on June 23, 2020.

d. Special reserves

|  | <b>For the Year Ended December 31</b> |                 |
|--|---------------------------------------|-----------------|
|  | <b>2019</b>                           | <b>2018</b>     |
| Beginning at January 1                                       | \$ 2,344                              | \$ 2,344        |
| Appropriations in respect of<br>Debits to other equity items | <u>19,062</u>                         | <u>-</u>        |
| Balance at December 31                                       | <u>\$ 21,406</u>                      | <u>\$ 2,344</u> |

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. Additional special reserve should be appropriated for the amount equal to the difference between net debit balance reserves and the special reserve appropriated on the first-time adoption of IFRSs. Any special reserve appropriated may be reversed to the extent that the net debit balance reverses and is thereafter distributed.

e. Non-controlling interests

|  | <b>For the Year Ended December 31</b> |                   |
|--|---------------------------------------|-------------------|
|  | <b>2019</b>                           | <b>2018</b>       |
| Balance at January 1   | \$ 109,295                            | \$ 112,576        |
| Share in profit (loss) for the year  | 1,580                                 | (1,007)           |
| Other comprehensive loss during the year   |                                       |                   |
| Exchange differences on translating the financial statements of foreign entities | (4,628)                               | (2,274)           |
| Unrealized loss on financial assets at FVTOCI                                    | (2,649)                               | -                 |
| Acquisition of non-controlling interests in subsidiaries                         | <u>9,782</u>                          | <u>-</u>          |
| Balance at December 31   | <u>\$ 113,380</u>                     | <u>\$ 109,295</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, 2019   | 426   |
| Increase during the year              | <u>87</u>   |
| Number of shares at December 31, 2019 | <u>513</u>  |
| 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.

**22. REVENUE**

|                                       | <b>For the Year Ended December 31</b> |                     |
|---------------------------------------|---------------------------------------|---------------------|
|                                       | <b>2019</b>                           | <b>2018</b>         |
| Revenue from contracts with customers |                                       |                     |
| Revenue from sale of goods            | <u>\$ 2,174,990</u>                   | <u>\$ 1,739,194</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

|                                | December 31,<br>2019 | December 31,<br>2018 | January 1, 2018   |
|--------------------------------|----------------------|----------------------|-------------------|
| Accounts receivables (Note 10) | <u>\$ 415,392</u>    | <u>\$ 305,330</u>    | <u>\$ 376,160</u> |
| Contract liabilities - current | <u>\$ 16,450</u>     | <u>\$ 7,196</u>      | <u>\$ 34,168</u>  |

c. Disaggregation of revenue

Refer to Note 34 for information about disaggregation of revenue.

## 23. NET PROFIT

a. Other income

|                           | <u>For the Year Ended December 31</u> |                  |
|---------------------------|---------------------------------------|------------------|
|                           | 2019                                  | 2018             |
| Government subsidy income | \$ 13,147                             | \$ -             |
| Rental income             | 4,479                                 | 4,433            |
| Interest income           | 2,833                                 | 4,013            |
| Miscellaneous income      | <u>9,233</u>                          | <u>4,213</u>     |
|                           | <u>\$ 29,692</u>                      | <u>\$ 12,659</u> |

b. Other gains and losses

|   | <u>For the Year Ended December 31</u> |                  |
|---|---------------------------------------|------------------|
|   | 2019                                  | 2018             |
| Gain on financial liabilities at FVTPL            | \$ 100                                | \$ 55,000        |
| Net foreign exchange loss                         | (16,503)                              | (1,472)          |
| Loss on disposal of property, plant and equipment | (34)                                  | -                |
| Others  | <u>(2,691)</u>                        | <u>(1,522)</u>   |
|   | <u>\$ (19,218)</u>                    | <u>\$ 52,006</u> |

c. Finance costs

|                        | <u>For the Year Ended December 31</u> |                  |
|------------------------|---------------------------------------|------------------|
|                        | 2019                                  | 2018             |
| Interest on bonds      | \$ 16,722                             | \$ 16,110        |
| Interest on bank loans | <u>6,625</u>                          | <u>671</u>       |
|                        | <u>\$ 23,347</u>                      | <u>\$ 16,781</u> |

d. Depreciation and amortization

|   | <b>For the Year Ended December 31</b> |                  |
|---|---------------------------------------|------------------|
|   | <b>2019</b>                           | <b>2018</b>      |
| An analysis of depreciation by function |                                       |                  |
| Operating costs                         | \$ 91,266                             | \$ 74,951        |
| Operating expenses                      | <u>6,961</u>                          | <u>11,756</u>    |
|   | <u>\$ 98,227</u>                      | <u>\$ 86,707</u> |
| An analysis of amortization by function |                                       |                  |
| Operating costs                         | <u>\$ -</u>                           | <u>\$ 2,403</u>  |

