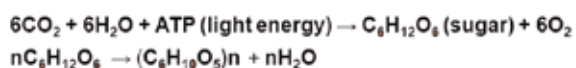
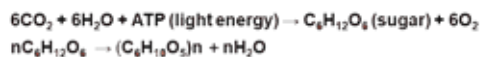
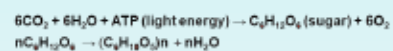


# 2020 | ANNUAL REPORT



### 1. Spokesperson and Acting spokesperson:

| Name                                 | Title                                         | Telephone        | E-mail         |
|--------------------------------------|-----------------------------------------------|------------------|----------------|
| Spokesperson<br><br>Ray Chen         | President of Cellulosic<br>Materials Division | +886-2-2396-2998 | IR.CHP@yfy.com |
| Acting spokesperson<br><br>David Lin | Manager                                       | +886-2-2396-2998 | IR.CHP@yfy.com |

### 2. Headquarters, Branch office & Plant

|                 |                                                                      |                        |
|-----------------|----------------------------------------------------------------------|------------------------|
| Headquarters    | No.100, Guanghua St., Ji'an Township, Hualien County                 | TEL : +886-3-842-1175  |
| Taipei Office   | 12F., No.51, Sec.2, Chungching South Rd. Taipei                      | TEL : +886-2-2396-2998 |
| Taipei Branch   | 12F., No.51, Sec.2, Chungching South Rd. Taipei                      | TEL : +886-2-2396-2998 |
| Taichung Branch | 5F., No.188, Zhonggong 2nd Rd., Xitun Dist., Taichung City           | TEL : +886-4-2359-3672 |
| Tainan Branch   | 3F., No.502, Sec. 2, Yonghua Rd., Anping Dist., Tainan City          | TEL : +886-6-297-3833  |
| Hualien Mill    | No.100, Guanghua St., Ji'an Township, Hualien County                 | TEL : +886-3-842-1175  |
| Jiutang Mill    | No.112, Jiutang Rd., Dashu Dist., Kaohsiung City                     | TEL : +886-7-652-0024  |
| Taitung Mill    | No.371, Sec. 4, Zhongxing Rd., Taitung City, Taitung County          | TEL : +886-89-382-255  |
| DingFung Mill   | Shouyue, Nanjie, Guangning County, Zhaoqing City, Guangdong Province | TEL : +86-758-865-9000 |

### 3. Stock Administration

SinoPac Securities – Share Registration Services Department

3F, No. 17, Boai Road, Taipei, Taiwan

<http://www.sinotrade.com.tw>

+886-2-2381-6288

### 4. Auditor

Shu-Wan Lin and Shio-Ming Shue

Deloitte and Touche Taiwan

11073 20F, No.100, Songren Rd., Taipei, Taiwan

<http://www.deloitte.com.tw>

+886-2-2725-9988

### 5. Overseas Securities Exchange: None

### 6. Company Website: [Http://www.chp.com.tw](http://www.chp.com.tw)

### 7. Stakeholders Contact: [CSROffice.chp@yfy.com](mailto:CSROffice.chp@yfy.com)

### 8. Investors Contact: [IR.chp@yfy.com](mailto:IR.chp@yfy.com)

### Notice to readers

*This annual report is a translation of the Chinese version and if there is any discrepancy between the English and Chinese versions, the Chinese version shall prevail.*

## Contents

|                                                                                                                                                                           |           |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| <b>Letter to Shareholders.....</b>                                                                                                                                        | <b>5</b>  |
| <b>Corporate Overview.....</b>                                                                                                                                            | <b>8</b>  |
| 2.1 Date of Incorporation.....                                                                                                                                            | 8         |
| 2.2 Company History .....                                                                                                                                                 | 8         |
| <b>Corporate Governance Report.....</b>                                                                                                                                   | <b>10</b> |
| 3.1 Organization .....                                                                                                                                                    | 10        |
| 3.2 Directors and Management Team .....                                                                                                                                   | 11        |
| 3.3 Remuneration of Directors (include Independent Directors), President, and Vice Presidents.....                                                                        | 18        |
| 3.4 Implementation of Corporate Governance .....                                                                                                                          | 25        |
| 3.5 Audit Fee.....                                                                                                                                                        | 71        |
| 3.6 Replacement of Certified Public Accountant (CPA): .....                                                                                                               | 71        |
| 3.7 The Chairman, President and Financial or Accounting Managerial Officer of the Company who had worked for the Independent CPA or the affiliate in the past year: ..... | 71        |
| 3.8 Shareholding Transferred or Pledged by Directors, Management, and Major Shareholders Who Holds 10% of The Company Shares or More: .....                               | 72        |
| 3.9 Information disclosing the spouse, kinship within second degree, and relationship between any of the top ten shareholders: .....                                      | 73        |
| 3.10 Comprehensive Shareholding Information Relating to Company, Directors, Management, and Companies Affiliated through Direct and Indirect Investment: .....            | 74        |
| <b>Capital Overview .....</b>                                                                                                                                             | <b>75</b> |
| 4.1 Source of capital .....                                                                                                                                               | 75        |
| 4.2 Shareholder Structure .....                                                                                                                                           | 75        |
| 4.3 Shareholding Distribution .....                                                                                                                                       | 76        |
| 4.4 Major Shareholders.....                                                                                                                                               | 76        |

|                                                                                                                                 |           |
|---------------------------------------------------------------------------------------------------------------------------------|-----------|
| 4.5 Share Price, Net Worth, Earnings, Dividends and Related Information.....                                                    | 77        |
| 4.6 Dividend Policy and Implementation Status .....                                                                             | 77        |
| 4.7 Impact of Stock Dividend Distribution on Business Performance and EPS:.....                                                 | 78        |
| 4.8 Employees’ and Directors’ Remunerations .....                                                                               | 78        |
| 4.9 Repurchases of Treasury Stock: .....                                                                                        | 79        |
| 4.10 Corporate Bond Issuance: .....                                                                                             | 80        |
| 4.11 Preferred Stock Issuance:.....                                                                                             | 80        |
| 4.12 Global Depository Receipts Issuance:.....                                                                                  | 80        |
| 4.13 Employee Stock Options: .....                                                                                              | 80        |
| 4.14 New Restricted Employee Shares: .....                                                                                      | 80        |
| 4.15 Shares Issued for Mergers and Acquisitions: .....                                                                          | 80        |
| 4.16 Utilization of Funds: .....                                                                                                | 80        |
| <b>Business Overview .....</b>                                                                                                  | <b>81</b> |
| 5.1 Scope of Business .....                                                                                                     | 81        |
| 5.2 Market and Sales Outlook.....                                                                                               | 83        |
| 5.3 Employee Information in the last two years and up to the print date of this annual report .....                             | 86        |
| 5.4 Environmental Protection Expenditure .....                                                                                  | 86        |
| 5.5 Labor Relations.....                                                                                                        | 89        |
| 5.6 Major Contracts.....                                                                                                        | 95        |
| <b>Financial Overview .....</b>                                                                                                 | <b>96</b> |
| 6.1 Five-Year Financial Summary .....                                                                                           | 96        |
| 6.2 Five-Year Financial Analysis .....                                                                                          | 100       |
| 6.3 Audit Committee’s Report for the Most Recent Year .....                                                                     | 102       |
| 6.4 Consolidated Financial Statements for the Years Ended December 31, 2020 and 2019, and Independent<br>Auditors’ Report ..... | 103       |
| 6.5 Financial Statements for the Years Ended December 31, 2019 and 2018, and Independent Auditors’ Report ..                    | 185       |
| 6.6 Any financial difficulty and the impact on the Company's finance in last year and up .....                                  | 254       |

|                                                                                                                                               |            |
|-----------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>Review of Financial Conditions, Financial Performance, and Risk Management</b>                                                             | <b>255</b> |
| 7.1 Balance Sheet Analysis                                                                                                                    | 255        |
| 7.2 Statements of Comprehensive Income Analysis                                                                                               | 256        |
| 7.3 Cash Flow Analysis                                                                                                                        | 257        |
| 7.4 Major Capital Expenditures and Impact on Financial Operations in last year                                                                | 257        |
| 7.5 Reinvestment Policy, Reasons for Profit or Loss, Improvement Plans, and Investment Plans for Next Year                                    | 258        |
| 7.6 Risk Analysis and Assessment (in the most recent year and up to the print date of this annual report)                                     | 258        |
| 7.7 Other Important Matters                                                                                                                   | 266        |
| <b>Special Disclosure</b>                                                                                                                     | <b>267</b> |
| 8.1 Summary of Affiliated Companies                                                                                                           | 267        |
| 8.2 Private Placement Securities in the Last Fiscal Year and Up to the Publishing Date of this Annual Report                                  | 271        |
| 8.3 The Shares in the Company Held or Disposed of by Subsidiaries in the last Fiscal Year and Up to the Publishing Date of this Annual Report | 272        |
| 8.4 Other Information Which Should be Disclosed                                                                                               | 272        |
| 8.5 Other Supplementary Information                                                                                                           | 272        |

## **Letter to Shareholders**

---

Dear Shareholders, Ladies and Gentlemen,

In 2020, impacted by the volatility of the US-China tech war, global economic growth momentum has clearly weakened. However, Taiwan has benefited from export growth that was driven by factors such as the transfer of trade orders and controlling the epidemic. The annual real GDP growth rate reached 2.3% in the third quarter. Domestic consumption rebounded and investments increased. On January 3, 2021, the Taiwan Institute of Economic Research estimated that Taiwan's economic growth rate in 2020 would be 2.54% and forecasted a GDP of 3.83% for 2021.

In terms of the international paper industry, due to the trade conflicts between China, the US, Japan, and South Korea, UK's Brexit in 2019, and supply chain reorganization, peak periods are not prosperous and demand is weak overall. In 2020, the COVID-19 outbreak caused a severe recession in the global economy. At the same time, due to the US-China trade conflict and the sharp appreciation of the New Taiwan dollar, many are in observation mode, giving no incentive for pulp and paper prices to rise. The pulp market fell from the high point in the third quarter of 2018. Although there were rebounds during the period, the overall trend is still downwards and has continued until the third quarter of 2020. So far, this has been the longest consolidation at low end. After pulp mills around the world have adjusted their inventories in 2020, pulp prices began to rise from the bottom in December 2020. International pulp and paper prices rebounded in early 2021.

In terms of international recycled paper, due to the impact of COVID-19, countries have implemented lockdowns, closed borders, and adopted home quarantine or quarantine measures one after another. Inconvenient logistics greatly reduced the supply of recycled paper, thereby skyrocketing global waste paper quotations. However, China's ban on importing recycled paper in 2021 may effectively improve

domestic supply and prices should return to normal levels.

CHP's consolidated operating income for 2020 amounted to approximately NT\$18.68 billion, which is a decrease of approximately NT\$2 billion from NT\$20.69 billion in 2019. The net loss after tax attributable to the Company in 2020 is approximately NT\$200 million, which, compared with the net loss of NT\$245 million in 2019, is a decrease of about NT\$45 million. Paper production in 2020 is 391,362 metric tons, which is an increase of 19,928 metric tons from 371,434 metric tons in 2019. Domestic paper sales is 191,349 metric tons and export sales is 232,076, totaling 423,425 metric tons. Cardboard production was 143,416 metric tons, which is an increase of 10,344 metric tons from the 133,072 metric tons produced in 2019.

In 2020, CHP actively developed non-plastic food paper that is free of plastic coating and 100% recyclable. It can be used for paper cups, paper bowls, and paper lunch boxes, which can be directly recycled and reused. With this development, CHP achieved the three main goals of reducing plastic, reducing carbon, and reducing waste. Moreover, the Hualien plant will also build a new plant in 2021. CHP's operational momentum in 2021 will be improved by utilizing the advantages of pulping to produce full cycle end products, focusing on a circular economy as the development core for overall upgrading, and the operation of the Guanyin plant in the second half of the year. And with the development of policies that limit plastic usage around the world, CHP will continue to develop relevant plastic-free products. Facing the many uncertainties of the global economy and COVID-19 in 2021, CHP will not only continue to strengthen the source of raw materials, improve production efficiency, and reduce costs, but also focus more on the global marketing and expansion of plastic-free products and food safety packaging materials, continue to develop new products with high added value, and expand the application market of existing products and strengthen services to enhance market competitiveness and create maximum profit for shareholders.

Sustained development has always been the greatest common denominator of CHP's business. With 3R (Recycle/Reclaim/Regenerate) as the core strategy, CHP actively achieved the consistent production of forest, pulp, and paper, built a sustainable, circular management system, and then promoted it to the specialty materials industry. In the future, in the global industrial structure, CHP hopes that it can deepen its positioning and build a service connection platform, and adhere to the "ECO" business philosophy to continue to communicate with stakeholders and implement a new circular economy blueprint one step at a time.

Best regards,

Chairman Kirk Hwang

## **Corporate Overview**

---

### **2.1 Date of Incorporation**

July 5<sup>th</sup> 1968

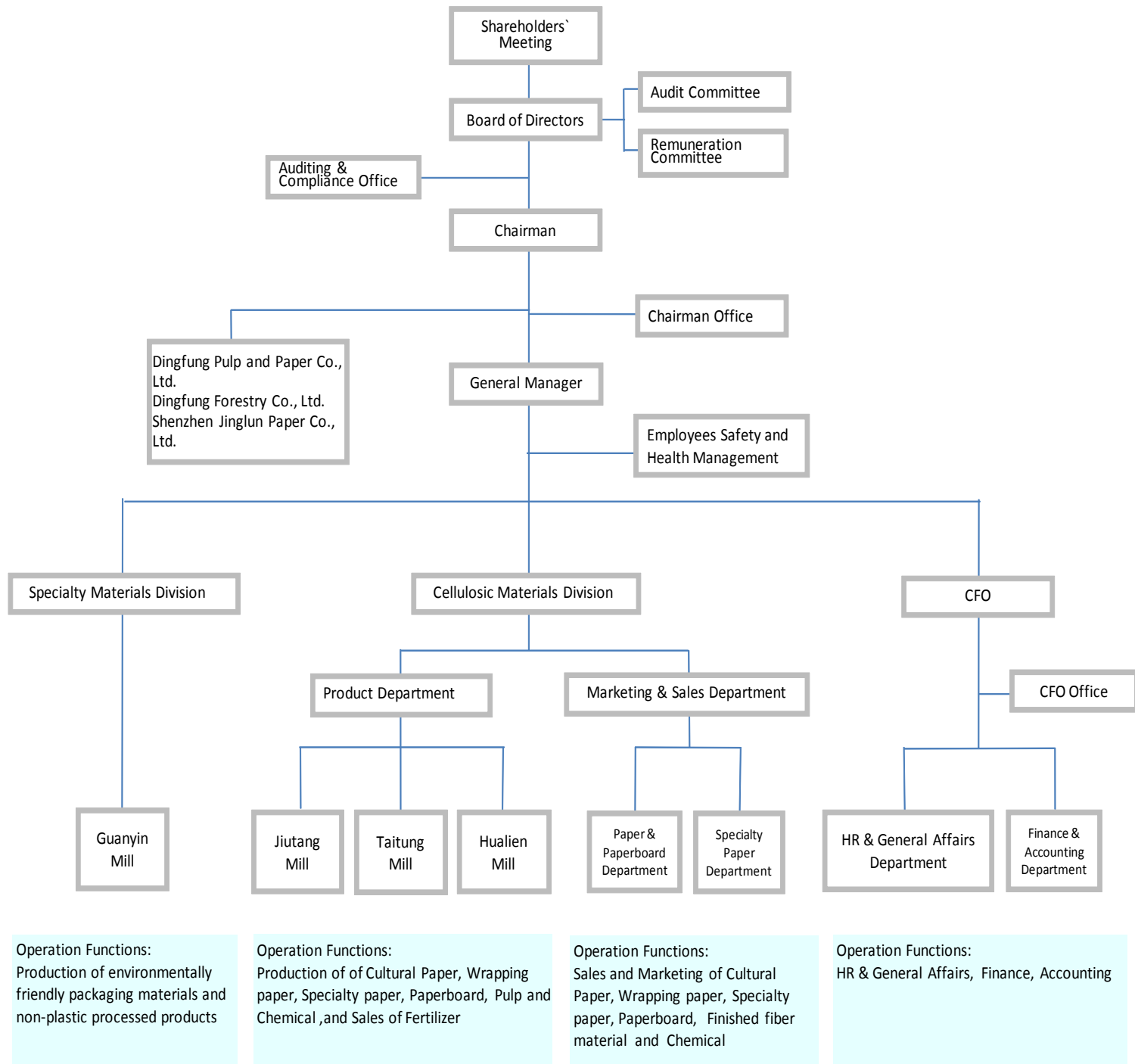
### **2.2 Company History**

- 1968** Officially established the Company; initiated the construction for the Hualien mill.
- 1969** Began trial at the Hualien mill.
- 1970** Started production at the Hualien mill.
- 1975** The company's stock were listed
- 1976** Founded the invested company, PT Indah Kiat. Pulp & Paper.
- 1978** The production capacity of the Hualien mill was expanded to 120,000 tons of bleach pulp annually. It was officially put in production in 1980.
- 1990** Founded CHP International (BVI) Corporation.
- 1994** Founded Hwa Fong Investment Co., Ltd.
- 1996** Certified by ISO 9002, an international quality assurance certification.
- 2000** Invested in Guangdong Dingfung Plup & Paper Co., Ltd.
- 2000** Certified by ISO 14001, an international quality assurance certification.
- 2006** Founded Zhaoqing Dingfung Forestry Co., Ltd. in Guangdong Province, China.
- 2008** Invested in EFFION Enertech Co., Ltd.
- 2009** Received the FSC-CoC certification for the cultural paper.
- 2010** Received the PEFC-CoC certification for the kraft hardwood bleached pulp and cultural paper.
- 2010** The Company's shares were fully converted into non-physical securities.
- 2010** Obtained Paper Star Carbon Footprint Certificate for printing paper.
- 2012** The Shareholders' Meeting passed the decision to take over the paper and paperboard division of YFY Paper MFG. Co., Ltd. through demerger.
- 2013** The Director and Supervisor elections adopted the candidate nomination system and set up two seats for Independent Directors.
- 2014** The Taipei Office was relocated from the Tai Tsi Building to the YFY Hsin-Yi Building.
- 2014** The Guangdong Dingfung Pulp & Paper Co., Ltd. expanded the production line of household paper to 50,000 tons a year. It was put into production at the end of September, 2016.
- 2015** The Shareholders' Meeting passed the cash capital reduction of NT\$1.2 billion. The procedures were completed by October 2015, and the Company was re-listed for trading.

- 2016** The Company re-elected the 17th Board of Directors and Independent Directors, and set up the first Audit Committee to enter a new era of corporate governance.
- 2017** The forestry land of a subsidiary, Zhaoqing Dingfung Forestry Co., Ltd., officially passed the SGS certification in China and obtained the FM/CoC certificate from the FSC (Forest Stewardship Council).
- 2018** Guangdong Dingfung Pulp & Paper Co., Ltd. received Shenzhen Jinglun Paper Co., Ltd. The non-fluorescent process was applied for all products. The Company successfully developed the Easy Straw Paper and non-fluorescent cultural paper.
- 2019** CHP INTERNATIONAL (BVI) CORPORATION sferred to Syntax Communication (H.K.) Ltd.  
Subsidiary Guangdong Dingfung Pulp & Paper Co., Ltd. established Zhaoqing Xinchuan Green Technology Co., Ltd. to develop environmentally friendly processing technology for process waste.
- 2020** The Board of Directors approved an investment of NT\$2 billion to purchase a mill in the Taoyuan Guanyin industrial zone to build a development base for non-plastic materials.

## Corporate Governance Report

### 3.1 Organization



3.2 Directors and Management Team

3.2.1 Directors

3/31/2021

| Title                | Nationality/ Place of Incorporation | 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 |          |                | Note |
|----------------------|-------------------------------------|--------------------------------------------------------------------|--------|--------------|--------------|--------------------|---------------------------|-------|----------------------|-------|-----------------------------|---|-------------------------------------|---|--------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|----------|----------------|------|
|                      |                                     |                                                                    |        |              |              |                    | Shares                    | %     | Shares               | %     | Shares                      | % | Shares                              | % |                                            |                                                                                                                                                                                                                                                                                                                                           | Title                                                                                 | Name     | Relation       |      |
| Director             | ROC                                 | YFY INC.                                                           | -      | 6/21/2019    | 3            | 6/13/2007          | 627,827,989               | 56.93 | 627,827,989          | 56.93 | -                           | - | -                                   | - | -                                          | -                                                                                                                                                                                                                                                                                                                                         | -                                                                                     | -        | -              | -    |
| Chairman             | ROC                                 | YFY Inc. Representative: Kirk Hwang                                | Male   | 6/21/2019    | 3            | 7/1/2011           | 55,737                    | -     | 995,737              | -     | -                           | - | -                                   | - | CEO, CHP                                   | Director of CHP International (BVI) Corp. Director of Guangdong Dingfung pulp and paper Co., Ltd. Director of Zhaoqing Dingfung Forestry Co., Ltd. Other non-consolidated company positions please refer to the Note 1                                                                                                                    | -                                                                                     | -        | -              | -    |
| Director             | ROC                                 | YFY Inc. Representative: S. C. Ho                                  | Male   | 6/21/2019    | 3            | 3/15/1977          | 1,223,071                 | 0.11  | 1,223,071            | 0.11  | -                           | - | -                                   | - | Director, YFY Inc.                         | Note2                                                                                                                                                                                                                                                                                                                                     | Director                                                                              | Felix Ho | Father and son | -    |
| Director             | ROC                                 | YFY Inc. Representative: Felix Ho                                  | Male   | 6/21/2019    | 3            | 3/16/2017          | -                         | -     | -                    | -     | -                           | - | -                                   | - | Chairman, YFY Inc.                         | Note3                                                                                                                                                                                                                                                                                                                                     | Director                                                                              | S.C. Ho  | Father and son | -    |
| Director             | ROC                                 | YFY Paradigm Investment Co., Ltd.                                  | -      | 10/7/2020    | 3            | Note 4             | 7,752,732                 | 0.70  | 7,752,732            | 0.70  | -                           | - | -                                   | - | -                                          | -                                                                                                                                                                                                                                                                                                                                         | -                                                                                     | -        | -              | -    |
| Director             | ROC                                 | YFY Paradigm Investment Co., Ltd. Representative: Chih-Cheng Huang | Male   | 6/21/2019    | 3            | 6/14/2010          | -                         | -     | -                    | -     | -                           | - | -                                   | - | Executive Vice President, CHP              | President of CHP Director of Guangdong Dingfung pulp and paper Co., Ltd. Director of Zhaoqing Dingfung Forestry Co., Ltd. Chairman of Shenzhen Jinglun paper Co., Ltd. Director of Syntax Communication (H.K.) Ltd. Director of Hwafong Investment Co.,Ltd. Other non-consolidated company positions please refer to the Note 5           | -                                                                                     | -        | -              | -    |
| Director             | ROC                                 | YFY Paradigm Investment Co., Ltd. Representative: Guu-Fong Lin     | Male   | 6/21/2019    | 3            | 12/12/2007         | 49,132                    | -     | 49,132               | 565   | -                           | - | -                                   | - | COO, CHP                                   | CFO of CHP Director of CHP International (BVI) Corp. Chairman of Guangdong Dingfung pulp and paper Co., Ltd. Chairman and GM of Zhaoqing Dingfung Forestry Co., Ltd. Chairman of Zhaoqing Xinchuan Green Technology Co., Ltd. Chairman of Hwafong Investment Co.,Ltd. Other non-consolidated company positions please refer to the Note 6 | -                                                                                     | -        | -              | -    |
| Director             | ROC                                 | YFY Paradigm Investment Co., Ltd. Representative: Ray Chen         | Male   | 6/21/2019    | 3            | 6/24/2016          | 45                        | -     | -                    | -     | -                           | - | -                                   | - | Executive Vice President, CHP              | President of Cellulosic Materials Division of CHP Director of Shenzhen Jinglun paper Co., Ltd. Other non-consolidated company positions please refer to the Note 7                                                                                                                                                                        | -                                                                                     | -        | -              | -    |
| Independent Director | ROC                                 | Donald Chang                                                       | Male   | 6/21/2019    | 3            | 6/24/2016          | -                         | -     | -                    | -     | -                           | - | -                                   | - | President of Greater China of 3M           | Convener of CHP's Remuneration Committee and member of the Audit Committee Director of Advantech Co., Ltd. Independent Director of E-Ink holdings Inc. and member of the Remuneration Committee and the Audit Committee                                                                                                                   | -                                                                                     | -        | -              | -    |
| Independent Director | ROC                                 | Shih-Lai Lu                                                        | Male   | 6/21/2019    | 3            | 6/24/2016          | -                         | -     | -                    | -     | -                           | - | -                                   | - | Chief Scientist & Sr. R & D Manager of 3M  | Member of CHP Remuneration Committee and Audit Committee Professor of NTHU                                                                                                                                                                                                                                                                | -                                                                                     | -        | -              | -    |
| Independent Director | ROC                                 | Yi Lee                                                             | Male   | 6/21/2019    | 3            | 6/21/2019          | -                         | -     | -                    | -     | -                           | - | -                                   | - | Chairman, E & E Recycling Development Inc. | Convener of CHP's Audit Committee and member of the Remuneration Committee                                                                                                                                                                                                                                                                | -                                                                                     | -        | -              | -    |

**Note1:** Director & CTO of YFY Inc., Director of Shin Foong Specialty and Applied Materials Co., Ltd., Director of NTU Innovation Incubation Co., Ltd., Director of Center for Corporate Sustainability Taiwan, Chairman of Industrial Committee of TwiChE , Director, Taiwan Paper Industry Association , Director of Taiwan Carbon Capture Storage and Utilization Association.