e. Operating expenses directly related to investment properties

|   | <b>For the Year Ended December 31</b> |               |
|---|---------------------------------------|---------------|
|   | <b>2019</b>                           | <b>2018</b>   |
| Direct operating expenses of investment properties generating rental income | <u>\$ 555</u>                         | <u>\$ 566</u> |

f. Employee benefits expense

|  | <b>For the Year Ended December 31</b> |                   |
|--|---------------------------------------|-------------------|
|  | <b>2019</b>                           | <b>2018</b>       |
| Short-term benefits                                  | \$ 90,035                             | \$ 94,330         |
| Post-employment benefits                             | 7,681                                 | 8,180             |
| Other employee benefits                              | <u>4,435</u>                          | <u>4,700</u>      |
| Total employee benefits expense                      | <u>\$ 102,151</u>                     | <u>\$ 107,210</u> |
| An analysis of employee benefits expense by function |                                       |                   |
| Operating costs                                      | \$ 55,271                             | \$ 55,939         |
| Operating expenses                                   | <u>46,880</u>                         | <u>51,271</u>     |
|  | <u>\$ 102,151</u>                     | <u>\$ 107,210</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, 2019 and 2018, which were approved by the Company's board of directors on March 27, 2020 and March 26, 2019, respectively, were as follows:

Accrual rate

|                           | <b>For the Year Ended December 31</b> |             |
|---------------------------|---------------------------------------|-------------|
|                           | <b>2019</b>                           | <b>2018</b> |
| Employees' compensation   | 1.00%                                 | 1.20%       |
| Remuneration of directors | 0.60%                                 | 1.20%       |

Amount

|                           | <b>For the Year Ended December 31</b> |             |
|---------------------------|---------------------------------------|-------------|
|                           | <b>2019</b>                           | <b>2018</b> |
|                           | <b>Cash</b>                           | <b>Cash</b> |
| Employees' compensation   | \$ 3,351                              | \$ 2,768    |
| Remuneration of directors | 2,000                                 | 2,768       |

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, 2018 and 2017.

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>2019</b>                           | <b>2018</b>       |
| Foreign exchange gains  | \$ 11,059                             | \$ 4,787          |
| Foreign exchange losses | <u>(27,562)</u>                       | <u>(6,259)</u>    |
| Net loss                | <u>\$ (16,503)</u>                    | <u>\$ (1,472)</u> |



## 24. INCOME TAXES

- a. Income tax benefit (expense) recognized in profit or loss

|   | <b>For the Year Ended December 31</b> |                  |
|---|---------------------------------------|------------------|
|   | <b>2019</b>                           | <b>2018</b>      |
| <u>Current tax</u>  |                                       |                  |
| In respect of the current year                            | \$ (33,256)                           | \$ (8,161)       |
| Adjustments for prior year                                | 1,333                                 | 1,549            |
| <u>Deferred tax</u>                                       |                                       |                  |
| In respect of the current year                            | (241)                                 | 21,128           |
| Adjustments for prior year                                | (36)                                  | (477)            |
| Change in tax rate  | <u>(14,904)</u>                       | <u>-</u>         |
| Income tax benefit (expense) recognized in profit or loss | <u>\$ (47,104)</u>                    | <u>\$ 14,039</u> |

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

|   | <b>For the Year Ended December 31</b> |                   |
|---|---------------------------------------|-------------------|
|   | <b>2019</b>                           | <b>2018</b>       |
| Profit before income tax                                  | <u>\$ 378,361</u>                     | <u>\$ 210,052</u> |
| Income tax expense calculated at the statutory rate       | \$ (64,166)                           | \$ (18,369)       |
| Research and development credits                          | 27,883                                | 31,491            |
| Nondeductible expenses in determining taxable income      | 396                                   | (563)             |
| Tax-exempt income   | 1,973                                 | -                 |
| Change in tax rate  | (14,904)                              | -                 |
| Adjustments for prior years' tax                          | 1,297                                 | 1,072             |
| Others  | <u>417</u>                            | <u>408</u>        |
| Income tax benefit (expense) recognized in profit or loss | <u>\$ (47,104)</u>                    | <u>\$ 14,039</u>  |

- b. Current tax assets and liabilities

|                           | <b>December 31</b> |                 |
|---------------------------|--------------------|-----------------|
|                           | <b>2019</b>        | <b>2018</b>     |
| <u>Current tax assets</u> |                    |                 |
| Tax refund receivable     | <u>\$ 14,028</u>   | <u>\$ 5,447</u> |

c. Deferred tax assets and liabilities

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

For the year ended December 31, 2019

|   | <b>Opening<br/>Balance</b> | <b>Recognized in<br/>Profit or Loss</b> | <b>Exchange<br/>Differences</b> | <b>Closing<br/>Balance</b> |
|---|----------------------------|---|---------------------------------|----------------------------|
| <u>Deferred tax assets</u>                                    |                            |   |                                 |                            |
| Temporary differences   |                            |   |                                 |                            |
| Allowance for inventory<br>valuation and<br>obsolescence loss | \$ 87                      | \$ (51)                                 | \$ (1)                          | \$ 35                      |
| Unrealized compensation                                       | 168                        | 386                                     | (20)                            | 534                        |
| Tax losses  | <u>37,295</u>              | <u>(15,516)</u>                         | <u>(815)</u>                    | <u>20,964</u>              |
|   | <u>\$ 37,550</u>           | <u>\$ (15,181)</u>                      | <u>\$ (836)</u>                 | <u>\$ 21,533</u>           |
| <u>Deferred tax liabilities</u>                               |                            |   |                                 |                            |
| Temporary differences   |                            |   |                                 |                            |
| Unrealized revaluation<br>increments                          | <u>\$ 9,785</u>            | <u>\$ -</u>                             | <u>\$ (365)</u>                 | <u>\$ 9,420</u>            |

For the year ended December 31, 2018

|   | <b>Opening<br/>Balance</b> | <b>Recognized in<br/>Profit or Loss</b> | <b>Exchange<br/>Differences</b> | <b>Closing<br/>Balance</b> |
|---|----------------------------|---|---------------------------------|----------------------------|
| <u>Deferred tax assets</u>                                    |                            |   |                                 |                            |
| Temporary differences   |                            |   |                                 |                            |
| Allowance for inventory<br>valuation and<br>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<br>increments                          | <u>\$ 9,989</u>            | <u>\$ -</u>                             | <u>\$ (204)</u>                 | <u>\$ 9,785</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.

## 25. EARNINGS PER SHARE

Unit: NT\$ Per Share

|                            | <b>For the Year Ended December 31</b> |                |
|----------------------------|---------------------------------------|----------------|
|                            | <b>2019</b>                           | <b>2018</b>    |
| Basic earnings per share   | <u>\$ 6.52</u>                        | <u>\$ 4.41</u> |
| Diluted earnings per share | <u>\$ 6.40</u>                        | <u>\$ 3.43</u> |

The weighted average number of shares outstanding used for the earnings per share computation was adjusted retroactively for the issuance of bonus shares on September 10, 2019. The basic and diluted earnings per share adjusted retrospectively for the year ended December 31, 2018 are as follows:

Unit: NT\$ Per Share

|                            | <b>Before<br/>Retrospective<br/>Adjustment</b> | <b>After<br/>Retrospective<br/>Adjustment</b> |
|----------------------------|--|---|
| Basic earnings per share   | <u>\$ 4.85</u>                                 | <u>\$ 4.41</u>                                |
| Diluted earnings per share | <u>\$ 3.76</u>                                 | <u>\$ 3.43</u>                                |

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

### Net Profit for the Year

|   | <b>For the Year Ended December 31</b> |                   |
|---|---------------------------------------|-------------------|
|   | <b>2019</b>                           | <b>2018</b>       |
| Profit for the year attributable to owners of the Company     | \$ 329,677                            | \$ 225,098        |
| Effect of potentially dilutive ordinary shares                |                                       |                   |
| Interest and evaluation of convertible bonds                  | <u>16,622</u>                         | <u>(38,890)</u>   |
| Earning used in the computation of diluted earnings per share | <u>\$ 346,299</u>                     | <u>\$ 186,208</u> |

### Number of Shares

Unit: Thousand Shares

|  | <b>For the Year Ended December 31</b> |               |
|--|---------------------------------------|---------------|
|  | <b>2019</b>                           | <b>2018</b>   |
| Weighted average number of ordinary shares used in the computation of basic earnings per share   | 50,567                                | 51,084        |
| Effect of potentially dilutive ordinary shares   |                                       |               |
| Convertible bonds  | 3,514                                 | 3,106         |
| Employees' compensation or bonuses issued to employees   | <u>32</u>                             | <u>29</u>     |
| Weighted average number of ordinary shares used in the computation of diluted earnings per share | <u>54,113</u>                         | <u>54,219</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.

## 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, 2019

|                                   | Level 1 | Level 2   | Level 3   | Total     |
|-----------------------------------|---------|-----------|-----------|-----------|
| Financial assets at FVTOCI        |         |           |           |           |
| Investments in equity instruments | \$ -    | \$ -      | \$ 31,716 | \$ 31,716 |
| Financial liabilities at FVTPL    |         |           |           |           |
| Held for trading                  | \$ -    | \$ 46,300 | \$ -      | \$ 46,300 |

December 31, 2018

|                                | Level 1 | Level 2   | Level 3 | Total     |
|--------------------------------|---------|-----------|---------|-----------|
| Financial liabilities at FVTPL |         |           |         |           |
| Held for trading               | \$ -    | \$ 46,400 | \$ -    | \$ 46,400 |

There were no transfers between Levels 1 and 2 for the years ended December 31, 2019 and 2018.