**Note2:** Director of YFY INC., Director of E Ink Corporation, Director of YFY Jupiter (BVI), Inc., Director of E Ink Holdings Inc., Director of TaiGen Biotechnology Co., Ltd., Director of TaiGen Biopharmaceuticals Holdings Limited, Director of San Ying Enterprise Co., Ltd., Director of China Color Printing Co., Ltd., Director of Cupid InfoTech Co., Ltd., Director of Effion Enertech Co., Ltd., Director of Yuen Foong Yu Biotech Co., Ltd., Director of Shen's Art Printing Co., Ltd., Director of Sustainable Carbohydrate Innovation Co., Ltd., Director of YFY Biotech Management Company, Managing Director of China Investment and Development Co., Ltd., Director of Yuen Foong Yu Paper MFG (Yangzhou) Co., Ltd., Director of Yuen Foong Yu Consumer Products Co., Ltd., Director of Yuen Foong International (Samoa) Ltd., Director of YFY Japan Co., Ltd., Director of Artone Investment (H.K.) Ltd., Director of Artone Specialties Company Limited, Director of Hsinex International Corp., Director of Taitung Enterprise Corp., Director of Shin-Yi Enterprise Co., Ltd., Chairman of Shin-Yi Investment Co., Ltd., Director of Shin-Yi Recreation Co., Ltd.; Director of Ru Yi Enterprise Co., Ltd., Director of Xing Yuan Investment Co., Ltd., Director of Yuen Foong Co., Ltd., Chairman of Yuen Foong Paper Co., Ltd., Chairman of Yuen Shin Yi Enterprise Co., Ltd., Director of Yong-An Leasing Co., Ltd., Director of Y F Chemical Corp., Director of SinoCell Technologies Co., Ltd, Chairman of Fu Hwa Enterprise Co., Ltd., Director of HuaDong Industrial Co., Ltd., Director of Synmax Biochemical Co., Ltd, Director of Ho Jei Lai Kosan Unlimited Company, Director of Hsin Yi Holding Company, Director of Hsin Yi Foundation, Chairman of Foundation of Fire Fighting Development, Director of Shang Shan Human Culture Foundation, Director of Liver Disease Prevention & Treatment Research Foundation, Director of The Eisenhower Fellows Association in the Republic of China, Director of Yuan T. Lee Foundation Science Education for All, and Director of Foundation for the Advancement of Outstanding Scholarship..

**Note3:** Chairman of YFY Inc., Director of Jupiter Prestige Group Holding Limited, Chairman of Willpower Industries Limited, Director of Yuen Foong Yu Paper Enterprise (Vietnam) Company Limited, Chairman of YFY Jupiter(BVI)Inc., Director of YFY Biopulp Technology Ltd., Director of YFY RFID Co., Ltd., Director of YFY Packaging Inc.; Chairman of YFY Consumer Products Co., Ltd., Chairman of Ever Growing Agriculture Bio-tech Co., Ltd., Chairman of Yuen Foong Shop Co., Ltd., Director of Livebricks Inc., Director of E Ink Holdings Inc., Director of Aidatek Electronics, Inc., Director of eCrowd Media Inc, Chairman of Arizon RFID Technology Co., Ltd., Director of Arizon Japan Co., Ltd., Director of YFY Packaging (Yangzhou) Investment Co., Ltd., Director of Yuen Foong Yu Paper MFG (Yangzhou) Co., Ltd., Chairman of Yuen Foong Yu Investment Co., Ltd., Director of YFY Mauritius Corp., Director of Yuen Foong Yu Consumer Products Investment Ltd., Director of YFY Japan Co., Ltd., Director of Yuen Foong International (Samoa) Ltd., Director of Artone Investment (H.K.) Ltd., Director of Shin-Yi Enterprise Co., Ltd., Director of Yuen Foong Paper Co., Ltd., Chairman, Yuen Foong Co., Ltd., Director of Fu Hwa Enterprise Co., Ltd., Director of Cheng Yu Co., Ltd., Independent Director of Universal Cement Corporation, Supervisor of The Eisenhower Fellows Association in the Republic of China, Chairman of Epoch Foundation, Chairman of Taiwan Paper Industry Association, Director of Monte Jade Taiwan Science & Tech Association and Chairman of Association of Corporate Patent Executives.

**Note4:** Lotus Ecoscience & Engineering Co., Ltd., originally an Institutional Director of the Company, merged with YFY Paradigm Investment Co., Ltd. on October 7, 2020, with YFY Paradigm Investment Co., Ltd. being the continuing company.

**Note5:** Southern Regional Director of R& D Center of YFY Inc., and Director of Hwa Fong Paper (Hong Kong) Co., Ltd..

**Note6:** Supervisor of Taiwan Global Biofund Co., Ltd..

**Note7:** Director of Union Paper Corp., Director of Hwa Fong Paper (Hong Kong) Ltd. and Director of Beautone Inc.

### Major shareholders of the institutional shareholders

12/31/2020

| Name of Institutional Shareholders | Major Shareholders                                                                                                                                                                                                                                                                           |
|------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| YFY INC.                           | S. C. Ho(10.28%), Hsin-Yi Foundation(5.66%), Shin-Yi Enterprise Co., Ltd.(4.69%), Cheng-Ting Ho(2.80%), YFY Inc. Labor Retirement Reserve Supervisory Committee(2.79%), Mei-Yu Ho(2.66%), NEW TALENT LIMITED(2.28%), Felix Ho(2.14%), Min-Ting Ho(2.07%), Hsinex International Corp. (2.06%) |
| YFY Paradigm Investment Co., Ltd.  | YFY INC.(100.0%)                                                                                                                                                                                                                                                                             |

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

12/31/2020

| Name of Institutional Shareholders | Major Shareholders                                                                                                                                                                                                                                                                                                                         |
|------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Shin-Yi Foundation                 | Founded in 1971, main donors: Chuan Ho, Shou-Shan Ho, S. C. Ho, Lin-Fu-Xiang Ho, Yeh Sun, YFY MFG (donated prior to becoming a listed company) and Shin-Yi Enterprise Co., Ltd.                                                                                                                                                            |
| Shin-Yi Enterprise Co., Ltd.       | S. C. Ho(27.84%), Jucheng Investment & Management Co., Ltd.(12.50%), BRILLIANT PRIDE LIMITED(12.50%), Gao Da Global Ltd.(12.50%), Mei-Yu Ho(12.50%), Guan Yu Investment Co., Ltd.(5.91%), Tsai-Hui-Shin Ho(2.48%), Richard Ho(2.18%), Jin Jie Investment Ltd.(1.52%), Hoss Educational Foundation(1.48%), Hoss Cultural Foundation (1.48%) |
| NEW TALENT LIMITED                 | Modern Victory Limited(100.0%)                                                                                                                                                                                                                                                                                                             |
| Hsinex International Corp.         | S. C. Ho(53.13%), Yi-Chia Ho(24.48%), Felix Ho(22.28%), Chen Yu Co., Ltd.(0.11%)                                                                                                                                                                                                                                                           |

## Professional qualifications and independence analysis of directors

3/31/2021

| Name             | Criteria | Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience                                                                                                           |                                                                                                                                                                                                                                                 |                                                                                                                                    | Independence Criteria(Note) |   |   |   |   |   |   |   |   |    |    |    | Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director |
|------------------|----------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|---|---|---|---|---|---|---|---|----|----|----|-------------------------------------------------------------------------------------------------------------|
|                  |          | An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University | A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company | Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company | 1                           | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |                                                                                                             |
| Kirk Hwang       |          |                                                                                                                                                                                                                                | V                                                                                                                                                                                                                                               |                                                                                                                                    |                             |   | V | V |   |   | V | V | V | V  | V  |    |                                                                                                             |
| S. C. Ho         |          |                                                                                                                                                                                                                                | V                                                                                                                                                                                                                                               |                                                                                                                                    | V                           |   | V |   |   |   | V | V | V |    | V  |    |                                                                                                             |
| Felix Ho         |          |                                                                                                                                                                                                                                | V                                                                                                                                                                                                                                               |                                                                                                                                    | V                           |   | V |   |   |   | V | V | V |    | V  |    |                                                                                                             |
| Chih-Cheng Huang |          |                                                                                                                                                                                                                                | V                                                                                                                                                                                                                                               |                                                                                                                                    |                             |   | V | V |   |   |   | V | V | V  | V  |    |                                                                                                             |
| Guu-Fong Lin     |          |                                                                                                                                                                                                                                | V                                                                                                                                                                                                                                               |                                                                                                                                    |                             |   | V | V | V | V |   | V | V | V  | V  |    |                                                                                                             |
| Ray Chen         |          |                                                                                                                                                                                                                                | V                                                                                                                                                                                                                                               |                                                                                                                                    |                             |   | V | V | V | V |   | V | V | V  | V  |    |                                                                                                             |
| Donald Chang     |          |                                                                                                                                                                                                                                | V                                                                                                                                                                                                                                               |                                                                                                                                    | V                           | V | V | V | V | V | V | V | V | V  | V  | V  | 1                                                                                                           |
| Shih-Lai Lu      | V        |                                                                                                                                                                                                                                | V                                                                                                                                                                                                                                               |                                                                                                                                    | V                           | V | V | V | V | V | V | V | V | V  | V  | V  |                                                                                                             |
| Yi Lee           |          |                                                                                                                                                                                                                                | V                                                                                                                                                                                                                                               |                                                                                                                                    | V                           | V | V | V | V | V | V | V | V | V  | V  | V  |                                                                                                             |

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

1. Not an employee of the company or any of its affiliates.
2. Not a director or supervisor of the company or any of its affiliates. Not apply to independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, a public company and its parent or subsidiary or a subsidiary of the same parent.
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 of one percent or more of the total number of issued shares of the company or ranking in the top 10 in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of a managerial officer under subparagraph 1 or any of the persons in the preceding two subparagraphs.
5. Not a director, supervisor, or employee of a corporate shareholder that directly holds five percent or more of the total number of issued

- shares of the company, or that ranks among the top five in shareholdings, or that designates its representative to serve as a director or supervisor of the company under Article 27, paragraph 1 or 2 of the Company Act. Not apply to independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, a public company and its parent or subsidiary or a subsidiary of the same parent.
6. If a majority of the company's director seats or voting shares and those of any other company are controlled by the same person: not a director, supervisor, or employee of that other company. Not apply to independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, a public company and its parent or subsidiary or a subsidiary of the same parent.
  7. If the chairperson, general manager, or person holding an equivalent position of the company and a person in any of those positions at another company or institution are the same person or are spouses: not a director (or governor), supervisor, or employee of that other company or institution. Not apply to independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, a public company and its parent or subsidiary or a subsidiary of the same parent.
  8. Not a director, supervisor, officer, or shareholder holding five percent or more of the shares, of a specified company or institution that has a financial or business relationship with the company. Not apply to independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, a public company and its parent or subsidiary or a subsidiary of the same parent, if the specified company or institution holds 20 percent or more and no more than 50 percent of the total number of issued shares of the public company.
  9. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides auditing services to the company or any affiliate of the company, or that provides commercial, legal, financial, accounting or related services to the company or any affiliate of the company for which the provider in the past 2 years has received cumulative compensation exceeding NT\$500,000, or a spouse thereof; provided, this restriction does not apply to a member of the remuneration committee, public tender offer review committee, or special committee for merger/consolidation and acquisition, who exercises powers pursuant to the Act or to the Business Mergers and Acquisitions Act or related laws or regulations.
  10. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
  11. Not been a person of any conditions defined in Article 30 of the Company Law.
  12. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

Overall capacity and diversification of the Board: All Directors have been evaluated to be equipped with the ability to make operational judgments, management skills, crisis management ability, international market insight, leadership and decision-making ability, and risk and knowledge management ability. Moreover, they are equipped with the following abilities:

| Diversification<br>n<br>Name | Gender | Age                  |                       |                    | Independent Director<br>office term |              |                            | Accounting<br>and financial<br>analysis | Transnational<br>operations | Paper<br>industry | Material<br>research and<br>development | Risk<br>management |
|------------------------------|--------|----------------------|-----------------------|--------------------|-------------------------------------|--------------|----------------------------|-----------------------------------------|-----------------------------|-------------------|-----------------------------------------|--------------------|
|                              |        | < 50<br>years<br>old | 50-70<br>years<br>old | 70<br>and<br>above | < 3<br>years                        | 3-9<br>years | 9<br>years<br>and<br>above |                                         |                             |                   |                                         |                    |
| Kirk Hwang                   | Male   |                      |                       | V                  |                                     |              |                            | V                                       | V                           | V                 | V                                       | V                  |
| S. C. Ho                     | Male   |                      |                       | V                  |                                     |              |                            | V                                       | V                           | V                 | V                                       | V                  |
| Felix Ho                     | Male   | V                    |                       |                    |                                     |              |                            | V                                       | V                           | V                 | V                                       | V                  |
| Chih-Cheng<br>Huang          | Male   |                      | V                     |                    |                                     |              |                            | *                                       | V                           | V                 | V                                       | V                  |
| Guu-Fong<br>Lin              | Male   |                      |                       | V                  |                                     |              |                            | V                                       | V                           | V                 | -                                       | V                  |
| Ray Chen                     | Male   |                      | V                     |                    |                                     |              |                            | *                                       | V                           | V                 | -                                       | V                  |
| Donald<br>Chang              | Male   |                      | V                     |                    |                                     | V            |                            | V                                       | V                           | -                 | -                                       | V                  |
| Shih-Lai Lu                  | Male   |                      |                       | V                  |                                     | V            |                            | *                                       | *                           | -                 | V                                       | *                  |
| Yi Lee                       | Male   |                      |                       | V                  | V                                   |              |                            | V                                       | V                           | -                 | -                                       | V                  |

Note: \* equip part of the ability.

### 3.2.2 Management Team

3/31/2021

| Title                                                     | Nationality | Name              | Gender | Date Effective | Shareholding |   | Spouse & Minor Shareholding |   | Shareholding by Nominee Arrangement |   | Experience (Education)       | Other Position                                                                                                                                                                                                                                                                                                                                 | Managers who are Spouses or Within Two Degrees of Kinship |      |          | Note  |
|-----------------------------------------------------------|-------------|-------------------|--------|----------------|--------------|---|-----------------------------|---|-------------------------------------|---|------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|------|----------|-------|
|                                                           |             |                   |        |                | Shares       | % | Shares                      | % | Shares                              | % |                              |                                                                                                                                                                                                                                                                                                                                                | Title                                                     | Name | Relation |       |
| CEO<br>Note1                                              | ROC         | Kirk Hwang        | Male   | 10/1/2012      | 995,737      | - | -                           | - | -                                   | - | CHP President                | Director of CHP International (BVI) Corp.<br>Director of Guangdong Dingfung Pulp and Paper Co., Ltd.<br>Director of Zhaoqing Dingfung Forestry Co., Ltd.<br>Other non-consolidated company positions please refer to the Note 2                                                                                                                | -                                                         | -    | -        | Note2 |
| President                                                 | ROC         | Chih-Cheng Huang  | Male   | 3/16/2017      | -            | - | -                           | - | -                                   | - | CHP Executive Vice President | Director of Guangdong Dingfung pulp and paper Co., Ltd.<br>Director of Zhaoqing Dingfung Forestry Co., Ltd.<br>Chairman of Shenzhen Jinglun Paper Co., Ltd.<br>Director of Syntax Communication (H.K.) Ltd.<br>Director of Hwafong Investment Co., Ltd.<br>Other non-consolidated company positions please refer to the Note 3                 | -                                                         | -    | -        | -     |
| CFO                                                       | ROC         | Guu-Fong Lin      | Male   | 9/1/2013       | 49,132       | - | 565                         | - | -                                   | - | CHP COO                      | Director of CHP International (BVI) Corp.<br>Chairman of Guangdong Dingfung Pulp and Paper Co., Ltd.<br>Chairman and GM of Zhaoqing Dingfung Forestry Co., Ltd.<br>Chairman of Zhaoqing Xinchuan Green Technology Co., Ltd.<br>Chairman of Hwafong Investment Co., Ltd.<br>Other non-consolidated company positions please refer to the Note 4 | -                                                         | -    | -        | -     |
| President of Cellulosic Materials Division                | ROC         | Ray Chen          | Male   | 3/1/2021       | 45           | - | -                           | - | -                                   | - | CHP Executive Vice President | Director of Shenzhen Jinglun Paper Co., Ltd.<br>non-consolidated company positions please refer to the Note 5                                                                                                                                                                                                                                  | -                                                         | -    | -        | -     |
| President of Specialty Materials Division                 | Japan       | Yoshihiro Akiyama | Male   | 3/1/2021       | -            | - | -                           | - | -                                   | - | -                            | -                                                                                                                                                                                                                                                                                                                                              | -                                                         | -    | -        | -     |
| Executive Vice President of Cellulosic Materials Division | ROC         | Rong-Ming Lin     | Male   | 3/1/2018       | -            | - | -                           | - | -                                   | - | CHP Factory Director         | non-consolidated company positions please refer to the Note 6                                                                                                                                                                                                                                                                                  | -                                                         | -    | -        | -     |
| Vice President of Cellulosic Materials Division           | ROC         | Alex Chen         | Male   | 7/1/2016       | -            | - | -                           | - | -                                   | - | CHP Manager                  | non-consolidated company positions please refer to the Note 7                                                                                                                                                                                                                                                                                  | -                                                         | -    | -        | -     |

| Title                                             | Nationality | Name            | Gender | Date Effective | Shareholding |   | Spouse & Minor Shareholding |   | Shareholding by Nominee Arrangement |   | Experience (Education) | Other Position                                                                             | Managers who are Spouses or Within Two Degrees of Kinship |      |          | Note |
|---------------------------------------------------|-------------|-----------------|--------|----------------|--------------|---|-----------------------------|---|-------------------------------------|---|------------------------|--------------------------------------------------------------------------------------------|-----------------------------------------------------------|------|----------|------|
|                                                   |             |                 |        |                | Shares       | % | Shares                      | % | Shares                              | % |                        |                                                                                            | Title                                                     | Name | Relation |      |
| Vice President of Cellulosic Materials Division   | ROC         | Peter Huang     | Male   | 3/1/2021       | -            | - | -                           | - | -                                   | - | CHP Manager            | -                                                                                          | -                                                         | -    | -        | -    |
| Factory Director of Cellulosic Materials Division | ROC         | Yen-Chang Hsieh | Male   | 5/15/2017      | 24,057       | - | 22,000                      | - | -                                   | - | CHP Director           | -                                                                                          | -                                                         | -    | -        | -    |
| Factory Director of Cellulosic Materials Division | ROC         | Yung-Shun Chen  | Male   | 3/1/2018       | -            | - | -                           | - | -                                   | - | CHP Director           | -                                                                                          | -                                                         | -    | -        | -    |
| Accounting Manager                                | ROC         | Jung-Min Huang  | Male   | 3/17/2014      | -            | - | -                           | - | -                                   | - | CHP Manager            | -                                                                                          | -                                                         | -    | -        | -    |
| Financial Manager                                 | ROC         | David Lin       | Male   | 1/1/2015       | -            | - | -                           | - | -                                   | - | CHP Manager            | Supervisor of Hwafong Investment Co., Ltd.<br>Director of Syntax Communication (H.K.) Ltd. | -                                                         | -    | -        | -    |
| Audit Manager                                     | ROC         | Steven Chen     | Male   | 8/17/2018      | -            | - | -                           | - | -                                   | - | CHP Manager            | -                                                                                          | -                                                         | -    | -        | -    |

Note1: On November 12, 2020, the Board of Directors approved that Mr. Kirk Hwang, Chairman and CEO, will not hold the CEO position concurrently.

Note2: Director & CTO of YFY Inc., Director of Shin Foong Specialty and Applied Materials Co., Ltd., Director of NTU Innovation Incubation Co., Ltd., Director of Center for Corporate Sustainability Taiwan, Chairman of Industrial Committee of TwIChE , Director, Taiwan Paper Industry Association , Director of Taiwan Carbon Capture Storage and Utilization Association.

Note3: Southern Regional Director of R& D Center of YFY Inc. and Chairman of Hwa Fong Paper (Hong Kong) Co., Ltd.

Note4: Supervisor of Taiwan Global BioFund Co., Ltd.

Note5: Director of Union Paper Corp., Director of Hwa Fong Paper (Hong Kong) Ltd. and Director of Beautone Inc.

Note6: Director of Union Paper Corp.

Note7: Director of Union Paper Corp.

3.3 Remuneration of Directors (include Independent Directors), President, and Vice Presidents

3.3.1 Remuneration of Directors and Independent Directors

12/31/2020, 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 (%) |                                                    | Remuneration from ventures other than subsidiaries or from the parent company |
|----------------------|-------------------------------------------------------------------------|-----------------------|----------------------------------------------------|-------------------|----------------------------------------------------|---------------------------|----------------------------------------------------|----------------|----------------------------------------------------|---------------------------------------------------------|----------------------------------------------------|--------------------------------------------------------------------|----------------------------------------------------|-------------------|----------------------------------------------------|---------------------------|-------|----------------------------------------------------|-------|---------------------------------------------------------------|----------------------------------------------------|-------------------------------------------------------------------------------|
|                      |                                                                         | Base Compensation (A) |                                                    | Severance Pay (B) |                                                    | Directors Compensation(C) |                                                    | Allowances (D) |                                                    |                                                         |                                                    | Salary, Bonuses, and Allowances (E)                                |                                                    | Severance Pay (F) |                                                    | Employee Compensation (G) |       |                                                    |       |                                                               |                                                    |                                                                               |
|                      |                                                                         | The company           | Companies in the consolidated financial statements | The company       | Companies in the consolidated financial statements | The company               | Companies in the consolidated financial statements | The company    | Companies in the consolidated financial statements | The company                                             | Companies in the consolidated financial statements | The company                                                        | Companies in the consolidated financial statements | The company       | Companies in the consolidated financial statements | The company               |       | Companies in the consolidated financial statements |       | The company                                                   | Companies in the consolidated financial statements |                                                                               |
|                      |                                                                         |                       |                                                    |                   |                                                    |                           |                                                    |                |                                                    |                                                         |                                                    |                                                                    |                                                    |                   |                                                    | Cash                      | Stock | Cash                                               | Stock |                                                               |                                                    |                                                                               |
| Chairman             | YFY Inc. Representative: Kirk Hwang                                     | 0                     | 0                                                  | 0                 | 0                                                  | 0                         | 0                                                  | 278            | 450                                                | (0.1)                                                   | (0.2)                                              | 8,868                                                              | 8,868                                              | 0                 | 0                                                  | 0                         | 0     | 0                                                  | 0     | (4.5)                                                         | (4.6)                                              | 14,511                                                                        |
| Director             | YFY Inc. Representative: S. C. Ho (succeeded on June 21, 2019)          | 0                     | 0                                                  | 0                 | 0                                                  | 0                         | 0                                                  | 226            | 226                                                | (0.1)                                                   | (0.1)                                              | 0                                                                  | 0                                                  | 0                 | 0                                                  | 0                         | 0     | 0                                                  | 0     | (0.1)                                                         | (0.1)                                              |                                                                               |
| Director             | YFY Inc. Representative: Felix Ho                                       | 0                     | 0                                                  | 0                 | 0                                                  | 0                         | 0                                                  | 226            | 226                                                | (0.1)                                                   | (0.1)                                              | 0                                                                  | 0                                                  | 0                 | 0                                                  | 0                         | 0     | 0                                                  | 0     | (0.1)                                                         | (0.1)                                              |                                                                               |
| Director             | Lotus Ecoscings & Engineering Co., Ltd Representative: Chih-Cheng Huang | 0                     | 0                                                  | 0                 | 0                                                  | 0                         | 0                                                  | 226            | 397                                                | (0.1)                                                   | (0.2)                                              | 6,414                                                              | 6,414                                              | 108               | 108                                                | 0                         | 0     | 0                                                  | 0     | (3.3)                                                         | (3.4)                                              |                                                                               |
| Director             | Lotus Ecoscings & Engineering Co., Ltd Representative: Guu-Fong Lin     | 0                     | 0                                                  | 0                 | 0                                                  | 0                         | 0                                                  | 226            | 512                                                | (0.1)                                                   | (0.3)                                              | 4,171                                                              | 5,078                                              | 108               | 108                                                | 0                         | 0     | 0                                                  | 0     | (2.2)                                                         | (2.8)                                              |                                                                               |
| Director             | Lotus Ecoscings & Engineering Co., Ltd Representative: Ray Chen         | 0                     | 0                                                  | 0                 | 0                                                  | 0                         | 0                                                  | 226            | 226                                                | (0.1)                                                   | (0.1)                                              | 3,681                                                              | 3,681                                              | 108               | 108                                                | 0                         | 0     | 0                                                  | 0     | (2.0)                                                         | (2.0)                                              |                                                                               |
| Independent Director | Donald Chang                                                            | 1,000                 | 1,000                                              | 0                 | 0                                                  | 0                         | 0                                                  | 270            | 270                                                | (0.6)                                                   | (0.6)                                              | 0                                                                  | 0                                                  | 0                 | 0                                                  | 0                         | 0     | 0                                                  | 0     | (0.6)                                                         | (0.6)                                              |                                                                               |
| Independent Director | Shih-Lai Lu                                                             | 1,000                 | 1,000                                              | 0                 | 0                                                  | 0                         | 0                                                  | 270            | 270                                                | (0.6)                                                   | (0.6)                                              | 0                                                                  | 0                                                  | 0                 | 0                                                  | 0                         | 0     | 0                                                  | 0     | (0.6)                                                         | (0.6)                                              |                                                                               |
| Independent Director | Yi Lee (succeeded on June 21, 2019)                                     | 1,000                 | 1,000                                              | 0                 | 0                                                  | 0                         | 0                                                  | 270            | 270                                                | (0.6)                                                   | (0.6)                                              | 0                                                                  | 0                                                  | 0                 | 0                                                  | 0                         | 0     | 0                                                  | 0     | (0.6)                                                         | (0.6)                                              |                                                                               |

Note1: Independent Directors' remuneration policy, system, standards, and structure, and description of the relevance to the amount of remuneration according to the responsibilities, risks, and time investment: The remuneration of the Independent Directors of the Company was drawn up with reference to the academic experience and social status of the Independent Directors, and market salary surveys and industry standards, and is based on the principle of meeting the general market standards and established after considering the Company's operating results and the contribution of the Independent Directors in terms of their responsibilities. The remuneration must be reported to the Board of Directors for resolution. The Company will continue to review Independent Directors' remuneration policy in a timely manner depending on the operating conditions and legal requirements to pursue reasonable remuneration and sustainable operations.

Note 2: Number of resolutions passed by the Board of Directors on February 26, 2021.

Note 3: Relevant expenses such as company car rental fees have been listed. The total expenses were approximately NT\$862 thousand.

Explanation of the correlation and reasonableness of changes in the Company's profit or loss and remuneration:  
The remuneration of the Directors of the Company is handled in accordance with the Articles of Incorporation approved by the shareholders' meeting on June 30, 2020. No more than 2% of the profit for the year (i.e., the profit before employee and director remunerations is deducted from profit before tax) less the cumulative losses is allocated as the remuneration of the Directors. Because of the loss in 2020, the Board of Directors decided on February 26, 2021 not to pay remuneration to the Directors, so Directors' remuneration is not estimated.

| Range of Remuneration                    | Name of Directors                                                            |                                                                              |                                     |                                                    |
|------------------------------------------|------------------------------------------------------------------------------|------------------------------------------------------------------------------|-------------------------------------|----------------------------------------------------|
|                                          | Total of (A+B+C+D)                                                           |                                                                              | Total of (A+B+C+D+E+F+G)            |                                                    |
|                                          | The company                                                                  | Parent company and all investment businesses group                           | The company                         | Parent company and all investment businesses group |
| Less than NT\$ 1,000,000                 | Kirk Hwang, S. C. Ho<br>Felix Ho, Chih-Cheng Huang<br>Guu-Fong Lin, Ray Chen | Kirk Hwang, S. C. Ho<br>Felix Ho, Chih-Cheng Huang<br>Guu-Fong Lin, Ray Chen | S. C. Ho, Felix Ho                  | S. C. Ho                                           |
| NT\$1,000,000 ~ NT\$1,999,999            | Donald Chang, Shih-Lai Lu<br>Yi Lee                                          | Donald Chang, Shih-Lai Lu<br>Yi Lee                                          | Donald Chang, Shih-Lai Lu<br>Yi Lee | Donald Chang, Shih-Lai Lu<br>Yi Lee                |
| NT\$2,000,000 ~ NT\$3,499,999            | -                                                                            | -                                                                            | -                                   | -                                                  |
| NT\$3,500,000 ~ NT\$4,999,999            | -                                                                            | -                                                                            | Guu-Fong Lin, Ray Chen              | Ray Chen                                           |
| NT\$5,000,000 ~ NT\$9,999,999            | -                                                                            | -                                                                            | Kirk Hwang, Chih-Cheng Huang        | Kirk Hwang, Chih-Cheng Huang<br>Guu-Fong Lin       |
| NT\$10,000,000 ~ NT\$14,999,999          | -                                                                            | -                                                                            | -                                   | Felix Ho                                           |
| NT\$15,000,000 ~ NT\$29,999,999          | -                                                                            | -                                                                            | -                                   | -                                                  |
| NT\$30,000,000 ~ NT\$49,999,999          | -                                                                            | -                                                                            | -                                   | -                                                  |
| NT\$50,000,000 ~ NT\$99,999,999          | -                                                                            | -                                                                            | -                                   | -                                                  |
| Greater than or equal to NT\$100,000,000 | -                                                                            | -                                                                            | -                                   | -                                                  |
| Total                                    | 9                                                                            | 9                                                                            | 9                                   | 9                                                  |

Note: Representative of YFY INC.: Kirk Hwang, S. C. Ho, Felix Ho; Representative of YFY Paradigm Investment Co., Ltd.: Chih-Cheng Huang, Guu-Fong Lin, Ray Chen

### 3.3.2 Remuneration of the President and Vice Presidents

12/31/2020, Unit: NT\$ thousands

| Title                                                     | Name             | Salary(A)   |                                                    | Severance Pay (B) |                                                    | Bonuses and Allowances (C)<br>(Note 3) |                                                    | Employee Compensation (D)<br>(Note 4) |       |                                                    |       | Ratio of total compensation<br>(A+B+C+D) to net income (%) |                                                    | Remuneration from ventures other than subsidiaries or from the parent company |
|-----------------------------------------------------------|------------------|-------------|----------------------------------------------------|-------------------|----------------------------------------------------|----------------------------------------|----------------------------------------------------|---------------------------------------|-------|----------------------------------------------------|-------|------------------------------------------------------------|----------------------------------------------------|-------------------------------------------------------------------------------|
|                                                           |                  | The company | Companies in the consolidated financial statements | The company       | Companies in the consolidated financial statements | The company                            | Companies in the consolidated financial statements | The company                           |       | Companies in the consolidated financial statements |       | The company                                                | Companies in the consolidated financial statements |                                                                               |
|                                                           |                  |             |                                                    |                   |                                                    |                                        |                                                    | Cash                                  | Stock | Cash                                               | Stock |                                                            |                                                    |                                                                               |
| CEO<br>Note 1                                             | Kirk Hwang       | 5,349       | 5,349                                              | 0                 | 0                                                  | 3,519                                  | 3,519                                              | 0                                     | 0     | 0                                                  | 0     | (4.4)                                                      | (4.4)                                              | 574                                                                           |
| President                                                 | Chih-Cheng Huang | 3,425       | 3,425                                              | 108               | 108                                                | 2,990                                  | 2,990                                              | 0                                     | 0     | 0                                                  | 0     | (3.2)                                                      | (3.2)                                              |                                                                               |
| CFO                                                       | Guo-Fong Lin     | 2,478       | 3,006                                              | 108               | 108                                                | 1,693                                  | 2,072                                              | 0                                     | 0     | 0                                                  | 0     | (2.1)                                                      | (2.6)                                              |                                                                               |
| President of Cellulosic Materials Division<br>Note 2      | Ray Chen         | 2,260       | 2,260                                              | 108               | 108                                                | 1,421                                  | 1,421                                              | 0                                     | 0     | 0                                                  | 0     | (1.9)                                                      | (1.9)                                              |                                                                               |
| Executive Vice President of Cellulosic Materials Division | Rong-Ming Lin    | 2,200       | 2,200                                              | 108               | 108                                                | 995                                    | 995                                                | 0                                     | 0     | 0                                                  | 0     | (1.6)                                                      | (1.6)                                              |                                                                               |

Note 1: On November 12, 2020, the Board of Directors approved that Mr. Kirk Hwang, Chairman and CEO, will not hold the CEO position concurrently.

Note 2: Appointed on March 1, 2021

Note 3: Relevant expenses such as company car rental fees have been listed. The total expenses were approximately NT\$862 thousand.

Note 4: Number of resolutions passed by the Board of Directors on 2/26/2021.

| Range of Remuneration                    | Name of President and Vice Presidents |                                                    |
|------------------------------------------|---------------------------------------|----------------------------------------------------|
|                                          | The company                           | Parent company and all investment businesses group |
| Less than NT\$ 1,000,000                 | -                                     | -                                                  |
| NT\$1,000,000 ~ NT\$1,999,999            | -                                     | -                                                  |
| NT\$2,000,000 ~ NT\$3,499,999            | Rong-Ming Lin                         | Rong-Ming Lin                                      |
| NT\$3,500,000 ~ NT\$4,999,999            | Guu-Fong Lin, Ray Chen                | Ray Chen                                           |
| NT\$5,000,000 ~ NT\$9,999,999            | Kirk Hwang, Chih-Cheng Huang          | Kirk Hwang, Chih-Cheng Huang<br>Guu-Fong Lin,      |
| NT\$10,000,000 ~ NT\$14,999,999          | -                                     | -                                                  |
| NT\$15,000,000 ~ NT\$29,999,999          | -                                     | -                                                  |
| NT\$30,000,000 ~ NT\$49,999,999          | -                                     | -                                                  |
| NT\$50,000,000 ~ NT\$99,999,999          | -                                     | -                                                  |
| Greater than or equal to NT\$100,000,000 | -                                     | -                                                  |
| Total                                    | 5                                     | 5                                                  |

### 3.3.3 Managerial officers with the top five highest remuneration

12/31/2020, Unit: NT\$ thousands

| Title                                                     | Name             | Salary(A)   |                                                    | Severance Pay (B) |                                                    | Bonuses and Allowances (C)<br>(Note 3) |                                                    | Employee Compensation (D)<br>(Note 4) |       |                                                    |       | Ratio of total compensation<br>(A+B+C+D) to net income (%) |                                                    | Remuneration from ventures other than subsidiaries or from the parent company |
|-----------------------------------------------------------|------------------|-------------|----------------------------------------------------|-------------------|----------------------------------------------------|----------------------------------------|----------------------------------------------------|---------------------------------------|-------|----------------------------------------------------|-------|------------------------------------------------------------|----------------------------------------------------|-------------------------------------------------------------------------------|
|                                                           |                  | The company | Companies in the consolidated financial statements | The company       | Companies in the consolidated financial statements | The company                            | Companies in the consolidated financial statements | The company                           |       | Companies in the consolidated financial statements |       | The company                                                | Companies in the consolidated financial statements |                                                                               |
|                                                           |                  |             |                                                    |                   |                                                    |                                        |                                                    | Cash                                  | Stock | Cash                                               | Stock |                                                            |                                                    |                                                                               |
| CEO                                                       | Kirk Hwang       | 5,349       | 5349                                               | 0                 | 0                                                  | 3,519                                  | 3,519                                              | 0                                     | 0     | 0                                                  | 0     | (4.4)                                                      | (4.4)                                              | 574                                                                           |
| President                                                 | Chih-Cheng Huang | 3,425       | 3,425                                              | 108               | 108                                                | 2,990                                  | 2,990                                              | 0                                     | 0     | 0                                                  | 0     | (3.2)                                                      | (3.2)                                              |                                                                               |
| CFO                                                       | Guu-Fong Lin     | 2,478       | 3,006                                              | 108               | 108                                                | 1,693                                  | 1,693                                              | 0                                     | 0     | 0                                                  | 0     | (2.1)                                                      | (2.6)                                              |                                                                               |
| President of Cellulosic Materials Division                | Ray Chen         | 2,260       | 2,260                                              | 108               | 108                                                | 1,421                                  | 1,421                                              | 0                                     | 0     | 0                                                  | 0     | (1.9)                                                      | (1.9)                                              |                                                                               |
| Executive Vice President of Cellulosic Materials Division | Rong-Ming Lin    | 2,200       | 2,200                                              | 108               | 108                                                | 995                                    | 995                                                | 0                                     | 0     | 0                                                  | 0     | (1.6)                                                      | (1.6)                                              |                                                                               |

Note 1: On November 12, 2020, the Board of Directors approved that Mr. Kirk Hwang, Chairman and CEO, will not hold the CEO position concurrently.

Note 2: Appointed on March 1, 2021

Note 3: Relevant expenses such as company car rental fees have been listed. The total expenses were approximately NT\$862 thousand.

Note 4: Number of resolutions passed by the Board of Directors on 2/26/2021.

### 3.3.4 Names of Managers and the Distribution of Employee's Compensation

12/31/2019, Unit: NT\$ thousands

| Title              |                                                           | Name             | Employee Compensation<br>- in Stock | Employee CompensationNote<br>- in Cash | Total | Ratio of Total Amount<br>to Net Income (%) |
|--------------------|-----------------------------------------------------------|------------------|-------------------------------------|----------------------------------------|-------|--------------------------------------------|
| Executive Officers | CEO Note                                                  | Kirk Hwang       | 0                                   | 0                                      | 0     | 0                                          |
|                    | President                                                 | Chih-Cheng Huang |                                     |                                        |       |                                            |
|                    | CFO                                                       | Guu-Fong Lin     |                                     |                                        |       |                                            |
|                    | President of Cellulosic Materials Division                | Ray Chen         |                                     |                                        |       |                                            |
|                    | Executive Vice President of Cellulosic Materials Division | Rong-Ming Lin    |                                     |                                        |       |                                            |
|                    | Vice President of Cellulosic Materials Division           | Alex Chen        |                                     |                                        |       |                                            |
|                    | Factory Director of Cellulosic Materials Division         | Yen-Chang Hsieh  |                                     |                                        |       |                                            |
|                    | Factory Director of Cellulosic Materials Division         | Yung-Shun Chen   |                                     |                                        |       |                                            |
|                    | Accounting Manager                                        | Jung-Min Huang   |                                     |                                        |       |                                            |
|                    | Finance Manager                                           | David Lin        |                                     |                                        |       |                                            |
|                    | Audit Manager                                             | Steven Chen      |                                     |                                        |       |                                            |

Note: On November 12, 2020, the Board of Directors approved that Mr. Kirk Hwang, Chairman and CEO, will not hold the CEO position concurrently.

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

| Item                         | Ratio of total remuneration paid to directors, president and vice presidents to net income (%) |                                                    |             |                                                    |             |                                                    |
|------------------------------|------------------------------------------------------------------------------------------------|----------------------------------------------------|-------------|----------------------------------------------------|-------------|----------------------------------------------------|
|                              | 2020                                                                                           |                                                    | 2019        |                                                    | Difference  |                                                    |
|                              | The company                                                                                    | Companies in the consolidated financial statements | The company | Companies in the consolidated financial statements | The company | Companies in the consolidated financial statements |
| Director                     | (14.11)                                                                                        | (14.97)                                            | (10.22)     | (10.81)                                            | (3.89)      | (4.16)                                             |
| President and vice president | (13.26)                                                                                        | (13.71)                                            | (9.68)      | (10.01)                                            | (3.58)      | (3.7)                                              |

The policies, standards, and packages for the payment of remuneration, the procedures for determining remuneration, and the correlation with business performance and future risks.

- A. Remuneration of the Company's Directors: includes travel allowances, surplus earning distribution, and salary as an employee of the Company. Travel allowance standards for Directors are based on industry standards; Directors' remuneration is based on operating performance and future risks, and is handled in proportion to the Company's Articles of Incorporation.
- B. Remuneration of the President and Executive Vice Presidents is paid on a monthly basis: includes a monthly salary, allowances (e.g., additional duty payments and meal expenses), and other regular compensation. The annual bonuses and employee remuneration are paid separately. The salary standards are handled according to the agreement at the beginning of employment, while additional duty payments are determined by the position; performance bonus and other bonuses are based on business performance and personal performance. The information is consolidated each year and sent to the Remuneration Committee for review.
- C. Since the loss in 2020 was less compared to the previous year, the remuneration of Directors, the President, and Executive Vice Presidents accounted for changes in the income after tax. The actual remuneration paid to Directors, the President, and Executive Vice Presidents in 2020 is approximately equivalent to that in 2019.

### **3.4 Implementation of Corporate Governance**

#### **3.4.1 Board of Directors**

In the recent year (2020), the 18th Board of Directors met 6 times, the Directors' attendance is as follows:

attendance is as follows:

| Title                | Name             |                                                       | Attendance in Person (B) | By Proxy | Attendance Rate (%) 【 B / A 】 | Remarks |
|----------------------|------------------|-------------------------------------------------------|--------------------------|----------|-------------------------------|---------|
| Chairman             | Kirk Hwang       | YFY Inc. Representative                               | 6                        | 0        | 100                           | -       |
| Director             | S. C. Ho         |                                                       | 6                        | 0        | 100                           | -       |
| Director             | Felix Ho         |                                                       | 6                        | 0        | 100                           | -       |
| Director             | Chih-Cheng Huang | YFY Paradigm Investment Co., Ltd. Representative Note | 6                        | 0        | 100                           | -       |
| Director             | Guu-Fong Lin     |                                                       | 6                        | 0        | 100                           | -       |
| Director             | Ray Chen         |                                                       | 6                        | 0        | 100                           | -       |
| Independent Director | Donald Chang     |                                                       | 6                        | 0        | 100                           | -       |
| Independent Director | Shih-Lai Lu      |                                                       | 6                        | 0        | 100                           | -       |
| Independent Director | Yi Lee           |                                                       | 6                        | 0        | 100                           | -       |

Note: Lotus Ecoscience & Engineering Co., Ltd., originally an Institutional Director of the Company, merged with YFY Paradigm Investment Co., Ltd. on October 7, 2020, with YFY Paradigm Investment Co., Ltd. being the continuing company.

Other mentionable items:

1. If any of the following circumstances have occurred amid operations of the Board of Directors, the date, period, agenda content, the opinions of all Independent Directors, and the handling of the opinions of the Independent Directors by the Company shall be specified:

(1) Matters prescribed under Article 14-3 of the Securities and Exchange Act:

| Date                                   | Agenda item                                                                                                         | A11 independent directors' opinions and the company's response          |
|----------------------------------------|---------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------|
| March 23, 2020 (18th-term 4th time)    | 1. No matters prescribed under Article 14-3 of the Securities and Exchange Act were included in this Board meeting. | Not applicable.                                                         |
| May 14th, 2020 (18th-term 5th time)    | 1. Approved the change of the Corporate Governance Manager.                                                         | After discussion, the matter was approved by all Independent Directors. |
| August 13th, 2020 (18th-term 6th time) | 1. No matters prescribed under Article 14-3 of the Securities and Exchange Act were included in this Board meeting. | Not applicable.                                                         |

| Date                                                                       | Agenda item                                                                                                                                                                                                                 | A11 independent directors' opinions and the company's response            |
|----------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------|
| October 23th, 2020<br>(7th special meeting of the 18th Board of Directors) | 1. Approved the Company's purchase of the mill located in the Taoyuan Guanyin industrial zone.                                                                                                                              | After discussion, the matter was approved by all Independent Directors.   |
| November 12th, 2020<br>(18th-term 8th time)                                | 1. Approved the appointment of Shu Wan Lin and Hsiu-Ming Hsu of Deloitte Taiwan as the Company's CPAs and their remuneration proposal.<br>2. Approved that Chairman Kirk Hwang will not hold the CEO position concurrently. | Both matters were approved by all Independent Directors after discussion. |
| December 28th, 2020<br>(18th-term 9th time)                                | 1. No matters prescribed under Article 14-3 of the Securities and Exchange Act were included in this Board meeting.                                                                                                         | Not applicable.                                                           |

(2) Aside from the above matters, other resolutions adopted by the Board of Directors with regard to which an Independent Director had a dissenting or qualified opinion that is on record or stated in a written statement: None.

2. Any Directors who had to recuse from a proposal to prevent conflicts of interest:

In the 18th-term 8th Board meeting on November 12, 2020, regarding the proposal to allow Chairman Kirk Hwang to not hold the CEO position concurrently, because Chairman Kirk Hwang is an interested party, he recused himself from discussing and voting. Independent Director Yi Lee was appointed to chair the discussion and voting procedure for this proposal by the Independent Directors that were present.

3. Information about the Board's self (or peer) evaluation:

(1)The Company approved the Board of Directors Performance Evaluation Guidelines in the 18th-term 3rd Board meeting on November 13, 2019, and made amendments in the 18th-term 8th Board meeting on November 12, 2020.