2) Reconciliation of Level 3 fair value measurements of financial instruments

For the year ended December 31, 2019

| <b>Financial Assets</b>   | <b>Financial Assets<br/>at FVTOCI<br/>Equity<br/>Instruments</b> |
|---|--|
| Balance at January 1, 2019  | \$ -   |
| Purchases   | 47,308   |
| Recognized in profit or loss (included in other gains and losses)   | (2,346)  |
| Recognized in other comprehensive income (included in unrealized loss on investments in equity instruments at FVTOCI) | <u>(13,246)</u>  |
| Balance at December 31, 2019  | <u>\$ 31,716</u>   |

3) Valuation techniques and inputs applied for 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. |

4) Valuation techniques and inputs applied for Level 3 fair value measurement

The fair values of unlisted equity securities - ROC were determined using the income approach. In this approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of these investees.

c. Categories of financial instruments

|  | <u>December 31</u> |             |
|--|--------------------|-------------|
|  | <b>2019</b>        | <b>2018</b> |
| <u>Financial assets</u>                          |                    |             |
| Financial assets at amortized cost (Note 1)      | \$ 1,218,478       | \$ 821,896  |
| Financial assets at FVTOCI                       |                    |             |
| Equity instruments                               | 31,716             | -           |
| <u>Financial liabilities</u>                     |                    |             |
| Financial liabilities at amortized cost (Note 2) | 1,137,946          | 959,727     |
| Financial liabilities at FVTPL                   | 46,300             | 46,400      |

1) The balances include financial assets at amortized cost, which comprise cash and cash equivalents, notes receivable and accounts receivable, other receivables, other current assets (pledged deposits) and refundable deposits.

2) The balances include financial liabilities at amortized cost, which comprise short-term borrowings, 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, accounts receivable, borrowings, accounts payable and 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

Several subsidiaries have 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>2019</b>                           | <b>2018</b> |
| Profit or loss | \$ 3,786                              | \$ 3,030    |

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 Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates.

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:

|                               | <u>December 31</u> |             |
|-------------------------------|--------------------|-------------|
|                               | <u>2019</u>        | <u>2018</u> |
| Fair value interest rate risk |                    |             |
| Financial assets              | \$ 233,253         | \$ 20,955   |
| Financial liabilities         | 741,374            | 531,987     |
| Cash flow interest rate risk  |                    |             |
| Financial assets              | 520,584            | 471,761     |
| Financial liabilities         | 14,990             | 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, 2019 and 2018 would have increased/decreased by \$5,056 thousand and \$4,472 thousand, which was mainly attributable to the Group's exposure to interest rates of its variable-rate bank deposits and borrowings.

c) Price risk

The Group was exposed to equity price risk through its investments in equity securities. Equity investments are held for strategic rather than for trading purposes, the Group does not actively trade these investments.

Sensitivity analysis

The sensitivity analysis below was determined based on the exposure to equity price risks at the end of the year. If equity prices had been 1% higher/lower, the pre-tax other comprehensive income for the year ended December 31, 2019 would have increased/decreased by \$317 thousand, as a result of the changes in fair value of financial assets at FVTOCI.

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, 2019 and 2018, 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, 2019

|   | <b>On Demand<br/>or Less than<br/>1 Month</b> | <b>1-3 Months</b> | <b>3 Months to<br/>1 Year</b> | <b>1-5 Years</b> | <b>Total</b>        |
|---|---|-------------------|-------------------------------|------------------|---------------------|
| <u>Non-derivative financial liabilities</u> |   |                   |                               |                  |                     |
| Non-interest bearing                        | \$ 102,248                                    | \$ 127,139        | \$ 155,175                    | \$ -             | \$ 384,562          |
| Variable interest rate liabilities          | 14,990  | -                 | -                             | -                | 14,990              |
| Fixed interest rate liabilities             | <u>165,384</u>                                | <u>89,940</u>     | <u>529,980</u>                | <u>-</u>         | <u>785,304</u>      |
|   | <u>\$ 282,622</u>                             | <u>\$ 217,079</u> | <u>\$ 685,155</u>             | <u>\$ -</u>      | <u>\$ 1,184,856</u> |



December 31, 2018

|   | <b>On Demand<br/>or Less than<br/>1 Month</b> | <b>1-3 Months</b> | <b>3 Months to<br/>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> |

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

|   | <u>December 31</u> |                   |
|---|--------------------|-------------------|
|   | <b>2019</b>        | <b>2018</b>       |
| Unsecured bank loan facilities which may be extended by mutual agreement: |                    |                   |
| Amount used   | \$ 366,501         | \$ 264,075        |
| Amount unused   | <u>380,399</u>     | <u>407,598</u>    |
|   | <u>\$ 746,900</u>  | <u>\$ 671,673</u> |
| Secured bank loan facilities which may be extended by mutual agreement:   |                    |                   |
| Amount used   | \$ 51,826          | \$ 95,436         |
| Amount unused   | <u>107,889</u>     | <u>43,644</u>     |
|   | <u>\$ 159,715</u>  | <u>\$ 139,080</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

| Related Party Name  | Relationship with the Group and Other Related Parties   |
|---|---|
| Global Filter 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