(2)Implementation status of the evaluation of Board of Directors in 2020:

Evaluation cycle: Implemented once a year

Evaluation period: 2020.1.1~2020.12.31

Scope of evaluation: Performance evaluation of the Board of Directors, individual board members, and functional committees

Assessment method: Self-evaluation of the Board and its members

Evaluation content: The measures for evaluating the Board's performance includes the following five aspects: A. Understanding of and recommendations for Company operations, B. Improvement of the quality of the Board decisions, C. Composition and structure of the Board of Directors, D. Election and continuing education of the Directors, E. Internal control.

The measures for the self-evaluation of Board members include the following six

aspects: A. Familiarity with the goals and missions of the Company, B. Awareness of the duties of a Director, C. Understanding of and recommendations for Company operations, D. Management of internal relationship and communication, E. The Director's professionalism and continuing education, F. Internal control.

The measures for evaluating the performance of the functional committees includes the following five aspects: A. Understanding of and recommendations for Company operations, B. Understanding of the roles and responsibilities of the functional committee, C. Improvement of the quality of committee decisions, D. Composition of the functional committee and the selection of its members, E. Internal control.

(3)Results of the evaluation of Board of Directors in 2020:

To implement corporate governance: and enhance the performance of the Company's Board of Directors, the Company approved the Board of Directors Performance Evaluation Guidelines in the 18th-term 3rd meeting of the Board of Directors on November 13, 2019. Internal and self-evaluations were carried out in 2020. The performance evaluation results of the Company's Board of Directors, Individual Directors, Audit Committee, and Remuneration Committee in 2020 are as follows:

| Scope of evaluation | Evaluation indicator                                           | Self-evaluation score |       | Evaluation results |
|---------------------|----------------------------------------------------------------|-----------------------|-------|--------------------|
| Board of Directors  | A. Understanding of and recommendations for Company operations | 95.6                  | 94.91 | Excellent          |
|                     | B. Improvement of the quality of Board decisions               | 95.7                  |       |                    |
|                     | C. Composition and structure of the Board of Directors         | 96.2                  |       |                    |
|                     | D. Election and continuing education of the Directors          | 91.7                  |       |                    |
|                     | E. Internal control                                            | 94.3                  |       |                    |
| Board members       | A. Familiarity with the goals and missions of the Company      | 94.8                  | 95.85 | Excellent          |
|                     | B. Awareness of the duties of a Director                       | 97.0                  |       |                    |
|                     | C. Understanding of and recommendations for Company operations | 96.1                  |       |                    |
|                     | D. Management of internal relationship and communication       | 96.3                  |       |                    |
|                     | E. The Director's professionalism and continuing               | 96.3                  |       |                    |

| Scope of evaluation    | Evaluation indicator                                                          | Self-evaluation score |       | Evaluation results |
|------------------------|-------------------------------------------------------------------------------|-----------------------|-------|--------------------|
|                        | education                                                                     |                       |       |                    |
|                        | F. Internal control                                                           | 97.0                  |       |                    |
| Audit Committee        | A. Understanding of and recommendations for Company operations                | 96.7                  | 95.15 | Excellent          |
|                        | B. Awareness of the duties of the Audit Committee                             | 96.0                  |       |                    |
|                        | C. Improvement of the quality of Audit Committee decisions                    | 94.3                  |       |                    |
|                        | D. Composition of the Audit Committee and the selection of its members        | 95.6                  |       |                    |
|                        | E. Internal control                                                           | 93.3                  |       |                    |
| Remuneration Committee | A. Understanding of and recommendations for Company operations                | 96.7                  | 94.74 | Excellent          |
|                        | B. Awareness of the duties of the Remuneration Committee                      | 92.0                  |       |                    |
|                        | C. Improvement of the quality of Remuneration Committee decisions             | 95.2                  |       |                    |
|                        | D. Composition of the Remuneration Committee and the selection of its members | 95.6                  |       |                    |

The results of the self-evaluation:

Shows that all Directors (including Independent Directors) have given positive evaluations for the efficiency and effectiveness of the Board, Directors, and functional committees. The results were reported to the 18th-term 10th meeting of the Board of Directors on February 26, 2021 as a reference for review and improvement.

#### 4. Evaluation of targets and performance of the Board's functions for current year and past year:

- (1) Three Independent Directors form the Company's Audit Committee in substitution of Supervisors. Matters prescribed under Article 14-5 of the Securities and Exchange Act are submitted to the Audit Committee for discussion and resolution. The convener of the Audit Committee is responsible for reporting resolutions passed by the Audit Committee to the Board of Directors.
- (2) The Company discloses information regarding attendance to Board meetings, Director continuing education, and important resolutions passed during Board meetings and shareholders' meetings in the annual report.
- (3) To increase information transparency, the Company posts all important resolutions passed

during Board/shareholders' meetings on the Company website immediately following such meetings.

- (4) In consideration of legal risks faced by Directors, the Company and its subsidiaries have purchased director liability insurance for all Directors.

### **3.4.2 Audit Committee**

The Company elected three Independent Directors at the shareholders' meeting on June 21, 2019 and established an Audit Committee in accordance with the Securities and Exchange Act. The Committee's purpose is to verify the fair presentation of the Company's financial statements, the independence and performance of the CPAs; the effectiveness regarding implementation of the Company's internal control system; compliance with relevant regulations and rules; and the Company's control of existing or latent risks.

A total of 6 meetings of the 2nd Audit Committee (appointed on June 21, 2019) were held in 2020. Key focuses for the year are described below:

1. Review financial reports

The Board of Directors prepared and submitted the 2019 business report, financial statements, and loss appropriation proposal. The financial statements were audited by Deloitte Taiwan, and an audit report was submitted. The Company's Audit Committee reviewed the said business report, financial statements, and loss appropriation proposal and did not find any instances of noncompliance.

2. Assess internal control system effectiveness

The Company's Audit Committee assessed the effectiveness of policies and procedures of the Company's internal control system (including finance, operations, risk management, information security, legal compliance, and other control measures) and audited the Company's Auditing Department and CPA, as well as regular reports by managers, including risk management and compliance.

3. Evaluate the independence and competence of CPAs

The Company's Audit Committee evaluated and found that the CPAs did not have direct or indirect interest in the Company that would compromise their independence; fulfill the independence and competence requirements of the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies; and established a suitable and good method to communicate with the Company and its Audit Committee.

4. Assess the Company's proposal to purchase a mill located in the Taoyuan

Guanyin industrial zone

The Company's Audit Committee will assess the Company's purchase of a plant located in the Toayuan Guanyin industrial zone according to the Procedures for the Acquisition or Disposal of Assets and make professional recommendations as a reference for the Company's decision making and subsequent operations.

In 2020, the 2nd Audit Committee has convened 6 meetings (A), and the records of attendance of the Independent Directors are as follows:

| Title                | Name         | Attendance in Person (B) | By Proxy | Attendance Rate (%)<br>【 B / A 】 | Remarks  |
|----------------------|--------------|--------------------------|----------|----------------------------------|----------|
| Independent Director | Yi Lee       | 6                        | 0        | 100                              | Convener |
| Independent Director | Donald Chang | 6                        | 0        | 100                              | -        |
| Independent Director | Shih-Lai Lu  | 6                        | 0        | 100                              | -        |

Other mentionable items:

1. If any of the following circumstances occur, 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:

(1) Matters prescribed under Article 14-5 of the Securities and Exchange Act:

| Date                                    | Agenda item                                                                                                                                                           | All Independent Directors' opinions and actions taken by the Company in response to Independent Directors' opinions                                                                                                                                              |
|-----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| March 18, 2020<br>(2nd-term 3rd time)   | 1. Approved the 2019 business report and financial statements.<br>2. Approved the loss appropriation for 2019.<br>3. Approved the 2019 Statement on Internal Control. | Approved by all Independent Directors and in the March 23, 2020 Board meeting. Except for the third proposal which shall be announced according to the regulations after approval by the Board, all were approved or ratified by the 2020 shareholders' meeting. |
| May 12, 2020<br>(2nd-term 4th time)     | There were no proposals related to matters listed under Article 14-5 of the Securities and Exchange Act in this Audit Committee meeting.                              | Not applicable.                                                                                                                                                                                                                                                  |
| August 11, 2020<br>(2nd-term 5th time)  | There were no proposals related to matters listed under Article 14-5 of the Securities and Exchange Act in this Audit Committee meeting.                              | Not applicable.                                                                                                                                                                                                                                                  |
| October 21, 2020<br>(2nd-term 6th time) | 1. Approved the Company's investment in the Taoyuan Guanyin Mill.                                                                                                     | Approved by all Independent Directors and in the October 23, 2020 Board meeting.                                                                                                                                                                                 |
| November 5, 2020<br>(2nd-term 7th time) | 1. Approved the Company's 2021 audit plan.<br>2. The proposal for remuneration for the Company's CPAs from 2020 to 2022.                                              | Approved by all Independent Directors and in the November 12, 2020 Board meeting.                                                                                                                                                                                |

| Date                                     | Agenda item                                                                                                                              | All Independent Directors' opinions and actions taken by the Company in response to Independent Directors' opinions |
|------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|
| December 24, 2020<br>(2nd-term 8th time) | There were no proposals related to matters listed under Article 14-5 of the Securities and Exchange Act in this Audit Committee meeting. | Not applicable.                                                                                                     |

(2) In addition to matters above, other resolutions which did not receive the approval of the Audit Committee but were approved by more than two thirds of the entire Board of Directors: None.

2. Any Independent Directors who had to recuse themselves to avoid conflicts of interest: None.

3. Communication between Independent Directors and Internal Auditing Officer and accountants:

(1) Communication method between Independent Directors and internal auditing officer and accountants:

Communication between Independent Directors and internal auditing officer:

1. On a regular basis —

Each month, completed audit reports are sent via email to each Audit Committee member. If there are questions or instructions, members can email or call.

Each quarter, the Audit Committee submits an Audit Progress Report that contains audit practices, findings, and improvements for abnormalities of the Company as well as its subsidiaries.

Each quarter, the Audit Committee submits an Audit Progress Report that contains audit practices, findings, and improvements for abnormalities of the Company as well as its subsidiaries.

2. On a non-regular basis —

Through telephone calls, emails, and meetings, communicate how to increase the Company's audit value and enhance operational efficiency and effectiveness. If any serious violations are discovered, Audit Committee members must be notified according to regulations.

Communication between Independent Directors and accountants:

1. On a regular basis —

At each Audit Committee meeting, the CPA shall attend and describe the audit implementation status and the recommendations, and report on the recent amendments of regulations related to accounting and taxes.

2. On a non-regular basis —

If an Independent Director deems it necessary, he/she shall invite the accountants to the Company from time to time to report on or describe projects.

(2) Summary of communication between Independent Directors and internal auditing officer and accountants:

| Date                         | Participating members                                                                          | Matters of communication                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Communication results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|------------------------------|------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2020.3.18<br>Audit Committee | Auditing, Assistant to CFO, business management, finance, and accounting managers, and the CPA | <p>2019 final statements</p> <p>Independent Directors' recommendations are as follows:</p> <ol style="list-style-type: none"> <li>1. Due to the pandemic, market demand for pulp is rising. It is recommended that business units study whether there is room for adjusting prices and payment conditions to accelerate the recovery of the Company's accounts receivables and strengthen cash flow. Pay attention to whether the Company's products has new uses or opportunities based on the development of the pandemic to increase the Company's profits. Moreover, although accounts receivable and inventory have improved compared with last year, days sales in inventory is still high. Please continue to strengthen this.</li> <li>2. It is recommended that the Company's management team consolidate the Company's existing patent rights and establish relevant management methods for intellectual property rights.</li> </ol>                                                                                                                                                                                                                                                                                                                                                                                                                                               | <ol style="list-style-type: none"> <li>1. Approved by all committee members as proposed and submitted to the Board of Directors for discussion.</li> <li>2. The Company will continue to review business operations, develop new products to meet market demand, and strengthen the accounts receivable collection and inventory management.</li> <li>3. To strengthen patent applications, the Company entrusts external units to assist in handling related businesses to speed up the timeline for obtaining patents for the products.</li> </ol>                                                                                                        |
| 2020.5.12<br>Audit Committee | Auditing, Assistant to CFO, business management, finance, and accounting managers, and the CPA | <ol style="list-style-type: none"> <li>1. 2020 Q1 financial statements</li> <li>2. Audit plan progress report as of 2020 Q1</li> </ol> <p>Independent Directors' recommendations are as follows:</p> <ol style="list-style-type: none"> <li>1. In the previous meeting, it was suggested that the Company should consolidate patent rights and establish related management methods for intellectual property rights. Please continue to do so and set up a dedicated unit to take on this responsibility.</li> <li>2. The probability of the pandemic ending soon is low. Company operations are currently challenging. In addition to reducing costs and losses, the Company can consider future market conditions and reduce costs for long-term strategic planning to reduce the gap between production and sales.</li> <li>3. In addition to reducing costs, it is recommended that the Company lists out solutions and benefits for reducing costs and increasing profit for the management team. Consider the impact of the pandemic on shipping, as well as the payment and collection periods when adjusting safety reserves. and truly understand the importance of asset turnover in days and seek improvement. More attention should be paid to foreign exchange rates, especially the interaction between the USD and RMB to NTD, and avoid foreign exchange losses.</li> </ol> | <ol style="list-style-type: none"> <li>1. Approved by all committee members as proposed and submitted to the Board of Directors for reporting or discussion.</li> <li>2. The Company has appointed a business unit as the dedicated unit responsible for patent rights and intellectual property rights, and established relevant management measures. The Company has also entrusted external units to help obtain product patent rights.</li> <li>3. The management team requires all units (including sales, plants, and back-office staff) to propose various cost reduction plans and tracks the implementation results on a monthly basis.</li> </ol> |

| Date                          | Participating members                                                                                                       | Matters of communication                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Communication results                                                                                 |
|-------------------------------|-----------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|
| 2020.8.11<br>Audit Committee  | CFO, Assistant to CFO, auditing, business, finance, and accounting managers, and the CPA                                    | <p>2020 Q2 financial statements</p> <p>Independent Directors' recommendations are as follows:</p> <ol style="list-style-type: none"> <li>1. Production and sales units should strengthen the coordination with each other to reduce the disparity between production and sales. Moreover, due to the low pulp prices, the management team must turn losses into profits in the second half of the year and reach the break even point for the entire year. It is also recommended to combine production units to consolidate the operating results under important fluctuations, such as pulp prices, in the past, for the Directors and operating teams to refer to when strategizing to improve operational flexibility.</li> <li>2. In addition to capital backlog, inventory issues have also caused an increase in interest expenses. Reduce inventory as soon as possible and pay attention to the raw materials market. At the same time, strengthen the control of operating expenditure.</li> </ol>                                                                                                                                                                       | Approved by all committee members as proposed and submitted to the Board of Directors for discussion. |
| 2020.10.21<br>Audit Committee | Chairman, President, CFO, Executive Vice President, auditing officer, Assistant to CFO, and business and financial managers | <p>The Company's proposal to purchase a mill located in the Taoyuan Guanyin industrial zone</p> <p>Independent Directors' recommendations are as follows:</p> <ol style="list-style-type: none"> <li>1. The Company's expansion towards products other than paper is worthy of recognition. Given the limited scale of the existing plants, it is also necessary to find a new production base. It is recommended that the management team, (1) in the short term (1 to 2 years), maintain existing relationships with the seller's customers, utilize the profit from existing products to support the development of transformation products, leverage strengths, and learn the seller's technology to improve production technologies; (2) the long-term transformation and development direction must be clear, and the timetable for each stage must be listed in as much detail as possible for tracking in the future.</li> <li>2. Regarding the source of funds for the purchase, if the plan is to raise funds from banks, compare between multiple banks to strive for better interest rates and credit conditions to minimize the Company's financing costs.</li> </ol> | Approved by all committee members as proposed and submitted to the Board of Directors for discussion. |

| Date                          | Participating members                                                                    | Matters of communication                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Communication results                                                                                                                                                                                                                                                                                                                                                                                                        |
|-------------------------------|------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2020.11.5<br>Audit Committee  | CFO, Assistant to CFO, auditing, business, finance, and accounting managers, and the CPA | <p>Audit plan for 2021</p> <p>Independent Directors' recommendations are as follows:</p> <ol style="list-style-type: none"> <li>1. Plan to include the new Taoyuan Guanyin Mill investment in the scope of next year's audit plan, and formulate necessary internal control systems and procedures.</li> <li>2. For the Company's R&amp;D results, in addition to entrusting external firms to apply for patents and trademarks, it is recommended that the Company formulate intellectual property rights management procedures and manage the records as soon as possible to comply with relevant corporate governance regulations in the future.</li> </ol>                                                                                                                 | <ol style="list-style-type: none"> <li>1. Approved by all committee members as proposed and submitted to the Board of Directors for discussion.</li> <li>2. The auditing officer has made relevant plans in accordance with the recommendations of the Independent Directors.</li> <li>3. The Company established relevant management measures and entrusted external units to help obtain product patent rights.</li> </ol> |
| 2020.12.24<br>Audit Committee | Auditing, business management, and finance managers                                      | <p>Audit plan implementation status as of the end of November of 2020.</p> <p>Independent Directors' recommendations are as follows:</p> <p>Be very careful about affairs that are outsourced, whether it is OEM or waste disposal. Although responsibility attribution is clear in the contract between both parties, any problems with the contractor will affect the Company's reputation. I recommend that the Company classify this issue as high risk instead of moderate risk to increase the level of verification, as well as verification items and frequency. Verification should be even more stringent than government standards. The audit unit is requested to research this and report whether there are any new practices or changes at the next meeting.</p> | The Company has followed the recommendations of the Independent Directors and the auditing officer has reported the status after revision.                                                                                                                                                                                                                                                                                   |

(3) Delivered to the Independent Directors for review by the end of the next month following the completion of the audit items in accordance with Article 15 of the Regulations Governing Establishment of Internal Control Systems by Public Companies.

### 3.4.3 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 | Abstract Illustration                                                                                                                                                                                                                         |                                                                                                                |
| 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                                  |    | The Company approved the Corporate Governance Code of Conduct in the 17-term 11th Board meeting on November 8, 2018 and disclosed it on the Company’s website under the corporate governance section under investors for investors to review. | Compliant                                                                                                      |
| 2. Shareholding structure & shareholders’ rights                                                                                                                                      |                                    |    |                                                                                                                                                                                                                                               |                                                                                                                |
| (1) Does the company establish an internal operating procedure to deal with shareholders’ suggestions, doubts, disputes and litigations, and implement based on the procedure?        | V                                  |    | To protect shareholders’ interests, the spokesperson, stock affairs unit, and shareholder service agents are responsible for handling matters related to shareholders.                                                                        | Compliant                                                                                                      |
| (2) Does the company possess the list of its major shareholders as well as the ultimate owners of those shares?                                                                       | V                                  |    | The Company regularly obtains this information through shareholder service agents at anytime.                                                                                                                                                 | Compliant                                                                                                      |
| (3) Does the company establish and execute the risk management and firewall system within its conglomerate structure?                                                                 | V                                  |    | The management of personnel, assets, and finances between the Company and its affiliates are clearly regulated and independent, and the Company regularly evaluates operating performance.                                                    | Compliant                                                                                                      |
| (4) Does the company establish internal rules against insiders trading with undisclosed                                                                                               | V                                  |    | The Company has established the Procedures for Insider Trading Prevention and periodically                                                                                                                                                    | Compliant                                                                                                      |

| Evaluation Item                                                                                                                                                   | Implementation Status <sup>1</sup> |    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|
|                                                                                                                                                                   | Yes                                | No | Abstract Illustration                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                                                                                |
| information?                                                                                                                                                      |                                    |    | emails the procedures to relevant personnel requiring that they comply with the rules.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                                                                                |
| 3.Composition and Responsibilities of the Board of Directors<br>(1) Does the Board develop and implement a diversified policy for the composition of its members? | V                                  |    | The Company established the Corporate Governance Code of Conduct in the Board meeting on November 8, 2018. At present, the Company’s Board of Directors comprises six representatives of Institutional Directors and three Independent Directors. The experience of the Board members include the Company’s managers, university professors, directors of public companies, and managers of well-known global enterprises, chief researchers, retired finance executives, etc. They are good at marketing, financial management, strategic investment, papermaking, and innovative materials R&D. Currently, 1/3 of the Executive Directors are also managers of the Company. They are between 45 to 75 years old. | Compliant                                                                                                      |
| (2) Does the company voluntarily establish other functional committees in addition to the Remuneration Committee and the Audit Committee?                         | V                                  |    | To strengthen short-, mid-, and long-term business development and strategies, and improve operational performance, the Company established a Business Development and Strategy Committee on October 19, 2020. The                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Compliant                                                                                                      |

| Evaluation Item                                                                                                                                                                                                                                                                                  | Implementation Status <sup>1</sup> |    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|----|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|
|                                                                                                                                                                                                                                                                                                  | Yes                                | No | Abstract Illustration                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                                                |
| (3) Does the company establish a standard to measure the performance of the Board and implement it annually, and are performance evaluation results submitted to the Board of Directors and referenced when determining the remuneration of individual directors and nominations for reelection? | V                                  |    | <p>committee has six members, including the Chairman, President, and President of the Fiber Materials Division, and the three Independent Directors of the Company. Relevant employees are invited to attend meetings according to the meeting agenda.</p> <p>The Board of Directors approved the amendments to the Board of Directors Performance Evaluation Guidelines on November 12, 2020. Self-evaluations by Directors are expected to take place in 2020. The results were submitted to the Company's 18th-term 10th meeting of the Board of Directors on February 26, 2021.</p> | Compliant                                                                                                      |
| (4) Does the company regularly evaluate the independence of CPAs?                                                                                                                                                                                                                                | V                                  |    | <p>The Company's evaluation results of the independence and competence of the CPA were reported to the Audit Committee on November 5, 2020 and the Board of Directors on November 12, 2020.</p> <p>Evaluation items include:</p> <p>Independence 1. obtaining the statement of independence issued by the CPA; 2. verifying whether the CPA has a rotation mechanism; 3. verifying whether the Company has not been using the same CPA for</p>                                                                                                                                          | Compliant                                                                                                      |

| Evaluation Item | Implementation Status <sup>1</sup> |    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons |
|-----------------|------------------------------------|----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|
|                 | Yes                                | No | Abstract Illustration                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                |
|                 |                                    |    | <p>7 consecutive years; 4. verifying whether the CPA has no direct or indirect interests in the Company; 5. verifying whether there are no financing and guarantee behaviors between the CPA and Directors 6. verifying that the CPA is not related to the Company’s Directors, managers, or anyone who has significant influence on audits; 7. verifying whether the CPA has no other close business relationships with the Company; 8. verifying whether the audit service team has not currently or within the last 2 years served as a Director or manager of the Company or was not in a position that has significant influence on audits; 9. verifying whether the CPA has not accepted gifts from Directors and managers of the Company; 10. verifying whether the CPA has not been hired by the Company to take up regular work, been paid a fixed salary, or served as a Director; 11. verifying whether the CPA is not involved in any decision-making management functions of the Company; 12. verifying whether the CPA has not provided the Company with highly subjective evaluation services that had a significant impact</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 | Abstract Illustration                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                |
|                                                                                                                                                                                                                                                                                                                                                         |                                    |    | <p>on the financial statements.</p> <p>Competence 1. verifying whether the CPA has not been subject to any other punishment, or involved in situations that compromise professionalism or independence in past two years; 2. verifying whether the CPA actively provides the Company with the latest tax and securities regulations, International Financial Reporting Standards, and other relevant information on a regular basis; 3. verifying whether the CPA helps the Company communicate and coordinate with the competent authority; 4. verifying whether the financial reports can be completed by the deadline; 5. verifying whether the CPA maintains good communication channels with the management, Audit Committee, and Directors of the Company.</p> |                                                                                                                |
| 4. Does the company appoint a suitable number of competent personnel and a supervisor responsible for corporate governance matters (including but not limited to providing information for directors and supervisors to perform their functions, assisting directors and supervisors with compliance, handling work related to meetings of the board of | V                                  |    | In the Board meeting on May 14, 2020, the Company appointed the finance manager David Lin as the Corporate Governance Manager to help the legal, stock affairs, and HR administration office members to deal with corporate governance matters. These matters include businesses related to Board and                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Compliant                                                                                                      |

| Evaluation Item                                                                                                                                                                                                                                   | Implementation Status <sup>1</sup> |    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|----|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|
|                                                                                                                                                                                                                                                   | Yes                                | No | Abstract Illustration                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                                                                |
| directors and the shareholders' meetings, and producing minutes of board meetings and shareholders' meetings)?                                                                                                                                    |                                    |    | shareholders' meetings, assisting Directors' continuing education, providing Directors with information necessary to perform their duties, legal compliance, and other matters established in the Articles of Incorporation or contracts. In 2020, key corporate governance items include:<br>1. Cooperated with the competent authority to revise the Board of Directors Performance Evaluation Guidelines as the basis for the self-evaluation or peer evaluation of Directors.<br>2. Reported on the status of the Company's ethical corporate management operations to the Board of Directors on November 12, 2020 for the Directors to understand the Company's practices and determination for implementing ethical management. In this year up to the print date of this annual report, the cumulative training hours is 15 hours. Please refer to the company's website for the content of the courses. |                                                                                                                |
| 5. Does the company establish a communication channel and build a designated section on its website for stakeholders (including but not limited to shareholders, employees, customers, and suppliers), as well as handle all the issues they care | V                                  |    | The Company has set up a relevant stakeholders section (www.chp.com.tw/利害關係人專區/利害關係者經營.htm) on the Company's website, and distinguishes between employees, customers, suppliers, shareholders and                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Compliant                                                                                                      |

| Evaluation Item                                                                                                                                                                                                                                    | Implementation Status <sup>1</sup> |    |                                                                                                                                                                                                                                                                                           | Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|
|                                                                                                                                                                                                                                                    | Yes                                | No | Abstract Illustration                                                                                                                                                                                                                                                                     |                                                                                                                |
| for in terms of corporate social responsibilities?                                                                                                                                                                                                 |                                    |    | investors, and government organizations. Stakeholders are supported by corresponding contact channels and methods to properly respond to related issues.                                                                                                                                  |                                                                                                                |
| 6. Does the company appoint a professional shareholder service agency to deal with shareholder affairs?                                                                                                                                            | V                                  |    | The Company has hired SinoPac Securities - Register & Transfer Agency Division to help with affairs related to shareholders' meetings.                                                                                                                                                    | Compliant                                                                                                      |
| 7. Information Disclosure                                                                                                                                                                                                                          |                                    |    |                                                                                                                                                                                                                                                                                           |                                                                                                                |
| (1) Does the company have a corporate website to disclose both financial standings and the status of corporate governance?                                                                                                                         | V                                  |    | The Company has set up a corporate website (www.chp.com.tw) and discloses information regarding the Company’s financial, business, and corporate governance status in a timely manner for investor inquiry.                                                                               | Compliant                                                                                                      |
| (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                                  |    | The Company has held a total of 4 investor conferences in 2020 and has disclosed the relevant information through press releases or on the Company’s website for investor inquiry. The Company has also set up a website in English to help foreign investors understand the information. | Compliant                                                                                                      |
| (3) Does the company announce and report annual financial statements within two months after the end of each fiscal year, and announce and report Q1, Q2, and Q3 financial statements, as well as monthly operation results, before the prescribed | V                                  |    | The Company announces and declares the annual financial report within three months after the end of the fiscal year, and announces and declares the first, second, and third quarter financial reports and operating status of each                                                       | Roughly compliant                                                                                              |

| Evaluation Item                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Implementation Status <sup>1</sup> |    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Yes                                | No | Abstract Illustration                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                |
| time limit?                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                    |    | month within the prescribed deadline.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                |
| 8. Is there any other important information to facilitate a better understanding of the company’s corporate governance practices (e.g., including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors’ and supervisors’ training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and supervisors)? | V                                  |    | <ol style="list-style-type: none"> <li>1. The Company established the Corporate Governance Code of Conduct in the Board meeting on November 8, 2018.</li> <li>2. The Company formulates working rules for employees and employees’ rights and interests in favor of the employees in accordance with the Labor Standards Act, and established the Employee Welfare Committee to allocate employee benefits and hold regular labor-management meetings on a monthly basis, as well as organize occupational training and recreational activities periodically.</li> <li>3. Investors can communicate with us through shareholder service agents or spokespersons. The Company has also set up an investor relations mailbox to maintain a smooth communication channel. Suppliers and handling units can also maintain good communication between each other.</li> <li>4. The Company has purchased liability insurance for the Directors and key personnel of the Company and its subsidiaries for 2020, and has reported such at the Board meeting</li> </ol> | Compliant                                                                                                      |

| Evaluation Item                                                                                                                                                                                                                                                | Implementation Status <sup>1</sup> |    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|----|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|
|                                                                                                                                                                                                                                                                | Yes                                | No | Abstract Illustration                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                                                                |
|                                                                                                                                                                                                                                                                |                                    |    | <p>on August 13, 2020. Periodic training information such as the stock exchange, the SFI and the Corporate Governance Association is provided for Directors to use as training reference, and laws and regulations relevant to the Directors are issued to each Director. When there are changes in the laws and regulations, the Directors will be notified by email first, and the updates will be explained to the Directors during the Board meetings.</p> <p>5. The Company requires all suppliers to sign the Honesty and Integrity Declaration, which guarantees their commitment when dealing with relevant Company personnel to fulfill their obligations of honesty, integrity, environmental protection, and employment.</p> <p>6. The Company has set up a stakeholder section on its website to provide relevant contact information for stakeholders to provide feedback and file complaints.</p> |                                                                                                                |
| <p>9. Please explain the improvements which have been made in accordance with the results of the Corporate Governance Evaluation System released by the Corporate Governance Center, Taiwan Stock Exchange, and provide the priority enhancement measures.</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 | Abstract Illustration |                                                                                                                |
| Evaluation Indicators                                                                                                                                                                 | Improvement                                                                                                                                                                                                                                                          |    |                       |                                                                                                                |
| Is the chairperson the same person as, the spouse of, or a first-degree relative of the general manager or an equivalent post (top manager) or another equivalent post (top manager)? | The Company's Board of Directors approved that the Chairman will not concurrently hold the CEO post on November 12, 2020, and disclosed the relevant information on the Market Observation Post System and the Company's website in accordance with the regulations. |    |                       |                                                                                                                |
| Has the company established a corporate website in English that includes information related to finance, business, and corporate governance?                                          | The Company set up a website in English that was launched in 2020 to provide foreign investors with an overview of the Company's operations.                                                                                                                         |    |                       |                                                                                                                |
| Does the company convene at least six board meetings in the evaluated year?                                                                                                           | The Company convened a total of six Board meetings in 2020.                                                                                                                                                                                                          |    |                       |                                                                                                                |

Directors' training records:

| Title    | Name       | Assignment Date | Study Date | Sponsoring Organization                                     | Course                                                                                                                                  | Training Hours | Total Hours |
|----------|------------|-----------------|------------|-------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|----------------|-------------|
| Chairman | Kirk Hwang | 2019/06/21      | 2020/12/18 | Taiwan Corporate Governance Association                     | Group Tax Management Trends in the Post-Pandemic Era                                                                                    | 3.0            | 17.5        |
|          |            |                 | 2020/09/21 | TWSE                                                        | Corporate Governance 3.0 - Sustainable Development Roadmap Forum Agenda                                                                 | 3.0            |             |
|          |            |                 | 2020/08/07 | Taiwan Corporate Governance Association                     | Evaluating the Functions and Performance of the Board of Directors                                                                      | 3.0            |             |
|          |            |                 | 2020/07/30 | Taiwan Institute for Sustainable Energy                     | The 21st CEO Lectures and Talks                                                                                                         | 2.0            |             |
|          |            |                 | 2020/05/13 | Taiwan Institute for Sustainable Energy                     | The 20th CEO Lectures and Talks                                                                                                         | 2.0            |             |
|          |            |                 | 2020/02/05 | Taiwan Institute for Sustainable Energy                     | The 19th CEO Lectures and Talks                                                                                                         | 2.0            |             |
|          |            |                 | 2020/01/16 | Industrial Development Bureau, Ministry of Economic Affairs | Improving Corporate Governance Structure with Intellectual Property Management - Intellectual Property Management Obligations Promotion | 2.5            |             |
| Director | S. C. Ho   | 2019/06/21      | 2020/11/17 | Taiwan Corporate Governance Association                     | 5G Shapes Digital Transformation and the New Competitive Landscape of Enterprises                                                       | 3.0            | 6.0         |
|          |            |                 | 2020/11/17 | Taiwan Corporate Governance Association                     | Digital Supply Chain Management During the Transformation Wave                                                                          | 3.0            |             |
| Director | Felix Ho   | 2019/06/21      | 2020/11/17 | Taiwan Corporate Governance Association                     | 5G Shapes Digital Transformation and the New Competitive Landscape of Enterprises                                                       | 3.0            | 9.0         |
|          |            |                 | 2020/11/17 | Taiwan Corporate Governance Association                     | Digital Supply Chain Management During the Transformation Wave                                                                          | 3.0            |             |

| Title                | Name             | Assignment Date | Study Date | Sponsoring Organization                 | Course                                                                                                                         | Training Hours | Total Hours |
|----------------------|------------------|-----------------|------------|-----------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|----------------|-------------|
|                      |                  |                 | 2020/09/30 | Taiwan Corporate Governance Association | Corporate Governance and Securities Regulations                                                                                | 3.0            |             |
| Director             | Chih-Cheng Huang | 2019/06/21      | 2020/11/17 | Taiwan Corporate Governance Association | 5G Shapes Digital Transformation and the New Competitive Landscape of Enterprises                                              | 3.0            | 8.0         |
|                      |                  |                 | 2020/09/21 | TWSE                                    | Corporate Governance 3.0 - Sustainable Development Roadmap Forum Agenda                                                        | 3.0            |             |
|                      |                  |                 | 2020/05/13 | Taiwan Institute for Sustainable Energy | The 20th CEO Lectures and Talks                                                                                                | 2.0            |             |
| Director             | Guu-Fong Lin     | 2019/06/21      | 2020/04/22 | Securities & Futures Institute          | Industry 4.0 and How Companies Lead Innovative Transformation                                                                  | 3.0            | 9.0         |
|                      |                  |                 | 2020/03/17 | Securities & Futures Institute          | Discussion on Intellectual Property Rights - Starting from Business Secrets                                                    | 3.0            |             |
|                      |                  |                 | 2020/02/21 | Taiwan Corporate Governance Association | Trends and Risk Management of Digital Technology and AI                                                                        | 3.0            |             |
| Director             | Ray Chen         | 2019/06/21      | 2020/11/17 | Taiwan Corporate Governance Association | 5G Shapes Digital Transformation and the New Competitive Landscape of Enterprises                                              | 3.0            | 6.0         |
|                      |                  |                 | 2020/11/17 | Taiwan Corporate Governance Association | Digital Supply Chain Management During the Transformation Wave                                                                 | 3.0            |             |
| Independent Director | Donald Chang     | 2019/06/21      | 2020/08/25 | Taiwan Corporate Governance Association | Director and Supervisor Responsibility for Misrepresentation in Financial Reports                                              | 3.0            | 6.0         |
|                      |                  |                 | 2020/08/18 | Taiwan Corporate Governance Association | Does Working for a Competitor While Possessing Knowledge Violate the Trade Secrets Act? Trade Secrets and Corporate Governance | 3.0            |             |

| Title                | Name        | Assignment Date | Study Date | Sponsoring Organization                                     | Course                                                                                                                                  | Training Hours | Total Hours |
|----------------------|-------------|-----------------|------------|-------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|----------------|-------------|
| Independent Director | Shih-Lai Lu | 2019/06/21      | 2020/09/17 | Securities & Futures Institute                              | Intellectual Property Rights Management and Business Risks                                                                              | 3.0            | 7.5         |
|                      |             |                 | 2020/02/05 | Taiwan Institute for Sustainable Energy                     | The 19th CEO Lectures and Talks                                                                                                         | 2.0            |             |
|                      |             |                 | 2020/01/16 | Industrial Development Bureau, Ministry of Economic Affairs | Improving Corporate Governance Structure with Intellectual Property Management - Intellectual Property Management Obligations Promotion | 2.5            |             |
| Independent Director | Yi Lee      | 2019/06/21      | 2020/09/24 | Securities & Futures Institute                              | 2020 Annual Promotional Conference on Prevention of Insider Trading and Insider Equity Swaps                                            | 3.0            | 7.0         |
|                      |             |                 | 2020/05/13 | Taiwan Institute for Sustainable Energy                     | The 20th CEO Lectures and Talks                                                                                                         | 2.0            |             |
|                      |             |                 | 2020/02/05 | Taiwan Institute for Sustainable Energy                     | The 19th CEO Lectures and Talks                                                                                                         | 2.0            |             |

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

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

| Title                | Criteria<br><br>Name | Meets 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 a Remuneration Committee Member | Remarks |
|----------------------|----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|------------------------------|---|---|---|---|---|---|---|---|----|---------------------------------------------------------------------------------------------------------------------|---------|
|                      |                      | 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 | Donald Chang         |                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                 | V                                                                                                                                 | V                            | V | V | V | V | V | V | V | V | V  | 1                                                                                                                   | -       |
| Independent Director | Shih-Lai Lu          | V                                                                                                                                                                                                                              |                                                                                                                                                                                                                                                 | V                                                                                                                                 | V                            | V | V | V | V | V | V | V | V | V  | 0                                                                                                                   | -       |
| Independent Director | Yi Lee               |                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                 | V                                                                                                                                 | V                            | V | V | V | V | V | V | V | V | V  | 0                                                                                                                   | -       |

#### Note:

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 apply to independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, a public company and its parent or subsidiary or a subsidiary of the same parent.
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 of one percent or more of the total number of issued shares of the company or ranking in the top 10 in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of a managerial officer under subparagraph 1 or any of the persons in the preceding two subparagraphs.
5. Not a director, supervisor, or employee of a corporate shareholder that directly holds five percent or more of the total number of issued shares of the company, or that ranks among the top five in shareholdings, or that designates its representative to serve as a director or supervisor of the company under Article 27, paragraph 1 or 2 of the Company Act. Not apply to independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, a public company and its parent or subsidiary or a subsidiary of the same parent.

6. If a majority of the company's director seats or voting shares and those of any other company are controlled by the same person: not a director, supervisor, or employee of that other company. Not apply to independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, a public company and its parent or subsidiary or a subsidiary of the same parent.
7. If the chairperson, general manager, or person holding an equivalent position of the company and a person in any of those positions at another company or institution are the same person or are spouses: not a director (or governor), supervisor, or employee of that other company or institution. Not apply to independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, a public company and its parent or subsidiary or a subsidiary of the same parent.
8. Not a director, supervisor, officer, or shareholder holding five percent or more of the shares, of a specified company or institution that has a financial or business relationship with the company. Not apply to independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, a public company and its parent or subsidiary or a subsidiary of the same parent, if the specified company or institution holds 20 percent or more and no more than 50 percent of the total number of issued shares of the public company.
9. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides auditing services to the company or any affiliate of the company, or that provides commercial, legal, financial, accounting or related services to the company or any affiliate of the company for which the provider in the past 2 years has received cumulative compensation exceeding NT\$500,000, or a spouse thereof; provided, this restriction does not apply to a member of the remuneration committee, public tender offer review committee, or special committee for merger/consolidation and acquisition, who exercises powers pursuant to the Act or to the Business Mergers and Acquisitions Act or related laws or regulations.
10. Not been a person of any conditions defined in Article 30 of the Company Law.

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

(1) The Company's Remuneration Committee is comprised of three persons.

(2) Term of the current members: June 21, 2019 to June 20, 2022; in the most recent year (2020), the Remuneration Committee (A) has convened 2 meetings, and the qualifications and records of attendance of committee members are listed below:

| Title    | Name         | Attendance in Person(B) | By Proxy | Attendance Rate (%) 【 B / A 】 | Remarks |
|----------|--------------|-------------------------|----------|-------------------------------|---------|
| Convener | Donald Chang | 2                       | 0        | 100                           | None    |

|                               |             |   |   |     |      |
|-------------------------------|-------------|---|---|-----|------|
| Committee Member              | Shih-Lai Lu | 2 | 0 | 100 | None |
| Committee Member              | Yi Lee      | 2 | 0 | 100 | None |
| Other mentionable items: None |             |   |   |     |      |

### (3) Functions of the Company's Remuneration Committee

The purpose of the Company's Remuneration Committee is to professionally and objectively evaluate the salary and compensation policy of the Company's Directors and Managers. The committee should meet at least twice a year and convene as necessary, and provide its recommendation to the Board of Directors for reference in decision-making.

Responsibilities of the Company's Remuneration Committee:

- I. Stipulate and review regularly the compensation policies, systems, standards and structures, and performance of the Company's Directors and Managers.
- II. Regularly review Directors' and Managers' remuneration.

The Company's Remuneration Committee shall perform the abovementioned duties based on the following principles:

- I. The performance evaluations and compensation of Directors and managers should reference the common standards of industry peers, as well as consider the fairness of links between individual performance, the Company's operational performance, and future risks.
- II. There shall be no incentive for Directors or managers to pursue remuneration by engaging in activities that exceed the risk appetite of the Company.
- III. For Directors and senior managers, the percentage of bonuses to be distributed based on their short-term performance and the time for payment of any variable remuneration shall be decided with regard to the characteristics of the industry and nature of the Company's business.

### (4) Summary of communications between the Company and the Remuneration Committee

| Date                                  | Main issues                                                                                  | Results of resolution                                                                                                                                                                                                                                                                                              | Actions taken by the Company in response to the opinion of the committee members                                                                                                                                                             |
|---------------------------------------|----------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| March 18, 2020<br>(4th-term 2nd time) | 1. 2019 Director remuneration distribution<br><br>2. 2019 employee remuneration distribution | Approved by all the present committee members, and the resolution was submitted to the Board of Directors and presented to the shareholders' meeting.<br><br>Approved by all the present committee members, and the resolution was submitted to the Board of Directors and presented to the shareholders' meeting. | Submitted to the Board of Directors on March 23, 2020 and presented to the shareholders' meeting on June 30, 2020.<br><br>Submitted to the Board of Directors on March 23, 2020 and presented to the shareholders' meeting on June 30, 2020. |

| Date                                    | Main issues                                                                                                                                                                                                                                                                                                              | Results of resolution                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Actions taken by the Company in response to the opinion of the committee members                                                                                                                                                                                                  |
|-----------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| November 5, 2020<br>(4th-term 3rd time) | <p>1. The annual adjustment of employee remuneration was temporarily suspended until operating conditions improved due to poor operating conditions in most recent two years.</p> <p>2. 2019 remuneration status report of main managers.</p> <p>3. Chairman Kirk Hwang will not hold the CEO position concurrently.</p> | <p>Understood.</p> <p>Understood. Recommendations:</p> <p>1. The results of the company's operation should be able to maintain the remuneration of senior managers.</p> <p>2. It is recommended that the percentage of variable remuneration for senior managers' should be increased from 20% to 25% at a minimum.</p> <p>3. Manager performance in the production unit should be linked to smooth production and quality conditions, and in the sales unit, it can be linked to the earnings.</p> <p>Approved by all the present committee members, and the resolution was submitted to the Board of Directors.</p> | <p>The adjustment will be suspended until 2021.</p> <p>Adjustments in the remuneration structure of senior managers in the future will refer to the recommendations of the committee members</p> <p>Submitted to and approved by the Board of Directors on November 12, 2020.</p> |

### 3.4.5 Fulfillment of CSR and Deviations from the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies"

| Evaluation Item                                                                                                                                                                                                         | Implementation Status |    |                                                                                                                                                                                                                                                                                      | Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                                                                                                                         | Yes                   | No | Abstract Explanation                                                                                                                                                                                                                                                                 |                                                                                                                           |
| 1. Does the company assess ESG risks associated with its operations based on the principle of materiality, and establish related risk management policies or strategies?                                                | V                     |    | In 2018, the Company adopted the Sustainability and Social Responsibility Guidelines approved by the Board of Directors in accordance with the Company's operating environment, and appointed the Corporate Governance officer.                                                      | Roughly compliant                                                                                                         |
| 2. Does the company establish exclusively (or concurrently) dedicated first-line managers authorized by the board to be in charge of proposing the corporate social responsibility policies and reporting to the board? | V                     |    | The company has set up a CSR office with two dedicated staff who are responsible for promoting the Company's corporate social responsibility and regularly report the promotion status to the Chairman, and report to the Board of Directors periodically depending on the progress. | Compliant                                                                                                                 |

| Evaluation Item                                                                                                                                                             | Implementation Status |    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                                                                             | Yes                   | No | Abstract Explanation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                           |
| 3. Environmental issues                                                                                                                                                     |                       |    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                           |
| (1) Does the company establish proper environmental management systems based on the characteristics of their industries?                                                    | V                     |    | All production units of the Company have obtained ISO14001 and FSC certifications, and each plant is equipped with dedicated personnel to confirm that the environmental management system is operating effectively.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Compliant                                                                                                                 |
| (2) Does the company endeavor to utilize all resources more efficiently and use renewable materials which have low impact on the environment?                               | V                     |    | The Company invests a considerable amount of capital expenditures to improve production equipment every year to reduce energy consumption, waste, and solid materials, and continues to enhance technologies for recycling residual heat, waste, and solid materials to reduce the impact on the environment.<br>The Company was awarded for excellence for green purchasing and promoting green consumption by the Environmental Protection Administration in 2020.<br>The Company incorporates climate change and global sustainable development trends into risk management. For national climate policies, independent review of energy statistics, and compliance measures to comply with laws and regulations, the Company has carried out corresponding equipment renovation and planned the environmental strategy and evaluation mechanism. | Compliant                                                                                                                 |
| (3) Does the company evaluate the potential risks and opportunities in climate change with regard to the present and future of its business, and take appropriate action to | V                     |    | The Company incorporates climate change and global sustainable development trends into risk management. For national climate policies, independent review of energy statistics, and compliance measures to comply with laws and regulations, the Company has carried out corresponding equipment renovation and planned the environmental strategy and evaluation mechanism.                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Compliant                                                                                                                 |

| Evaluation Item                                                                                                                                                                                                                                                                                                                 | Implementation Status |    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                                                                                                                                                                                                                                 | Yes                   | No | Abstract Explanation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                                                           |
| <p>counter climate change issues?</p> <p>(4) Does the company take inventory of its greenhouse gas emissions, water consumption, and total weight of waste in the last two years, and implement policies on energy efficiency and carbon dioxide reduction, greenhouse gas reduction, water reduction, or waste management?</p> | V                     |    | <p>To mitigate the impact of climate change and fulfill our social responsibility, the Company spares no effort in promoting energy conservation and carbon reduction. In addition to obtaining ISO50001 certification for energy management systems, each plant must also implement GHG inventories and energy conservation measures.</p> <p>1.Greenhouse gas (GHG) inventory:<br/>In response to climate change and global greenhouse gas management trends, and to fully grasp relevant issues associated with the Company's business risks and opportunities, the Company continues to pay attention to international trends on the disclosure of carbon emissions as well as domestic regulations and requirements. At the same time, we request all corresponding units to complete GHG inventories voluntarily and register their results on the national greenhouse gas tracking platform.</p> <p>2. Energy conservation and carbon reduction:<br/>The Company promotes the integration and reuse of resources within each plant. The Company conducts mutual inspections of each plant every quarter and continues the promotion of energy saving projects among plants and offices, which include shifting to LED lights, high-efficiency motors, etc. At the same time, technological exchange meetings are held to introduce energy saving related technologies and improve each plant's energy efficiency. We aim to move forward in the direction of energy conservation and environmental protection.</p> | Compliant                                                                                                                 |
| <p>4. Social issues</p> <p>(1) Does the company formulate appropriate management policies and procedures according to</p>                                                                                                                                                                                                       | V                     |    | <p>The Company has signed the Universal Declaration of Human Rights and UN Global Compact, and has established management policies and procedures that comply with relevant regulations and the International Bill of Human Rights.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Compliant                                                                                                                 |