| Line Item | Related Party Category/Name | For the Year Ended December 31 |                   |
|-----------|-----------------------------|--------------------------------|-------------------|
|           |                             | 2019                           | 2018              |
| Sales     | Substantive related party   |                                |                   |
|           | GF                          | \$ 258,583                     | \$ 235,596        |
|           | Others                      | <u>43,084</u>                  | <u>91,267</u>     |
|           |                             | <u>\$ 301,667</u>              | <u>\$ 326,863</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

| Related Party Category                            | For the Year Ended December 31 |                   |
|---|--------------------------------|-------------------|
|   | 2019                           | 2018              |
| Substantive related party/Yankuang Lunan Chemical | <u>\$ 151,741</u>              | <u>\$ 222,745</u> |

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

d. Receivables from related parties

| Line Item           | Related Party Category/Name                           | December 31      |                  |
|---------------------|---|------------------|------------------|
|                     |   | 2019             | 2018             |
| Accounts receivable | Substantive related party                             |                  |                  |
|                     | GF  | \$ 67,972        | \$ 26,133        |
|                     | TH  | 16,136           | 19,710           |
|                     | SAF   | <u>3,141</u>     | <u>3,307</u>     |
|                     |   | <u>\$ 87,249</u> | <u>\$ 49,150</u> |
| Other receivables   | Substantive related party/<br>Yankuang Lunan Chemical | <u>\$ -</u>      | <u>\$ 22</u>     |

The outstanding receivables from related parties were unsecured. For the years ended December 31, 2019 and 2018, no impairment loss was recognized on accounts receivable from related parties.

e. Payables to related parties

| Line Item      | Related Party Category/Name                           | December 31      |                  |
|----------------|---|------------------|------------------|
|                |   | 2019             | 2018             |
| Notes payable  | Substantive related party/<br>Yankuang Lunan Chemical | \$ 13,561        | \$ 31,416        |
| Other payables | Substantive related party/<br>Yankuang Lunan Chemical | <u>20,606</u>    | <u>14,127</u>    |
|                |   | <u>\$ 34,167</u> | <u>\$ 45,543</u> |

The outstanding payables to related parties were unsecured.

f. Refundable deposits (other current assets)

| Related Party Category                            | December 31   |               |
|---|---------------|---------------|
|   | 2019          | 2018          |
| Substantive related party/Yankuang Lunan Chemical | <u>\$ 431</u> | <u>\$ 447</u> |

g. Other transactions with related parties

| Line Item                                    | Related Party Category/Name                           | For the Year Ended December 31 |                   |
|--|---|--------------------------------|-------------------|
|  |   | 2019                           | 2018              |
| Manufacturing expense - steam fee            | Substantive related party/<br>Yankuang Lunan Chemical | \$ 188,906                     | \$ 169,001        |
| Research and development expense - steam fee | Substantive related party/<br>Yankuang Lunan Chemical | 8,323                          | 10,226            |
| Operating expense - rental                   | Key management  | 360                            | 360               |
| Operating expense - rental                   | Substantive related party/<br>Yankuang Lunan Chemical | <u>89</u>                      | <u>142</u>        |
|  |   | <u>\$ 197,678</u>              | <u>\$ 179,729</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

|  | <b>December 31</b> |                  |
|--|--------------------|------------------|
|  | <b>2019</b>        | <b>2018</b>      |
| Substantive related party/HEZHEN                 |                    |                  |
| Amount endorsed                                  | \$ 25,830          | \$ 26,832        |
| Amount utilized (reported as secured bank loans) | <u>-</u>           | <u>-</u>         |
|  | <u>\$ 25,830</u>   | <u>\$ 26,832</u> |

i. Compensation of key management personnel

|                              | <b>For the Year Ended December 31</b> |                  |
|------------------------------|---------------------------------------|------------------|
|                              | <b>2019</b>                           | <b>2018</b>      |
| Short-term employee benefits | \$ 15,652                             | \$ 18,418        |
| Post-employment benefits     | <u>88</u>                             | <u>91</u>        |
|                              | <u>\$ 15,740</u>                      | <u>\$ 18,509</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:

|  | <b>December 31</b> |                   |
|--|--------------------|-------------------|
|  | <b>2019</b>        | <b>2018</b>       |
| Financial assets at amortized cost                   | \$ 1,050           | \$ -              |
| Pledge deposits (classified as other current assets) | 66,632             | 123,141           |
| Property, plant and equipment, net                   | 57,001             | 54,005            |
| Right-of-use assets                                  | 55,248             | -                 |
| Prepayments for leases                               | -                  | 17,324            |
| Investment properties, net                           | <u>73,655</u>      | <u>76,513</u>     |
|  | <u>\$ 253,586</u>  | <u>\$ 270,983</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, 2019 and 2018, unused letters of credit for purchases of raw materials and machinery and equipment amounted to approximately \$0 thousand and \$124,879 thousand, respectively.

Unrecognized commitments were as follows:

|  | <u>December 31</u> |                 |
|--|--------------------|-----------------|
|  | <u>2019</u>        | <u>2018</u>     |
| Payments for property, plant and equipment | \$ <u>25,659</u>   | \$ <u>4,622</u> |

### 31. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

In order to motivate employees and enhance their cohesion, the Group decided to implement the buy-back of 1,000 thousand shares for the purpose of transferring to employees from March 18, 2020 to May 17, 2020, as determined by the board of directors on March 17, 2020 according to the provisions of Article 28-2 of the Securities Exchange Law. In accordance with the provisions of Article 2 of the Measures for Listed OTC Companies to Buy Back the Company's Shares, the price range for buying back shares is set at NT\$95 to NT\$190.

### 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<br/>Currencies</b> | <b>Exchange Rate</b> | <b>Carrying<br/>Amount</b> |
|------------------------------|-------------------------------|----------------------|----------------------------|
| <u>December 31, 2019</u>     |                               |                      |                            |
| <u>Financial assets</u>      |                               |                      |                            |
| Monetary items               |                               |                      |                            |
| USD                          | \$ 25,091                     | 6.976 (USD:RMB)      | \$ 753,472                 |
| <u>Financial liabilities</u> |                               |                      |                            |
| Monetary items               |                               |                      |                            |
| USD                          | 12,498                        | 6.976 (USD:RMB)      | 374,828                    |
| <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                    |

The significant (realized and unrealized) foreign exchange gain (losses) were as follows:

| Functional<br>Currency | For the Year Ended December 31 |                                   |                 |                                   |
|------------------------|--------------------------------|-----------------------------------|-----------------|-----------------------------------|
|                        | 2019                           |                                   | 2018            |                                   |
|                        | Exchange Rate                  | Net Foreign<br>Exchange<br>Losses | Exchange Rate   | Net Foreign<br>Exchange<br>Losses |
| USD                    | 6.897 (USD:RMB)                | <u>\$ (16,503)</u>                | 6.612 (USD:RMB) | <u>\$ (1,472)</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). (Table 3)
- 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 4)
- 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 5)
- 11) Information on investees. (Table 6)

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 7)

- 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>2019</b>                           | <b>2018</b>         |
| Cellulose acetate tow | \$ 1,548,017                          | \$ 1,309,752        |
| Cellulose acetate     | <u>626,973</u>                        | <u>429,442</u>      |
|                       | <u>\$ 2,174,990</u>                   | <u>\$ 1,739,194</u> |

c. Geographical information

The Group operates in four principal geographical areas - Asia, Africa, America and Europe.

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<br/>Customers</b> |                     |
|---------|--|---------------------|
|         | <b>For the Year Ended December 31</b>      |                     |
|         | <b>2019</b>                                | <b>2018</b>         |
| Asia    | \$ 1,487,505                               | \$ 1,236,829        |
| America | 461,674                                    | 351,951             |
| Europe  | 172,105                                    | 10,883              |
| Africa  | <u>53,706</u>                              | <u>139,531</u>      |
|         | <u>\$ 2,174,990</u>                        | <u>\$ 1,739,194</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>2019</b>                           | <b>2018</b>       |
| Customer A | <u>\$ 258,583</u>                     | <u>\$ 235,596</u> |