| Evaluation Item                                                                                                                                                                      | Implementation Status |    |                                                                                                                                                                                                                                                                                                                                                                                     | Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                                                                                      | Yes                   | No | Abstract Explanation                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                           |
| relevant regulations and the International Bill of Human Rights?                                                                                                                     |                       |    |                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                                                           |
| (2) Does the company have reasonable employee benefit measures (including salaries, leave, and other benefits), and do business performance or results reflect on employee salaries? | V                     |    | The Company clearly stipulates that 1% or more of the profit and various vacations and benefits shall be set aside as employee remuneration every year.                                                                                                                                                                                                                             | Compliant                                                                                                                 |
| (3) Does the company provide a healthy and safe working environment and organize training on health and safety for its employees on a regular basis?                                 | V                     |    | The Company has a dedicated safety and health management personnel in place responsible for the development of occupational safety and health management plans to promote work environment and operational safety identification. All employees must undertake at least three hours of safety and health training every three years. All plants in Taiwan are OHSAS18001 certified. | Compliant                                                                                                                 |
| (4) Does the company provide its employees with career development and training sessions?                                                                                            | V                     |    | Every year, each unit of the Company prepares the personnel training budget according to actual needs. The HR administration and management unit evaluates and plans the skills the personnel should have and conducts relevant education and training to enhance the employees' career skills.                                                                                     | Compliant                                                                                                                 |

| Evaluation Item                                                                                                                                                                                                                                                                                       | Implementation Status |    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                                                                                                                                                                                                       | Yes                   | No | Abstract Explanation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                           |
| (5) Do the company's products and services comply with relevant laws and international standards in relation to customer health and safety, customer privacy, and marketing and labeling of products and services, and are relevant consumer protection and grievance procedure policies implemented? | V                     |    | The Company operates in accordance with the laws and regulations of the locations of the plants, and the marketing and labeling of the Company's products and services comply with relevant laws and international standards, such as FSC, PEFC, ISO, etc.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Compliant                                                                                                                 |
| (6) Does the company implement supplier management policies, requiring suppliers to observe relevant regulations on environmental protection, occupational health and safety, or labor and human rights? If so, describe the results.                                                                 | V                     |    | Since 2013, the Company has requested all new suppliers and contractors to sign an Honesty and Integrity Declaration. It comprises the commitments and concrete actions with regard each supplier's corporate social responsibility, including compliance with the principles of honesty, trustworthiness and integrity, environmental and labor laws, as well as liabilities in case of a breach of contract. When the Company signs a contract with the supplier, declarations have been made with respect to environmental protection and labor legal compliance as well as the liability for damages sustained. We request that all contractors commit to their corporate social responsibility. In the event of a violation, the Company has the right to terminate and void the contract. | Compliant                                                                                                                 |
| 5. Does the company reference internationally accepted                                                                                                                                                                                                                                                | V                     |    | The Company commissioned a third party, British Standards Institution (BSI), to verify the 2019 Corporate Social Responsibility Report according to AA1000AS                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Compliant                                                                                                                 |

| Evaluation Item                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Implementation Status |    |                                                                                                                                                                                            | Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Yes                   | No | Abstract Explanation                                                                                                                                                                       |                                                                                                                           |
| reporting standards or guidelines, and prepare reports that disclose non-financial information of the company, such as corporate social responsibility reports? Do the reports above obtain assurance from a third party verification unit?                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                       |    | (2008) and its 2019 Addendum and GRI Standards. The report is verified to be in compliance with AA1000 Type 1 moderate-level assurance and the Core Option Criteria for the GRI Standards. |                                                                                                                           |
| <p>6. Describe the difference, if any, between actual practice and the corporate social responsibility principles, if the company has implemented such principles based on the Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies:</p> <p>The Audit Committee and Board of Directors approved the establishment of the Company’s Sustainability and Social Responsibility Guidelines on November 6 and November 8, 2018 respectively. There are no major differences between the review and improvement of the planning, operation, or implementation of relevant strategies and systems by the current responsible unit, the Sustainable Development Committee, established by the Company and the Company's Sustainability and Social Responsibility Guidelines.</p>                                                                                                                                                                                                                                                                                                                                                                                                              |                       |    |                                                                                                                                                                                            |                                                                                                                           |
| <p>7. Other useful information for explaining the status of corporate social responsibility practices:</p> <p>(I) Set up an environmental protection plan group to be responsible for implementing various response measures, and take the initiative to communicate and coordinate with the environmental stakeholders such as the public and community residents to form a consensus.</p> <p>(II) Actively contact various local environmental protection administrations, township (district) offices, representatives' associations, environmental protection groups, agencies, and schools to carry out various cooperation projects and coexist with the community.</p> <p>(III) Achievements:</p> <p>Governance performance</p> <p>* The Company has actively enhanced the disclosure of corporate governance information and strengthened the importance and investment in maintaining sustainable development, friendly environments, and social welfare, and won the TCSA - TOP50 Taiwan Corporate Sustainability Award. The Company coordinated with downstream clients, paper machine plants, and paper recycling plants for the recycling system, which won the TCSA - Growth through Innovation Award.</p> |                       |    |                                                                                                                                                                                            |                                                                                                                           |

| Evaluation Item                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Implementation Status |    |                      | Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----|----------------------|---------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Yes                   | No | Abstract Explanation |                                                                                                                           |
| <p>* In 2017, the Company added new declaration documents in line with international sustainable management trends, including the Green Purchasing Declaration, Wood Chips and Pulp Procurement Declaration, Human Rights Declaration, and Support for the United Nations Convention to enhance the supply chain management needs of the Company and customers and fulfill our corporate social responsibility.</p> <p>* Officially approved by the Board of Directors: Corporate Governance Code of Conduct, Ethical Corporate Management Best Practice Principles, Sustainability and Social Responsibility Guidelines.</p> <p>* The company’s resource reutilization measures have been recognized by the Asia Responsible Enterprise Award (Circular Economy) in 2020.</p> <p>Environmental protection</p> <p>* The Jiutang Mill has been awarded for excellence for green purchasing by the Environmental Protection Administration since 2011. In addition to the strict and rigorous work on environmental protection, the plant also participates in various activities and certifications to promote environmental protection. For example: ISO, FSC, and GHG inventory.</p> <p>* The Hualien Mill has been awarded as an excellent adoption unit in the Air Quality Purification Zone of the Environmental Protection Administration for four consecutive years.</p> <p>* The Taitung Mill is committed to reusing process waste and improving process efficiency. At the end of 2018, it was awarded the Star Award in the Waste Resource Circular Economy Evaluation, practicing the paper industry ’s circular economy concept.</p> <p>* Lignin biofuel:</p> <p>a. Lignin biofuel power generation: Accounts for 92.7% of the self-generated power of the pulp and paper plants.</p> <p>b. Pulp and paper plants energy conservation and carbon reduction performance: VE and DDS renovation and reduction in heavy oil burning. Saved 346.16 million kiloliters of oil equivalent, 37,730 kWh of electricity, and 100,418 tons of CO<sup>2</sup>, and won the Energy-Conservation Excellence Award.</p> <p>Social welfare</p> <p>The Company has long paid attention to and implemented the promotion of popular science education in rural areas. In particular, we hope that through the power of the enterprise, the children of Huadong can have excellent science education resources. Moreover, we also sponsored Hualien cyclists to support outstanding local youths to win glory for the country.</p> <p>* Yuan T. Lee Science Competition</p> <p>The Company has sponsored the Yuan T. Lee Science Competition to promote science education for many years. The competition lets senior and vocational high school students work on creative topics, where they can learn from difficult knowledge in the textbook by finding answers in real life, realizing the popularization of popular science education. We hope that with correct learning guidance, young students will be interested in exploring scientific</p> |                       |    |                      |                                                                                                                           |

| Evaluation Item                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Implementation Status |    |                      | Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----|----------------------|---------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Yes                   | No | Abstract Explanation |                                                                                                                           |
| <p>knowledge.</p> <p>* Tamkang University, Center for Science Education - chemical courses and events</p> <p>The Company has cooperated with the Center for Science Education of Tamkang University for three years in a row, becoming the university’s partner in chemical courses and events. The Company participates in coming up with teaching plans, provides materials for experiments, and participates in events as volunteers develop children's interest in science. The Company brings popular science education and chemistry experiments to rural schools in Hualien and Taitung through employee participation. A total of 100 students participated in 2020.</p> <p>* Taitung Seashore After-School Program</p> <p>In addition to long-term donation of books to local primary and secondary schools, the Taitung mill has been participating in the reading program for 20 children in the home support center in the Guanshan area for six consecutive years. At present, the reading hours have exceeded 400 hours, accumulating long-term and stable partnership between volunteers and school children.</p> <p>* Promoting coding education</p> <p>CHP started cooperating with Coding Nations in 2019 to promote basic programming education in Huadong. The Taitung mill adopted six primary schools in the surroundings, conducted basic programming courses twice a week, and exclusively sponsored the Hualien County 2019 CHP Public Welfare Cup Scratch Interscholastic Competition, letting Scratch masters of the eight primary schools in Hualien demonstrate their learning achievements while learning from each other. CHP hopes to use the power of the enterprise to cooperate with Taitung to promote education and train teachers. Currently, we have held education promotion courses that total over 200 hours and conducted Scratch programming courses through the integration of IT courses. This way, children in rural areas can also have the ability to stay ahead in the AI era.</p> |                       |    |                      |                                                                                                                           |

### 3.4.6 Fulfillment of Ethical Corporate Management and Deviations from the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies"

| Evaluation Item                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Implementation Status |    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Yes                   | No | Abstract Illustration                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                                                                                        |
| 1.Establishment of ethical corporate management policies and programs                                                                                                                                                                                                                                                                                                                                                                                                                                 |                       |    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                        |
| (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?                                                                                                                                                                                         | V                     |    | Through the approval of the Board on November 8, 2018, the Company has established the Ethical Corporate Management Best Practice Principles to actively prevent dishonest behavior and conflicts of interest, establish whistleblowing channels, and regulate the conduct of relevant personnel.                                                                                                                                                                                                  | Compliant                                                                                                              |
| (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 Best Practice Principles for TWSE/TPEX Listed Companies? |                       | V  | The Company complies with the relevant laws and regulations, and will establish an evaluation mechanism and measures in the future to take appropriate response measures. The Company established the Ethical Corporate Management Operating Procedures and Code of Conduct in accordance with the Ethical Corporate Management Best Practice Principles to clearly define disciplinary actions and complaint systems. The Company reviews and revises the actions and systems in a timely manner. | Changes are made gradually                                                                                             |
| (3) Does the company provide clearly the operating                                                                                                                                                                                                                                                                                                                                                                                                                                                    | V                     |    | The Company has already established the Ethical                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Compliant                                                                                                              |

| Evaluation Item                                                                                                                                                                                                         | Implementation Status |    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                                                                                                                         | Yes                   | No | Abstract Illustration                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                        |
| 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>Corporate Management Operating Procedures and Code of Conduct and our prevention methods against dishonest behaviors are listed below:</p> <p>1. Prevention of dishonest behavior and the prohibition of bribery acceptance: Detailed information about disciplinary actions and the reporting system are listed in Chapter Four: Service Regulations of the Work Rules.</p> <p>2. Protection of intellectual property rights: Achieved by requiring employees to sign the Integrity and Confidentiality of Intellectual Property Agreement as well as the employment contract.</p> <p>3. Employee Code of Conduct: Established to implement the Company’s core values, maintain high ethical standards, provide employees with standard compliance requirements when performing their daily duties and tasks, protect the Company’s reputation, and earn the respect and trust of our clients, vendors, and other individuals.</p> |                                                                                                                        |
| 2. Fulfill operations integrity policy                                                                                                                                                                                  |                       |    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                        |
| (1) Does the company evaluate business partners’ ethical records and include ethics-related clauses in business contracts?                                                                                              | V                     |    | In the credit evaluation process of business partners, we assess integrity of their records. Likewise, we clearly specify in the procurement contract as well as the Honesty and Integrity Declaration that absolutely no bribery or dishonest behavior are allowed.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Compliant                                                                                                              |
| (2) Does the company have a unit responsible for                                                                                                                                                                        | V                     |    | The Company set up an Integrity Management Team                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Compliant                                                                                                              |

| Evaluation Item                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Implementation Status |    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Yes                   | No | Abstract Illustration                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                                                                        |
| <p>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 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> | V                     |    | <p>in accordance with the Ethical Corporate Management Best Practice Principles, and presented a report of the status at the 8th meeting of the 18th Board of Directors on November 12, 2020. The report was included in the audit reports and submitted to the Board of Directors.</p> <p>The Company has established the Ethical Corporate Management Operating Procedures and Code of Conduct, which have regulations for Directors, managers, supervisors, and employees to avoid conflicts of interest. Anyone who may have a conflict of interest must recuse themselves.</p> <p>The Company's current accounting and internal control system implements a separation of powers and responsibilities to prevent personnel from having an opportunity for dishonesty. Internal auditors include staff integrity as a reference basis for relevant audits.</p> <p>The Company regularly arranges relevant internal and external education and training courses to promote ethical corporate management.</p> | <p>Compliant</p> <p>Compliant</p>                                                                                      |
| <p>3. Operation of the integrity channel</p> <p>(1) Does the company establish both a reward/punishment system and an integrity hotline? Can the accused be reached by an appropriate</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | V                     |    | <p>There are many open reporting channels. The Company established a Personnel Evaluation Committee to investigate the reports and implement</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Compliant                                                                                                              |

| Evaluation Item                                                                                                                                                                                                                                                                                      | Implementation Status |    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                                                                                                                                                                                                      | Yes                   | No | Abstract Illustration                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                        |
| <p>person for follow-up?</p> <p>(2) Does the company have in place standard operating procedures for investigating accusation cases, as well as follow-up actions and relevant post-investigation confidentiality measures?</p> <p>(3) Does the company provide proper whistleblower protection?</p> | <p>V</p> <p>V</p>     |    | <p>disciplinary actions. The Company also set up the Employee Code of Conduct as a standard for personnel to follow, and has reporting channels and dedicated staff for employees to report illegal acts. After the report is processed, a record is made and the relevant unit will conduct an investigation and report the results to the responsible manager. After investigating and confirming that the specific behaviors violate the integrity regulations, the Company will severely discipline dishonest behaviors in accordance with the Employee Rewards and Disciplinary Actions, and record the situation as a serious offense at minimum or terminate the labor contract.</p> <p>The Company will keep confidential the employees or personnel who report violations or participate in the investigation process. Those who know the identity or content of the whistleblower due to their duties or business shall not disclose the information. The Company promises not to treat the whistleblower improperly due to the whistleblowing.</p> | <p>Compliant</p> <p>Compliant</p>                                                                                      |
| <p>4. Strengthening information disclosure</p> <p>Does the company disclose its ethical corporate management policies and the results of its implementation on the company’s website and MOPS?</p>                                                                                                   | V                     |    | <p>The Company has disclosed the Ethical Corporate Management Guidelines on the Company's website (www.chp.com.tw) and the Market Observation Post System. The relevant promotion situation and</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Compliant                                                                                                              |

| Evaluation Item                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Implementation Status |    |                                                                                | Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----|--------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Yes                   | No | Abstract Illustration                                                          |                                                                                                                        |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                       |    | effectiveness will be gradually disclosed according to the promotion schedule. |                                                                                                                        |
| <p>5. If the company has established the ethical corporate management policies based on the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies, please describe any discrepancy between the policies and their implementation :</p> <p>The Audit Committee and Board of Directors approved the establishment of the Company’s Ethical Corporate Management Best Practice Principles on November 6 and November 8, 2018 respectively. At present, the Company's practices in integrity are in compliance with the Ethical Corporate Management Best Practice Principles. There is no significant discrepancy in the implementation of the guidelines. However, the revision of the Company’s guidelines is still under discussion due to the revision of the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies in 2019.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                       |    |                                                                                |                                                                                                                        |
| <p>6. Other important information to facilitate a better understanding of the company’s ethical corporate management policies (e.g., review and amend its policies) :</p> <p>(a) The Company requires all suppliers and third parties to sign the Honesty and Integrity Declaration to guarantee their commitment to fulfill their obligations of conducting honest business operations.</p> <p>(b) The Board of Directors approved the Employee Code of Conduct in 2016 to implement the Company’s core values, maintain high ethical standards, provide employees with standard compliance requirements when performing their daily duties and tasks, protect the Company’s reputation, and earn the respect and trust of our clients, vendors, and other individuals.</p> <p>(c) In 2017, the Board of Directors approved the Procedures for Insider Trading Prevention, which is followed by Directors and other insiders when trading stocks and is included in the internal control system. Auditors regularly understand the status of compliance to implement the management of insider trading.</p> <p>(d) In 2018, the Board of Directors approved the Ethical Corporate Management Best Practice Principles as a basic policy for all employees of the Company and its subsidiaries to maintain the corporate culture and develop comprehensive integrity management.</p> <p>(e) The new version of the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies was completed on May 23, 2019. The Company has been discussing the revised content to make the relevant amendments.</p> |                       |    |                                                                                |                                                                                                                        |

### 3.4.7 Corporate Governance Guidelines and Regulations

The Company has established the Corporate Governance Code, Sustainability and Social Responsibility Guidelines, and Ethical Corporate Management Guidelines. Please review them on the Company's website ([www.chp.com.tw](http://www.chp.com.tw)) by following this path: Home > Investors > Corporate Governance > Internal Regulations.

### 3.4.8 Other Important Information Regarding Corporate Governance

1. In 2020, the Company invited Independent Directors to participate in a total of 7 meetings for communication and to hear their professional recommendations. Discussions at the meetings included topics such as R&D, product application and the business development of subsidiaries, introduction of the latest finance and tax regulations, and evaluation of the possibilities of new product development. The Company established a Business Development and Strategy Committee on October 19, 2020 to plan and discuss short-, mid-, and long-term business development and strategies. The committee has six members, including the Chairman, President, Executive Vice President of Sales, and the three Independent Directors of the Company. Relevant employees are invited to attend meetings according to the meeting agenda.

The 2020 meeting status is as follows:

| Date       | Participants                                                                                                                                                                                   | Matters of communication                                                                                                                                                                                                                                                                                                                                      | Communication results                                                                                                                                         |
|------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2020.11.05 | Chairman Kirk Hwang<br>Independent Director Donald Chang<br>Independent Director Shih-Lai Lu<br>Independent Director Yi Lee<br>President Chin-Cheng Huang<br>Executive Vice President Ray Chen | 1. Explanation of the difference between the Company's business performance and targets in the second half of 2020.<br>2. Explanation of the progress and subsequent development of the green power plan and pulp plastic product plan of the Company's Hualien plant.<br>3. Explanation of the turn-over plan of the Company's newly purchased Guanyin Mill. | Independent Directors made recommendations on each proposal as a reference for the management team, and to serve as the direction for tracking and execution. |

|                |                                                                                                                                                                                                |                                                                                 |                                                                                                                                                               |
|----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2020.12.<br>24 | Chairman Kirk Hwang<br>Independent Director Donald Chang<br>Independent Director Shih-Lai Lu<br>Independent Director Yi Lee<br>President Chin-Cheng Huang<br>Executive Vice President Ray Chen | 1. Description of the Company's business strategy and operating budget for 2021 | Independent Directors made recommendations on each proposal as a reference for the management team, and to serve as the direction for tracking and execution. |
|----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|

2. Deliver laws and regulations relevant to Directors to the Directors for reference.
3. Disclose important information in a timely manner and hold regular investor conferences to announce the results of operations, and disclose the relevant information on the Company's website (www.chp.com.tw) as well as the Market Observation Post System.
4. Since 2015, the Company started preparing corporate social responsibility reports and disclosed them on the Company's website and the Market Observation Post System.

### 3.4.9 Internal Control Systems

#### A. Internal Control Statement

#### Chung Hwa Pulp Corporation Statement of Internal Control System

Date : February 26 2021

Based on the findings of a self-assessment, CHP states the following with regard to its internal control system during the year 2020 :

1. CHP's Board of Directors and Management are responsible for establishing, implementing, and maintaining an adequate internal control system. Our internal control is a process designed to provide reasonable assurance over the effectiveness and efficiency of our operations (including profitability, performance, and safeguarding of assets), reliability of our financial reporting, and compliance with applicable laws and regulations.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing its stated objectives. Moreover, the effectiveness of an

internal control system may be subject to changes due to extenuating circumstances beyond our control. Nevertheless, our internal control system contains self-monitoring mechanisms, and YFY takes immediate remedial actions in response to any identified deficiencies.

3. CHP evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control Systems by Public Companies (herein below, the “Regulations”). The criteria adopted by the Regulations identify five key components of managerial internal control: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.
4. CHP has evaluated the design and operating effectiveness of its internal control system according to the aforesaid Regulations.
5. Based on the findings of such evaluation, CHP believes that on December 31, 2019, it has maintained, in all material respects an effective internal control system (that includes the supervision and management of our subsidiaries) to provide reasonable assurance over our operational effectiveness and efficiency, reliability of financial reporting, and compliance with applicable laws and regulations.
6. This Statement will be an integral part of CHP’s Annual Report for the year 2016 and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Law.
7. This Statement has been passed by the Board of Directors in their meeting held on February 26, 2021, where all of the nine attending directors express dissenting opinion and affirmed the content of this Statement.

Chung Hwa Pulp Corporation

- B. Has the Company delegated CPAs to review its internal audit system and issued an audit report: None

**3.4.10 Penalties issued on the Company and its personnel, punishment imposed by the Company on personnel in violation of internal control system regulations, major deficiencies and improvement measures taken during the current fiscal year up to the date of publication of the annual report:**  
None

### **3.4.11 Major Resolutions of Shareholders' Meeting and Board Meetings**

#### **A. Important resolutions of the 2020 Shareholders' Meeting (June/30/2020 ) (abstract):**

- (1). Approved the acknowledgment of the Company's 2019 financial statements.
- (2). Approved the acknowledgment of the Company's 2019 loss appropriation.
- (3). Approved the amendment of the Company's Articles of Incorporation.
- (4). Passed a resolution to approve the amendments to the Company's Shareholders' Meeting Policy.

Implementation status: After the resolution of the shareholders' meeting, the Company will handle the matters (1) to (4) according to the resolutions of the shareholders' meeting.

#### **B. Major Resolutions of Board Meetings**

##### **Summary of Major Resolutions of the 4th meeting of the 18th Board of Directors on March 23, 2020 (abstract):**

- (1). Approved the 2019 financial statements.
- (2). Approved the loss appropriation for 2019.
- (3). Approved the 2019 remuneration to the employees and Directors.
- (4). Approved the 2019 Statement on Internal Control.
- (5). Approved the amendments to the Company's Articles of Incorporation and submitted them to the shareholders' meeting for discussion.
- (6). Approved the amendments to the Company's Rules and Procedures for Board of Directors Meetings.
- (7). Approved the amendments to the Company's Audit Committee Organizational Rules.
- (8). Approved the amendments to the Company's Shareholders' Meeting Policy and submitted them to the shareholders' meeting for discussion.
- (9). Approved the location and other relevant matters regarding the 2020 shareholders' meeting.
- (10). Approved the interbank lending credit line application.
- (11). Approved the total amount of guarantees for endorsements for external parties by the Company and its subsidiaries as of the fourth quarter of 2019.