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

FINANCING PROVIDED TO OTHERS  
FOR THE YEAR ENDED DECEMBER 31, 2019  
(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             | \$ 23,984 (US\$ 800 thousand)           | \$ -                             | \$ -                             | -                 | Short-term financing | \$ -                        | Operation turnover               | \$ -                          | \$ -       | \$ 377,791 | \$ 1,259,304                      | Note 2                    |      |
| 1   | My Parents Living Technology Limited (Hong Kong) | Acetek Material Co., Ltd. (China)                | -                           | Y             | \$ 23,984 (US\$ 800 thousand)           | \$ -                             | \$ -                             | -                 | Short-term financing | -                           | Operation turnover               | -                             | -          | 618,257    | 824,342                           | Note 3                    |      |
| 2   | Jinan Acetate Chemical Co., Ltd.                 | Acetek Material Co., Ltd. (China)                | -                           | Y             | \$ 172,200 (RMB 40,000 thousand)        | \$ 172,200 (RMB 40,000 thousand) | \$ 172,200 (RMB 40,000 thousand) | 5.0               | Short-term financing | -                           | Operation turnover               | -                             | -          | 604,232    | 805,643                           | 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, 2019 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, 2019  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| No.<br>(Note 1) | Endorsee/Guarantee Receiver                    |   | Limit on<br>Endorsement/<br>Guarantee<br>Given on<br>Behalf of Each<br>Party<br>(Note 3) | Maximum<br>Amount<br>Endorsed/<br>Guaranteed<br>During the<br>Period | Outstanding<br>Endorsement/<br>Guarantee at<br>the End of the<br>Period | Actual<br>Borrowing<br>Amount | Amount<br>Endorsed/<br>Guaranteed by<br>Collaterals | Ratio of<br>Accumulated<br>Endorsement/<br>Guarantee to<br>Net Equity in<br>Latest<br>Financial<br>Statements (%) | Aggregate<br>Endorsement/<br>Guarantee<br>Limit<br>(Note 3) | Endorsement/<br>Guarantee<br>Given by<br>Parent on<br>Behalf of<br>Subsidiaries | Endorsement/<br>Guarantee<br>Given by<br>Subsidiaries on<br>Behalf of<br>Parent | Endorsement/<br>Guarantee<br>Given on<br>Behalf of<br>Companies in<br>Mainland<br>China | Note   |
|-----------------|--|---|--|--|---|-------------------------------|---|---|---|---|---|---|--------|
|                 | Endorser/<br>Guarantor                         | Name  |  |  |   |                               |   |   |   |   |   |   |        |
| 0               | Jinan Acetate<br>Chemical Co., Ltd.<br>(China) | Jinan Acetate Chemical Co., Ltd.<br>(China) | \$ 3,148,260   | \$ 179,880   | \$ 179,880  | \$ -                          | \$ -  | 14.28   | \$ 3,148,260  | Y   | N   | Y   | -      |
|                 |  | Jinan Acetate Chemical Co., Ltd.<br>(China) | 3,148,260  | 86,100   | 86,100  | 66,701                        | -   | 6.84  | 3,148,260   | Y   | N   | Y   | -      |
|                 |  | Acetek Material Co., Ltd. (China)           | 377,791  | 43,050   | 43,050  | -                             | -   | 3.42  | 1,259,304   | Y   | N   | Y   | Note 4 |
|                 |  | Acetek Material Co., Ltd. (China)           | 377,791  | 43,050   | 43,050  | -                             | -   | 3.42  | 1,259,304   | Y   | N   | Y   | -      |
| 1               | Jinan Acetate<br>Chemical Co., Ltd.<br>(China) | Acetek Material Co., Ltd. (China)           | 402,822  | 43,050   | 43,050  | -                             | -   | 2.14  | 1,007,054   | 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, 2019 are used to estimate the amount in New Taiwan dollar.

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

MARKETABLE SECURITIES HELD  
DECEMBER 31, 2019  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| Holding Company Name              | Type and Name of Marketable Securities<br>(Note 1) | Relationship with the<br>Holding Company<br>(Note 2) | Financial Statement Account   | December 31, 2019   |                                |                                | Note (Note 4) |            |
|-----------------------------------|--|--|---|---------------------|--------------------------------|--------------------------------|---------------|------------|
|                                   |  |  |   | Number of<br>Shares | Carrying<br>Amount<br>(Note 3) | Percentage of<br>Ownership (%) |               | Fair Value |
| Acetek Chemical Co., Ltd. (China) | Stock<br>ELEUNG LIMITED                            | -  | Financial assets at fair value through<br>other comprehensive income -<br>non-current | 333                 | \$ 31,716                      | 25                             | \$ 31,716     | -          |

Note 1: The marketable securities in this table are stocks, bonds and short-term investments accounted for under of "IFRS 9 Financial Instruments".

Note 2: The parties in the transactions are not significant related parties so the space is empty.

Note 3: Carrying amounts is fair value adjusted for deduction of accumulated impairment loss; otherwise, original carrying amounts at amortized cost after deduction of accumulated impairment loss.

Note 4: Amounts pledged should be noted on the table.

Note 5: The information about subsidiaries, associates and joint ventures is provided in Tables 6 and 7.

## 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, 2019  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| Buyer                                    | Related Party                            | Relationship              | Transaction Details |            |            | Abnormal Transaction (Note 1)       |                           | Notes/Accounts Receivable (Payable) |                | Notes |            |
|--|--|---------------------------|---------------------|------------|------------|-------------------------------------|---------------------------|-------------------------------------|----------------|-------|------------|
|  |  |                           | Purchase/Sales      | Amount     | % to Total | Payment Terms                       | Unit Price                | Payment Terms                       | Ending Balance |       | % to Total |
| Jinan Acetate Chemical Co., Ltd. (China) | Acetek Material Co., Ltd. (China)        | Subsidiary                | Purchase            | \$ 826,396 | 47.00      | Same as those for unrelated parties | No significant difference | No significant difference           | \$ -           | -     | Note 2     |
| Acetek Material Co., Ltd. (China)        | Jinan Acetate Chemical Co., Ltd. (China) | Parent company            | Sales               | (826,396)  | (27.00)    | Same as those for unrelated parties | No significant difference | No significant difference           | -              | -     | Note 3     |
| Jinan Acetate Chemical Co., Ltd. (China) | Global Filters S.A.                      | Substantive related party | Sales               | (258,583)  | (9.00)     | Same as those for unrelated parties | No significant difference | No significant difference           | 67,972         | 15.52 | -          |
| Acetek Material Co., Ltd. (China)        | Yankuang Lunan Chemical Co., Ltd.        | Substantive related party | Purchase            | 151,741    | 9.00       | Same as those for unrelated parties | No significant difference | No significant difference           | (13,561)       | 6.39  | -          |

Note 1: Differences in the condition of transactions between related parties and general customers should be noted on the table.