##### **Summary of Major Resolutions of the 5th meeting of the 18th Board of Directors on May 14, 2020 (abstract):**

- (1). Approved the amendments to the Company's Procedures for Repurchase of Shares and Transfer to Employees.
- (2). Approved the Company's third repurchase of shares to transfer to employees.
- (3). Approved the addition of reporting the amendments to the 2020 Procedures for Repurchase of Shares and Transfer to Employees and resolution of the Company's Board of Directors to repurchase the Company's shares to the shareholders' meeting.
- (4). Approved the interbank lending credit line application.
- (5). Approved the Company to be the joint promissory note maker of subsidiaries' interbank lending credit line applications.
- (6). Approved the acknowledgment of the total amount of guarantees for endorsements for external parties by the Company and its subsidiaries as of the first quarter of 2020.
- (7). Approved the change of the Corporate Governance Manager.

**Summary of Major Resolutions of the 6th meeting of the 18th Board of Directors on August 13, 2020 (abstract):**

- (1). Approved the amendments to the Company's Procedures for Repurchase of Shares and Transfer to Employees.
- (2). Approved the interbank lending credit line application.
- (3). Approved the Company to be the joint promissory note maker of subsidiaries' interbank lending credit line applications.
- (4). Approved the acknowledgment of the total amount of guarantees for endorsements for external parties by the Company and its subsidiaries as of the second quarter of 2020.

**Summary of Major Resolutions of the 7th (interim) meeting of the 18th Board of Directors on October 23, 2020 (abstract):**

- (1). Approved the Company's purchase of Toayuan Guanyin industrial zone mill.

**Summary of Major Resolutions of the 8th meeting of the 18th Board of Directors on November 12, 2020 (abstract):**

- (1). Approved the 2021 audit plan.
- (2). Approved the consecutive appointment of Shu Wan Lin and Hsiu-Ming Hsu of Deloitte Taiwan as the Company's CPAs for 2020 to 2022 and their remuneration proposal.
- (3). Approved the amendments to the Company's Board of Directors Performance Evaluation Guidelines.
- (4). Approved the interbank lending credit line application.
- (5). Approved the Company to be the joint promissory note maker of subsidiaries'

interbank lending credit line applications.

- (6). Approved the total amount of guarantees for endorsements for external parties by the Company and its subsidiaries as of the third quarter of 2020.
- (7). Approved that the Company's Chairman Kirk Hwang will not hold the CEO position concurrently.

**Summary of Major Resolutions of the 9th meeting of the 18th Board of Directors on December 29, 2020 (abstract):**

- (1). Approved the 2021 operating budget.
- (2). Approved the interbank lending credit line application.

**Summary of Major Resolutions of the 10th meeting of the 18th Board of Directors on February 26, 2021 (abstract):**

- (1). Approved the 2020 financial statements.
- (2). Approved the loss appropriation for 2020.
- (3). Approved the 2020 remuneration to the employees and Directors.
- (4). Approved the 2020 Statement on Internal Control.
- (5). Approved the amendments to the Company's Articles of Incorporation and submitted them to the shareholders' meeting for discussion.
- (6). Approved the amendments to the Company's Procedures for Extending Loans to Others and submitted them to the shareholders' meeting for discussion.
- (7). Approved the amendments to the Company's Procedures for Endorsements and Guarantees and submitted them to the shareholders' meeting for discussion.
- (8). Approved the amendments to the Company's Remuneration Committee Charter.
- (9). Approved the location and other relevant matters regarding the 2021 shareholders' meeting.
- (10). Approved the interbank lending credit line application.
- (11). Approved the acknowledgment of the total amount of guarantees for endorsements for external parties by the Company and its subsidiaries as of the fourth quarter of 2020.
- (12). Approved the adjustment of the Company's organizational structure.
- (13). Approved the change of the manager of the Company's Taichung branch.

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

**3.4.13 Resignation or Dismissal of the Company's Key Individuals, Including the Chairman, CEO, and Heads of Accounting, Finance, Internal Audit, Company Secretary and R&D:**

| Title             | Name         | Date of appointment | Date of dismissal | Reason for resignation or adjustment |
|-------------------|--------------|---------------------|-------------------|--------------------------------------|
| CEO               | Kirk Hwang   | 10/01/2012          | 11/12/2020        | Position adjustment                  |
| Company Secretary | Guu-Fong Lin | 05/14/2019          | 05/14/2020        | Position adjustment                  |

**3.4.14 Internal Audit Licenses**

Certified Internal Auditor (CIA): 1 person in the Audit Department

**3.5 Audit Fee**

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 | Yes                           | No | Period                  |         |
| Deloitte & Touche | Shu-Wan Lin<br>Shiow-Ming Shue | 3,200     | -                | -                    | -              | 25<br>Note | 25       | V                             |    | 1/1/2020~<br>12/31/2020 |         |

Note: The non-supervisor full-time employee salary information checklist for 2019 is NT\$25 thousand.

1. If the non-audit fees paid to the CPAs, accounting firm and its affiliated companies reach one-fourth of the total amount of audit fees, the amount of audit and non-audit fees and the content of non-audit services shall be disclosed: None.
2. Where the Company's replacing accounting firm and audit fees paid for the year were less than that in the previous year before replacement: None.
3. Where the audit fees decreased by more than 15% compared to the previous year: None.

**3.6 Replacement of Certified Public Accountant (CPA):**

The company has no such situation in the last two years and the subsequent period.

**3.7 The Chairman, President and Financial or Accounting Managerial Officer of the Company who had worked for the Independent CPA or the affiliate in the past year:**

None.

**3.8 Shareholding Transferred or Pledged by Directors, Management, and Major Shareholders Who Holds 10% of The Company Shares or More:**

Unit: Shares

| Title                                                     | Name                                    |                                                           | 2020                        |                                     | As of March.31, 2021        |                                     |
|-----------------------------------------------------------|-----------------------------------------|-----------------------------------------------------------|-----------------------------|-------------------------------------|-----------------------------|-------------------------------------|
|                                                           |                                         |                                                           | Holding Increase (Decrease) | Pledged Holding Increase (Decrease) | Holding Increase (Decrease) | Pledged Holding Increase (Decrease) |
| Director                                                  | YFY INC.                                |                                                           | -                           | -                                   | -                           | -                                   |
| Chairman                                                  | Kirk Hwang                              | Representative of YFY INC.                                | 920,000                     | -                                   | 20,000                      | -                                   |
|                                                           | S. C. Ho<br>Note1                       |                                                           |                             |                                     |                             |                                     |
| Director                                                  | Felix Ho                                |                                                           | -                           | -                                   | -                           | -                                   |
| Director                                                  | Melody Chiu<br>Note2                    |                                                           | -                           | -                                   | -                           | -                                   |
| Director                                                  | YFY Paradigm Investment Co., Ltd. Note1 |                                                           | 7,635,485                   | -                                   | -                           | -                                   |
| Director                                                  | Chih-Cheng Huang                        | Representative of Lotus Ecoscings & Engineering Co., Ltd. | -                           | -                                   | -                           | -                                   |
| Director                                                  | Guu-Fong Lin                            |                                                           | -                           | -                                   | -                           | -                                   |
| Director                                                  | Ray Chen                                |                                                           | -                           | -                                   | -                           | -                                   |
| Independent Director                                      | Donald Chang                            |                                                           | -                           | -                                   | -                           | -                                   |
| Independent Director                                      | Shih-Lai Lu                             |                                                           | -                           | -                                   | -                           | -                                   |
| Independent Director                                      | Yi Lee                                  |                                                           | -                           | -                                   | -                           | -                                   |
| CEO                                                       | Kirk Hwang Note2                        |                                                           | 920,000                     | -                                   | 20,000                      | -                                   |
| President                                                 | Chih-Cheng Huang                        |                                                           | -                           | -                                   | -                           | -                                   |
| CFO                                                       | Guu-Fong Lin                            |                                                           | -                           | -                                   | -                           | -                                   |
| President of Cellulosic Materials Division                | Ray Chen                                |                                                           | -                           | -                                   | -                           | -                                   |
| President of Specialty Materials Division                 | Yoshihiro Akiyama                       |                                                           | -                           | -                                   | -                           | -                                   |
| Executive Vice President of Cellulosic Materials Division | Rong-Ming Lin                           |                                                           | -                           | -                                   | -                           | -                                   |
| Finance Manager                                           | David Lin                               |                                                           | -                           | -                                   | -                           | -                                   |

| Title              | Name           | 2020                        |                                     | As of March.31, 2021        |                                     |
|--------------------|----------------|-----------------------------|-------------------------------------|-----------------------------|-------------------------------------|
|                    |                | Holding Increase (Decrease) | Pledged Holding Increase (Decrease) | Holding Increase (Decrease) | Pledged Holding Increase (Decrease) |
| Accounting Manager | Jung-Min Huang | -                           | -                                   | -                           | -                                   |
| Major shareholder  | YFY INC.       | -                           | -                                   | -                           | -                                   |

Note1: Lotus Ecoscience & Engineering Co., Ltd., originally an Institutional Director of the Company, merged with YFY Paradigm Investment Co., Ltd. on October 7, 2020, with YFY Paradigm Investment Co., Ltd. being the continuing company.

Note2: On November 12, 2020, the Board of Directors approved that Mr. Kirk Hwang, Chairman and CEO, will not hold the CEO position concurrently.

Note3: Mr. Yoshihiro Akiyama, the President of Specialty Materials Division, was appointed on March 1, 2021.

### **3.9 Information disclosing the spouse, kinship within second degree, and relationship between any of the top ten shareholders:**

March 27, 2021

| 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                                                                     |         |
|                                              |                      |       |                               |      |                                     |   |                                                                                                                                                                                            |                                                                                  |         |
| YFY INC.                                     | 627,827,989          | 56.93 | -                             | -    | -                                   | - | YFY Paradigm Investment Co., Ltd.<br>YFY Paradigm Investment Co., Ltd.                                                                                                                     | juristic-person director<br>juristic-person supervisor                           | -       |
| Representative:<br>Felix Ho                  | -                    | -     | -                             | -    | -                                   | - | Representative of Shin-Yi Enterprise Co., Ltd., Sing-Ju Chang<br>Representative of Shin-Yi Investment Co., Ltd., S. C. Ho<br>Representative of Yuen Shin Yi Enterprise Co., Ltd., S. C. Ho | Mother and Son<br>Father and Son<br>Father and Son                               | -       |
| Shin-Yi Enterprise Co., Ltd.                 | 50,149,248           | 4.55  | -                             | -    | -                                   | - | YFY INC.<br>Shin-Yi Investment Co., Ltd.<br>Yuen Shin Yi Enterprise Co., Ltd.                                                                                                              | juristic-person director<br>juristic-person director<br>juristic-person director | -       |
| Representative:<br>Sing-Ju Chang             | -                    | -     | 1,223,071                     | 0.11 | -                                   | - | Representative of YFY INC., Felix Ho<br>Representative of Shin-Yi Investment Co., Ltd., S. C. Ho<br>Representative of Yuen Shin Yi Enterprise Co., Ltd., S. C. Ho                          | Mother and Son<br>Spouse<br>Spouse                                               | -       |
| Shin-Yi Recreation Co., Ltd.                 | 23,624,028           | 2.14  | -                             | -    | -                                   | - | -                                                                                                                                                                                          | -                                                                                | -       |
| Representative:<br>Bao-Yu Hsieh              | -                    | -     | -                             | -    | -                                   | - | -                                                                                                                                                                                          | -                                                                                | -       |
| Shin-Yi Investment Co., Ltd.                 | 21,090,110           | 1.91  | -                             | -    | -                                   | - | Yuen Shin Yi Enterprise Co., Ltd.                                                                                                                                                          | juristic-person supervisor                                                       | -       |
| Representative:<br>S. C. Ho                  | 1,223,071            | 0.11  | -                             | -    | -                                   | - | Representative of YFY INC., Felix Ho<br>Representative of Shin-Yi Enterprise Co., Ltd., Sing-Ju Chang<br>Representative of Yuen Shin Yi Enterprise Co., Ltd., S. C. Ho                     | Father and Son<br>Spouse<br>Same Representative                                  | -       |
| Poiunin Emerging Markets Small Cap Fund, LLC | 8,316,650            | 0.75  | -                             | -    | -                                   | - | -                                                                                                                                                                                          | -                                                                                | -       |
| YFY paradigm Investment Co., Ltd             | 7,752,732            | 0.69  | -                             | -    | -                                   | - | -                                                                                                                                                                                          | -                                                                                | -       |
| Wei-Li Tsai                                  | -                    | -     | -                             | -    | -                                   | - | -                                                                                                                                                                                          | -                                                                                | -       |
| Yuen Shin Yi Enterprise Co., Ltd             | 7,231,001            | 0.66  | -                             | -    | -                                   | - | -                                                                                                                                                                                          | -                                                                                | -       |

| 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                                    |         |
| Representative:<br>S. C. Ho                                                                       | 1,223,071            | 0.11 | -                             | - | -                                   | - | Representative of YFY INC., Felix Ho<br>Representative of Shin-Yi Enterprise Co., Ltd., Sing-Ju Chang<br>Representative of Yuen Shin Yi Enterprise Co., Ltd., S. C. Ho | Father and Son<br>Spouse<br>Same Representative | -       |
| J.P. MORGAN SECURITIES PLC                                                                        | 7,189,579            | 0.65 | -                             | - | -                                   | - | -                                                                                                                                                                      | -                                               | -       |
| VANGUARD EMERGING MARKETS STOCK INDEX FUND, A SERIES OF VANGUARD INTERNATIONAL EQUITY INDEX FUNDS | 5,250,000            | 0.48 | -                             | - | -                                   | - | -                                                                                                                                                                      | -                                               | -       |
| CENTRAL TAIWAN SCIENCE PARK LOGISTICS CO., LTD.                                                   | 5,060,000            | 0.46 | -                             | - | -                                   | - | -                                                                                                                                                                      | -                                               | -       |
| Yin-Hai Chen                                                                                      | -                    | -    | -                             | - | -                                   | - | -                                                                                                                                                                      | -                                               | -       |

**3.10 Comprehensive Shareholding Information Relating to Company, Directors, Management, and Companies Affiliated through Direct and Indirect Investment:**

Unit: shares/ %

| Affiliated Enterprises                       | Ownership by the Company |      | Direct or Indirect Ownership by Directors/Supervisors/Managers |       | Total Ownership |       |
|----------------------------------------------|--------------------------|------|----------------------------------------------------------------|-------|-----------------|-------|
|                                              | Shares                   | %    | Shares                                                         | %     | Shares          | %     |
| CHP INT'L (BVI) CORP.                        | 61,039,956               | 100  | -                                                              | -     | 61,039,956      | 100   |
| Hwa Fong Investment Co., Ltd                 | 3,600,000                | 100  | -                                                              | -     | 3,600,000       | 100   |
| Guangdong Dingfung Pulp & Paper Co., Ltd.    | -                        | -    | -                                                              | 100   | -               | 100   |
| Zhaoqing Dingfung Forestry Co., Ltd.         | -                        | -    | -                                                              | 100   | -               | 100   |
| Genovella Renewables Inc.                    | -                        | -    | -                                                              | 100   | -               | 100   |
| Shenzhen Systax Paper Co., Ltd               | -                        | -    | -                                                              | 100   | -               | 100   |
| Syntax Communication (H.K.) Ltd.             | -                        | -    | -                                                              | 100   | -               | 100   |
| Zhaoqing Xinchuan Green Technology Co., Ltd. | -                        | -    | -                                                              | 100   | -               | 100   |
| E Ink Holdings Inc.                          | 20,000,000               | 1.75 | 174,766,635                                                    | 15.33 | 194,766,635     | 17.08 |
| EFFION Enertech Co., Ltd.                    | 34,300,000               | 49   | 35,700,000                                                     | 51    | 70,000,000      | 100   |
| Taiwan Global Biofund Co., Ltd.              | 3,283,200                | 4.44 | 19,877,314                                                     | 26.91 | 23,160,514      | 31.35 |

## Capital Overview

### 4.1 Source of capital

| Month/<br>Year | Par<br>Value<br>(NT\$) | Authorized Capital |                | Paid-in Capital |                | Remark                     |                                                      |                                |
|----------------|------------------------|--------------------|----------------|-----------------|----------------|----------------------------|------------------------------------------------------|--------------------------------|
|                |                        | Shares             | Amount         | Shares          | Amount         | Source of share<br>capital | Capital<br>Increased by<br>Assets Other<br>than Cash | Other                          |
| 8/2015         | 10                     | 1,300,000,000      | 13,000,000,000 | 1,102,835,316   | 11,028,353,160 | Undistributed<br>Earnings  | -                                                    | 8/17/2015 FSC<br>No.1040030024 |

Note: The company handles cash reduction of NT\$1,200,000,000 on August 17 2015 and, the amount of paid-up capital after capital reduction to be NT\$ 11,028,353,160.

| Share Type   | Authorized Capital |                  |               | Remarks       |
|--------------|--------------------|------------------|---------------|---------------|
|              | Issued Shares      | Un-issued Shares | Total Shares  |               |
| Common Stock | 1,102,835,316      | 197,164,684      | 1,300,000,000 | Listed stocks |

Note: Contains treasury stocks of 15,944,000 shares

### 4.2 Shareholder Structure

3/27/2021

| Item                      | Government<br>Agencies | Financial<br>Institutions | Other<br>Juridical<br>Persons | Domestic<br>Natural<br>Persons | Foreign<br>Institutions &<br>Natural Persons | Total         |
|---------------------------|------------------------|---------------------------|-------------------------------|--------------------------------|----------------------------------------------|---------------|
| Number of<br>Shareholders | 1                      | 13                        | 92                            | 50,865                         | 148                                          | 51,119        |
| Shareholding<br>(shares)  | 562                    | 1,924,597                 | 775,981,436                   | 266,358,805                    | 58,569,916                                   | 1,102,835,316 |
| Percentage                | -                      | 0.18                      | 70.36                         | 24.15                          | 5.31                                         | 100.00        |

### 4.3 Shareholding Distribution

3/27/2021

| Class of Shareholding<br>(Unit: Share) | Number of<br>Shareholders | Shareholding (Shares) | Percentage |
|----------------------------------------|---------------------------|-----------------------|------------|
| 1 ~ 999                                | 24,022                    | 5,835,089             | 0.53       |
| 1,000 ~ 5,000                          | 19,371                    | 43,675,195            | 3.96       |
| 5,001 ~ 10,000                         | 3,912                     | 32,563,170            | 2.95       |
| 10,001 ~ 15,000                        | 962                       | 12,164,691            | 1.10       |
| 15,001 ~ 20,000                        | 902                       | 17,021,253            | 1.54       |
| 20,001 ~ 30,000                        | 637                       | 16,577,121            | 1.50       |
| 30,001 ~ 50,000                        | 547                       | 22,372,848            | 2.03       |
| 50,001 ~ 100,000                       | 382                       | 28,076,021            | 2.55       |
| 100,001 ~ 200,000                      | 186                       | 27,160,518            | 2.46       |
| 200,001 ~ 400,000                      | 94                        | 26,903,268            | 2.44       |
| 400,001 ~ 600,000                      | 34                        | 16,178,343            | 1.47       |
| 600,001 ~ 800,000                      | 18                        | 12,568,607            | 1.14       |
| 800,001 ~ 1,000,000                    | 12                        | 10,827,475            | 0.98       |
| 1,000,001 or over                      | 40                        | 830,911,717           | 75.35      |
| Total                                  | 51,119                    | 1,102,835,316         | 100.00     |

### 4.4 Major Shareholders

3/27/2021

| Shareholder's Name                                                                                | Shareholding |            |
|---------------------------------------------------------------------------------------------------|--------------|------------|
|                                                                                                   | Shares       | Percentage |
| YFY INC.                                                                                          | 627,827,989  | 56.93      |
| Shin-Yi Enterprise Co., Ltd.                                                                      | 50,149,248   | 4.55       |
| Shin-Yi Recreation Co., Ltd.                                                                      | 23,624,028   | 2.14       |
| Shin-Yi Investment Co., Ltd.                                                                      | 21,090,110   | 1.91       |
| Poiunin Emerging Markets Small Cap Fund, LLC                                                      | 8,316,650    | 0.75       |
| YFY paradigm Investment Co., Ltd                                                                  | 7,752,732    | 0.69       |
| Yuen Shin Yi Enterprise Co., Ltd                                                                  | 7,231,001    | 0.66       |
| J.P. MORGAN SECURITIES PLC                                                                        | 7,189,579    | 0.65       |
| VANGUARD EMERGING MARKETS STOCK INDEX FUND, A SERIES OF VANGUARD INTERNATIONAL EQUITY INDEX FUNDS | 5,252,000    | 0.48       |
| CENTRAL TAIWAN SCIENCE PARK LOGISTICS CO., LTD.                                                   | 5,060,000    | 0.46       |

#### **4.5 Share Price, Net Worth, Earnings, Dividends and Related Information**

| Items                               | 2019          | 2020          | 1/1/2021-<br>3/31/2021 |
|-------------------------------------|---------------|---------------|------------------------|
| <b>Market Price per Share</b>       |               |               |                        |
| Highest Market Price                | 11.25         | 13.35         | 14.30                  |
| Lowest Market Price                 | 8.83          | 6.01          | 9.72                   |
| Average Market Price                | 9.62          | 8.80          | 12.01                  |
| <b>Net Worth per Share</b>          |               |               |                        |
| Before Distribution                 | 13.71         | 13.51         | -                      |
| After Distribution                  | 13.71         | -             | -                      |
| <b>Earnings per Share</b>           |               |               |                        |
| Weighted Average Shares             | 1,102,835,316 | 1,094,405,883 | 1,086,891,316          |
| Diluted Earnings Per Share          | (0.22)        | (0.18)        | -                      |
| Adjusted Diluted Earnings Per Share | (0.22)        | -             | -                      |
| <b>Dividends per Share</b>          |               |               |                        |
| Cash Dividends                      | -             | -             | -                      |
| Stock Dividends                     |               |               |                        |
| • Dividends from Retained Earnings  | -             | -             | -                      |
| • Dividends from Capital Surplus    | -             | -             | -                      |
| Accumulated Undistributed Dividends | -             | -             | -                      |
| <b>Return on Investment</b>         |               |               |                        |
| Price / Earnings Ratio (Note 1)     | -             | -             | -                      |
| Price / Dividend Ratio (Note 2)     | -             | -             | -                      |
| Cash Dividend Yield Rate (Note 3)   | -             | -             | -                      |

Note 1: Price / Earnings Ratio = Average Market Price / Earnings per Share.

Note 2: Price / Dividend Ratio = Average Market Price / Cash Dividends per Share.

Note 3: Cash Dividend Yield Rate = Cash Dividends per Share / Average Market Price.

Note 4: The loss appropriation for year 2020 has yet to be approved by the 2021 AGM..

#### **4.6 Dividend Policy and Implementation Status**

##### **A. Dividend policy stipulated in the Company's Articles of Incorporation**

Article 31-1: If the Company has any surplus at the end of a year, it shall first be applied to pay income taxes according to the law and cover losses from the previous years. Then 10% of the balance will be allocated to a statutory surplus reserve, and a special surplus reserve shall be allocated according to the law. A special surplus reserve or retained earnings are set aside if needed. Any remaining balance shall be distributed as dividends and bonus by the total number of shares.