Note 2: The prepayment of \$184,943 thousand; purchase prices have no significant difference from general customers.

Note 3: The advance receipt of \$184,943 thousand; sales prices are equivalent to the sales prices for general customers.

Note 4: Actual capital amount is the actual amount from the parent company, issuer of no par stock or par value stock less than \$10 New Taiwan dollar shall follow the actual capital amount as 20% of transaction amount rule; equity is calculated at 10% of the equity in the parent company's balance sheet.

Note 5: The transactions between the Company and investee companies have been eliminated in the preparation of the consolidated financial statements.

**TABLE 5**

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

**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT TRANSACTIONS  
FOR THE YEAR ENDED DECEMBER 31, 2019  
(In Thousands of New Taiwan Dollars)**

| No.<br>(Note 1) | Investee Company                                 | Counterparty  | Relationship<br>(Note 2) | Transaction Details                           |                               |   | % to Total Sales<br>or Assets<br>(Note 3) |
|-----------------|--|---|--------------------------|---|-------------------------------|---|---|
|                 |  |   |                          | Financial Statement<br>Account                | Amount                        | Payment Terms   |   |
| 0               | Jinan Acetate Chemical Co., Ltd.                 | Jinan Acetate Chemical Co., Ltd. (China)  | 1                        | Other current liabilities                     | \$ 25,131                     | In accordance with mutual contracts   | 0.97                                      |
| 1               | My Parents Living Technology Limited (Hong Kong) | Jinan Acetate Chemical Co., Ltd. (China)  | 3                        | Other non-current liabilities                 | 223,740                       | In accordance with mutual contracts   | 8.65                                      |
| 2               | Jinan Acetate Chemical Co., Ltd. (China)         | Acetek Material Co., Ltd. (China)<br>Acetek Material Co., Ltd. (China)<br>Acetek Material Co., Ltd. (China) | 3<br>3<br>3              | Other receivables<br>Prepayments<br>Purchases | 172,200<br>184,943<br>826,396 | In accordance with mutual contracts<br>In accordance with mutual contracts<br>In accordance with mutual contracts | 6.66<br>7.15<br>38.00                     |

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, 2019  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| Investor Company                                 | Investee Company                                 | Location  | Main Business and Product | Original Investment Amount December 31, 2019 | Investment Amount December 31, 2018 | As of December 31, 2019 |     | Net Income (Loss) of the Investee | Share of Profit (Loss) (Note 1) | Note |
|--|--|-----------|---------------------------|--|-------------------------------------|-------------------------|-----|-----------------------------------|---------------------------------|------|
|  |  |           |                           |  |                                     | Shares                  | %   |                                   |                                 |      |
| Jinan Acetate Chemical Co., Ltd.                 | My Parents Living Technology Limited (Hong Kong) | Hong Kong | Investments               | \$ 822,593                                   | \$ 822,593                          | Note 3                  | 100 | \$ 362,067                        | \$ 362,067                      | -    |
| My Parents Living Technology Limited (Hong Kong) | Acetek Chemical Co., Ltd. (China)                | Hong Kong | Investments               | 39,196                                       | -                                   | Note 3                  | 80  | 31                                | 25                              | -    |

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 7.

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

INFORMATION ON INVESTMENTS IN MAINLAND CHINA  
FOR THE YEAR ENDED DECEMBER 31, 2019  
(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, 2019 | Remittance of Funds |        | Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2019 | Net Income (Loss) of the Investee | Ownership of Direct or Indirect Investment | Investment Gain (Loss) (Note 2) | Carrying Amount as of December 31, 2019 | Accumulated Repatriation of Investment Income as of December 31, 2019 | Note   |
|--|--|-----------------------------------|-------------------------------|---|---------------------|--------|---|-----------------------------------|--|---------------------------------|---|---|--------|
|  |  |                                   |                               |   | Outward             | Inward |   |                                   |  |                                 |   |   |        |
| Jinan Acetate Chemical Co., Ltd. (China) | Manufacturing and sales of cellulose acetate tow | \$ 264,171 (RMB 62,593 thousand)  | c                             | \$ -  | \$ -                | \$ -   | \$ -  | \$ 369,542                        | 100  | \$ 369,542 (Note 2 b (2))       | \$ 1,884,958                            | \$ -  | -      |
| Acetek Material Co., Ltd. (China)        | Manufacturing and sales of cellulose acetate     | \$ 581,452 (RMB 125,000 thousand) | c                             | \$ -  | \$ -                | \$ -   | \$ -  | \$ 11,126                         | 80   | \$ 6,303 (Note 2 b (2))         | \$ 426,920                              | \$ -  | Note 3 |

| Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2019 | 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.