Article 32: In consideration of external factors and the objectives of long term financial planning and in the interest of stable business growth, the Company's dividend policy measures future cash flows based on the capital budget and uses retained earnings to meet the cash flow requirements. An appropriate percentage of the remaining surplus will be retained as needed to support the ongoing business operations, and a minimum of 20% of the remaining surplus will be distributed in the form of cash dividends and the rest in share dividends. However, for the purpose of meeting other capital expenditure requirements, the Company may distribute the aforementioned remaining surplus in the form of share dividends only.

**B. Dividend distribution to be proposed by the shareholders' meeting:**

The shareholders' meeting proposes for no dividend payments.

**4.7 Impact of Stock Dividend Distribution on Business Performance and EPS:**

Not applicable; the shareholders' meeting proposes for no dividend payments.

**4.8 Employees' and Directors' Remunerations**

**A. Percentages or ranges of remuneration of employees and Directors under the Articles of Incorporation:**

According to Article 31 of the Articles of Incorporation, if the Company sustains profit every year, 1% or more of the income shall be set aside as the remuneration to employees, and 2% or less shall be distributed as Directors' remuneration. However, an amount shall be set aside first to compensate cumulative losses, if any.

Directors' remuneration may be distributed by way of cash dividends, and employees' remuneration may be distributed by way of cash dividends or stock dividends. The Board of Director shall be authorized to define the qualification requirements of employees entitled to receive shares or cash, including the employees of subsidiaries of the Company that meet certain specific requirements. The distribution ratio of Directors' remunerations, and the method of distribution and ratio of employees' remunerations shall be resolved by a majority vote at a Board meeting attended by more than two thirds of the Directors, and shall be reported at the shareholders' meeting.

Employee and Director's remunerations are calculated deducting the cumulative losses from the profit for the year (i.e., the profit before employee and Director Remunerations are deducted from profit before tax).

**B. Basis for estimating the amount of remuneration of employees and Directors, basis for calculating the number of shares to be distributed as employee remuneration, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated amount, for the current period:**

The estimated employee and Director remunerations are recognized as expenses at the distributable amounts for the current year according to the Articles of Incorporation. Any change in the amounts on the date of resolution by the Board of Directors shall be treated as accounting adjustments and recognized as adjustments for net profit and loss of the year approved by the Board of Directors. If it is decided in the Board meeting to distribute employee remuneration in the form of shares, the number of share will be determined by dividing the approved amount by the fair price of the shares. The fair price of the shares will be calculated based on the closing price on the day before the date of the shareholders' meeting and the effect of ex-dividend/ex-rights.

**C. Remuneration Proposals approved by the Board of Directors:**

(1) Employee and Director Remuneration will be distributed in cash or shares:

Remuneration of Employees and Directors were not distributed this year.

(2) The amount of remuneration to employees to be paid in shares out of the current company-level financial report in terms of the sum of net profit after tax and employee bonus.

Not applicable.

**D. Any difference between actual distribution of employee remuneration and Director remuneration from the previous year and recognized employee and Director remunerations, and the reasons as well as corresponding treatments:**

Remuneration of Employees and Directors were not distributed in 2019. The actual distribution is consistent with the resolution of the Board of Directors.

**4.9 Repurchases of Treasury Stock:**

4.9.1 Exercised:

|                                         |                                 |
|-----------------------------------------|---------------------------------|
| Phase of repurchase:                    | Third                           |
| Purpose of repurchase                   | to transfer shares to employees |
| Repurchase period                       | 2020/5/15-2020/7/14             |
| Expected repurchase price range         | NT\$ 5.8 to 10.0                |
| Expected repurchased shares             | 30,000,000 common shares        |
| Repurchase price range                  | NT\$7.70 to 9.07 per share      |
| Type and quantity of repurchased shares | 15,944,000 common shares        |
| Amount of repurchased shares            | NT\$136,726,350                 |

|                                                                                           |                                                                                                                                                            |
|-------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Average repurchase price per share                                                        | NT\$8.58                                                                                                                                                   |
| Ratio of quantity of repurchased shares to scheduled quantity of shares to repurchase (%) | 53.15%                                                                                                                                                     |
| Quantity of shares eliminated and transferred                                             | None                                                                                                                                                       |
| Accumulated quantity of Company shares held                                               | 15,944,000 shares                                                                                                                                          |
| Accumulated quantity of Company shares held to issued shares (%)                          | 1.45%                                                                                                                                                      |
| Reason for the implementation yet to complete                                             | Since the Company's strategy is to repurchase in batches depending on stock price and trading volume fluctuations, the implementation is not yet complete. |

4.9.2 Currently exercising: None.

#### **4.10 Corporate Bond Issuance:**

The Company does not issue any corporate bonds.

#### **4.11 Preferred Stock Issuance:**

The Company does not issue preferred shares.

#### **4.12 Global Depository Receipts Issuance:**

The Company did not issue any global depository receipts.

#### **4.13 Employee Stock Options:**

The Company did not issue any employee stock options.

#### **4.14 New Restricted Employee Shares:**

None

#### **4.15 Shares Issued for Mergers and Acquisitions:**

None

#### **4.16 Utilization of Funds:**

4.16.1 Plan: The Company does not have any specific financial plans.

4.16.2 Implementation: None

## Business Overview

### 5.1 Scope of Business

#### 5.1.1 Business Scope

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

Manufacturing, sales and distribution of pulp, paper, paperboard, timber, chemical products and fertilizers.

##### B. Revenue distribution

Unit: NT\$ thousands

| Major Divisions | Total Sales in Year 2020 | (%) of Total Sales |
|-----------------|--------------------------|--------------------|
| Forestry        | 22,034                   | 0.12               |
| Pulp            | 2,185,119                | 11.74              |
| Paper           | 12,336,018               | 66.26              |
| Paperboard      | 4,025,407                | 21.62              |
| Other           | 48,116                   | 0.26               |
| Total           | 18,616,694               | 100.0              |

##### C. Main products

Timber, pulp (NBKP, LBKP), paper and paperboards (cultural paper, special paper, tissue paper), and other derivative products from the process such as chemicals and fertilizers.

##### D. New products development:

Development of special purpose paper.

### 5.1.2 Industry Overview

#### A. Overall economic environment

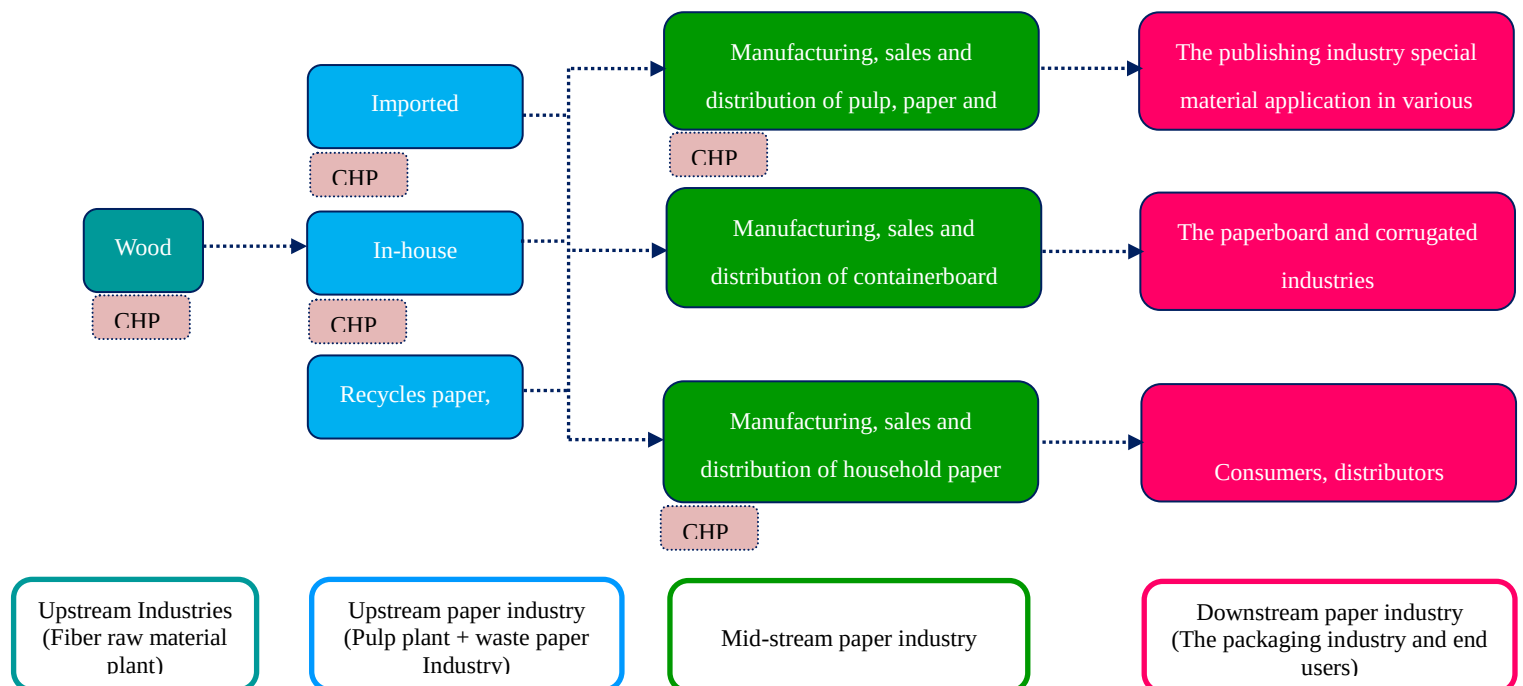
The economic growth rate for 2020 is 2.38%, which is 0.16 percentage points lower than the 2.54% of 2019. In 2020, impacted by the US-China tech war and the pandemic, global economic growth momentum has clearly weakened. However, Taiwan has benefited from domestic demand that was driven by factors such as winning orders and the transfer of trade orders and controlling the pandemic. The annual real GDP growth rate reached 2.3% in the third quarter. Domestic consumption rebounded and investments increased. Thus, on January 3, 2021, the Taiwan Institute of Economic Research raised its Taiwan's economic growth rate projects to 2.54% for 2020 and forecasted a GDP of 3.83% for 2021.

#### B. Current industry conditions and development

In terms of the international paper industry, the COVID-19 outbreak caused a severe recession in the global economy in 2020. At the same time, due to the US-China trade conflict and the sharp appreciation of the New Taiwan dollar, many are in observation mode, giving no incentive for pulp and paper prices to rise. The pulp market fell from the high point in the third quarter of 2018. The decline will continue until the third quarter of 2020, making this the longest consolidation at the low end in its history. After pulp mills around the world have adjusted their inventories in 2020, international pulp and paper prices rebounded in early 2021.

In terms of international recycled paper, due to the impact of COVID-19, countries have implemented lockdowns, closed borders, and adopted home quarantine or quarantine measures one after another. Inconvenient logistics greatly reduced the supply of recycled paper, thereby skyrocketing global recycled paper quotations. However, China's ban on importing recycled paper in 2021 may effectively improve domestic supply and prices should return to normal levels.

### C. Relationship with Up-, Middle- and Downstream Companies



### D. Product Trends and Competition

In recent years, domestic peers such as Cheng Loong and Taiwan Pulp and Paper Corporation have stopped the production of paper stationery products; CHP has partially switched to the production of special purpose paper, making the market to rely on imported paper stationery products.

On the demand side, the global demand for paper stationery products keeps declining due to the changes in reading habits, digitalization, and reduced birth rate. However, the demand for packaging paper stays stable due to the prosperous development in e-Commerce. The development of other special purpose paper is anticipated with the development of Industry 4.0 and the Internet of Things.

Facing the fluctuation of international pulp prices, CHP supplies the demand for short-fiber pulp in various factories within the group, in order to reduce the impact of market price fluctuations on profit and loss. The paper stationery product market will implement flexible production and marketing policies and will continue to expand the trade model of sales, in order to maintain the Company's reasonable profits and market share. In addition, CHP also continues to research and develop the high-value-added special purpose paper market, food-safe paper, and special materials

to expand diversified applications.

### **5.1.3 Research and Development**

#### **A. Research and Development Expenses in the Past Year and as of the Published Day:**

As of the print date of this annual report, direct R&D expenditure was roughly NT\$151.6 million. Expenditure on other development applications was not included herein.

#### **B. Research and Development Achievements of the Past Year:**

- (1) Pulp products: In response to the fluctuations in the pricing of raw materials, the research and development of pulp products has focused on reducing energy consumption and maintaining stable production efficiency to reduce the cost uncertainty.
- (2) Paper products: We added new technical elements and researched and developed multi-domain and multi-purpose special purpose paper products to increase the added value of the products.

### **5.1.4 Long- and Short-term Business Development Plans**

#### **Short-term Plans**

- (1) Actively improve the process and management, and enhance the momentum of transformation.
- (2) Strengthen the research and development of niche products, develop all kinds of alternative products for plastic, and stabilize our position in the environmental protection products market.
- (3) Vertically integrate the supply chain, strengthen cooperative development with downstream processing plants, and increase overall industry competitiveness.
- (4) Strengthen information integration, utilize big data analytics, and improve the efficiency of procurement, production, and marketing processes.
- (5) Provide customers with innovative cash flow and logistics services to solidify our market control capabilities.

#### **Long-term Plans**

- (1) Research and develop environmentally sustainable and high value-added, botanical fiber-based material products and continue promoting the transformation of product structure.
- (2) Dedicate to sustainable cycles and use the R<sup>3</sup> (recycle, re-creation, and value reinvention) to enhance the usage of materials and promote the evolution of product diversity.
- (3) Implement a talent cultivation plan, build a succession team, and rank among the world-class materials companies.

## **5.2 Market and Sales Outlook**

### **5.2.1 Market Analysis**

#### **A. Sales of main products**

In terms of pulp, international pulp prices from the high point in the third quarter of 2018. The decline will continue until the third quarter of 2020, making this the longest consolidation at the low end in its history. To CHP, the sales strategy is still based on supplying short-fiber pulp to the various plants in the group. Our operation strategy is to retain cash, adjust production, and lengthen the period of regular equipment maintenance in response to the falling demand.

In terms of the sale of paper, in the development of special purpose paper sales and in response to the worldwide plastics reduction trend, and under the impact of the pandemic, the demand for medical supplies and packaging paper increased. Also, the demand for food-safe paper increased substantially since people made purchases online or ordered in due to reduced outdoor activities. Therefore, in 2020, CHP actively researched and developed non-plastic food paper that is free of plastic coating and 100% recyclable to achieve the three main goals of reducing plastic, reducing carbon, and reducing waste. Moreover, CHP will also build a new plant.

Paper production in 2020 is 391,362 metric tons, which is an increase of 19,928 metric tons from 371,434 metric tons in 2019. Domestic paper sales is 191,349 metric tons and export sales is 232,076, totaling 423,425 metric tons. Cardboard production was 143,416 metric tons, which is an increase of 10,344 metric tons from the 133,072 metric tons produced in 2019.

The Company is focused on the development of special purpose paper with the aim of gradually transforming the production portfolio from paper stationery products to industrial-use special materials to meet the diverse demands of the packaging, food, and electronics industry. Advanced countries have greater demands for multi-use special purpose paper products, and the emerging new market also have stronger demands day by day. These are the source for sales value growth. Looking ahead to 2021, we will continue to improve the quality of our products, strengthen the hold on raw materials and product supply stability, as well as expand the applications of our products and improve local services.

## **B. Sources of raw materials, and sales regions of main products**

### **a. Main sources of raw materials:**

Pulp: Chile, Brazil, Canada, the United States, Russia, Finland, New Zealand and Sweden.

Wood chips: Australia, Chile, Indonesia, Vietnam and South Africa.

### **b. Pulp export: China, Korea and Thailand.**

### **c. Paper export: China, Japan, South Korea, Southeast Asia, Australia, India, South Africa, USA and South America.**

## **5.2.2 Major applications and production procedures of main products**

Pulp—Suitable tree species are used based on the paper plant's requirements; different types of pulp are produced from lumber after evaporation, cleaning, bleaching, molding and drying.

Paper products—The main raw material is pulp; different types of paper are produced by going through a series of processing steps including pulp dispersion, blending, cleaning, shaping, dehydration, drying, and coiling. High-quality printing paper (e.g., coated paper and simile paper) is made by coating and calendering the surface, which is suitable for premium quality text

and color printing; and special purpose papers (e.g., glassine paper and masking paper) are suitable for various types of industrial use. We are also actively developing food-safe paper (e.g., paper straws, paper cups, and sealing paper).

### 5.2.3 Supply Status of Main Materials

In 2020, the Company imported wood chips for short-fiber pulp in Taiwan, mainly from Australia and Vietnam Eucalyptus wood chips. Considering market price fluctuations of wood chips, shipping time, and product characteristic requirements, we adjust the purchase amount from sources flexibly. For purchasing raw materials, we will keep abreast of changes in market supply and demand and monitor the quality of sources to stabilize the cost of raw materials.

### 5.2.4 Major Suppliers and Clients

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

The company had no suppliers purchased more than 10% in the most recent 2 years.

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

The company had no clients sold more than 10% in the most recent 2 years.

### 5.2.5 Production in the Last Two Years

Unit: MT / NT\$ thousands

| Main Products | Year<br>Output | 2019     |            | 2020     |            |
|---------------|----------------|----------|------------|----------|------------|
|               |                | Quantity | Amount     | Quantity | Amount     |
| Pulp          |                | 329,746  | 6,150,298  | 320,202  | 4,564,051  |
| Paper         |                | 371,434  | 11,850,027 | 391,362  | 11,401,874 |
| Paperboard    |                | 133,072  | 2,533,224  | 143,416  | 2,641,644  |

Note: Outputs include the total numbers of overseas subsidiaries.

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

Unit: MT / NT\$ thousands

| Shipments<br>& Sales<br>Major<br>Products | Year | 2019     |           |          |           | 2020     |           |          |           |
|-------------------------------------------|------|----------|-----------|----------|-----------|----------|-----------|----------|-----------|
|                                           |      | Local    |           | Export   |           | Local    |           | Export   |           |
|                                           |      | Quantity | Amount    | Quantity | Amount    | Quantity | Amount    | Quantity | Amount    |
| Pulp                                      |      | 85,824   | 1,671,989 | 73,629   | 1,302,077 | 78,872   | 1,150,832 | 74,430   | 1,034,287 |
| Paper                                     |      | 197,721  | 5,734,415 | 218,289  | 7,537,728 | 191,349  | 5,144,124 | 232,076  | 7,191,893 |
| Paperboard                                |      | 162,045  | 3,077,570 | 66,785   | 1,278,552 | 159,478  | 3,042,294 | 59,063   | 983,113   |

Note: Shipments & Sales include the total numbers of overseas subsidiaries.

### **5.3 Employee Information in the last two years and up to the print date of this annual report**

| Year                           |                          | 2019  | 2020  | As of March 31, 2021 |
|--------------------------------|--------------------------|-------|-------|----------------------|
| Number of employees            |                          | 2,642 | 2,614 | 2,573                |
| Average age                    |                          | 42.03 | 41.46 | 42.42                |
| Average year of services       |                          | 15.05 | 14.23 | 14.55                |
| Education distribution ratio % | Ph.D.                    | 0.15  | 0.15  | 0.15                 |
|                                | Masters                  | 5.45  | 6.22  | 6.30                 |
|                                | Bachelor's Degree        | 42.88 | 46.27 | 46.29                |
|                                | Senior High School       | 44.17 | 42.07 | 42.01                |
|                                | Below Senior High School | 7.35  | 5.29  | 5.25                 |

Note: The number of employees includes the total numbers of overseas subsidiaries.

### **5.4 Environmental Protection Expenditure**

1. Losses of each production unit due to environmental pollution and relevant information in last year and up to the print date for this annual report:

| Provision(s) violated                                                                                                                                                                                                                                            | Content of disposition                  | Penalty date     | Disposition No. | Response measures                                                                                                                                                                  |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|------------------|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Article(s): Paragraph 1, Article 7 of the Water Pollution Control Act<br>Content: Those enterprises, sewage systems, or building sewage treatment facilities that discharge wastewater or sewage into surface water bodies shall comply with effluent standards. | A penalty of NT\$702 thousand in total. | August 25, 2020  | 30-109-080005   | Improvements have been made and the improvement completion report has been approved by the competent authority.                                                                    |
|                                                                                                                                                                                                                                                                  |                                         | October 26, 2020 | 30-109-100002   | Improvements have been made. A warning and notification system for monitoring anomalies has been built and emergency response training of on-site operators has been strengthened. |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                  |                    |               |                                                                                                                                                                                    |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|--------------------|---------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Article(s): Article 2 of the Stationary Pollution Source Air Pollutant Emissions Standards and Paragraph 1, Article 20 of the Air Pollution Control Act</p> <p>Content: Public and private premises with stationary pollution sources that emit air pollutants shall comply with emission standards.</p>                                                                                                                                                                                                                      | <p>A penalty of NT\$3,610 thousand in total.</p> | January 13, 2020   | 20-109-010001 | Improvements have been made. A warning and notification system for monitoring anomalies has been built and emergency response training of on-site operators has been strengthened. |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                  | August 13, 2020    | 20-109-080002 | Improvements have been made and the improvement completion report has been approved by the competent authority.                                                                    |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                  | September 14, 2020 | 20-109-090006 | The Company is still evaluating whether to continue to appeal to a higher court due to doubts about the testing method.                                                            |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                  | March 5, 2021      | 20-110-030002 | Improvements have been made and the improvement completion report has been approved by the competent authority.                                                                    |
| <p>Article(s): Paragraph 2, Article 24 of the Air Pollution Control Act</p> <p>Content: After the installation or modification of the stationary pollution sources, verification documents that demonstrate compliance with the regulations of the Act shall be submitted to the municipal and county (city) competent authorities or to an agency designated by the central competent authority in order to apply for the issuance of operating permits, and operations shall be performed pursuant to the permit contents.</p> | <p>A penalty of NT\$100 thousand.</p>            | April 1, 2020      | 20-109-040001 | The Company has submitted documents related to the change application, which are waiting for approval by the competent authority.                                                  |
| <p>Article(s): Article 31, Paragraph 1, Subparagraph 1 of the Waste Disposal Act and Article 31, Paragraph 1, Subparagraph 1 of the Waste Disposal Act Enforcement Rules</p> <p>Content: Enterprises</p>                                                                                                                                                                                                                                                                                                                         | <p>A penalty of NT\$18 thousand in total.</p>    | February 7, 2020   | 40-109-020001 | Improvements have been made. Relevant change application documents have been submitted and the plan has been improved. The competent authority has approved.                       |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                              |                   |               |                                                                                                                                   |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|-------------------|---------------|-----------------------------------------------------------------------------------------------------------------------------------|
| of a certain scale that are designated and officially announced by the central competent authority shall begin operations only after the review and approval of an industrial waste disposal plan submitted to the competent authority; this regulation shall also apply to the modification of matters related to the production and disposal of industrial waste.                                                                                                                                                   |                              | May 26, 2020      | 40-109-050001 | The Company has submitted documents related to the change application, which are waiting for approval by the competent authority. |
| Article(s): Article 3, Paragraph 1, Subparagraph 2 of the Ministry of Economic Affairs Management Regulations on the Recycling of Industrial Waste and Article 39, Paragraph 1 of the Waste Disposal Act Content: Reuse of industrial waste shall be carried out in accordance with the types and management methods listed in the appendix. Reuse of industrial waste shall be processed in accordance with the regulations stipulated by the central industry competent authorities or central competent authority. | A penalty of NT\$6 thousand. | February 13, 2020 | 40-109-020039 | Improvements have been made. The co-firing ratio has been controlled based on the daily coal consumption.                         |

2. As of the publication date, there is only one appeal related to the Company's environmental protection (20-109-090006). The Company is still evaluating whether to file another appeal. Remaining appeals have been concluded.
3. In addition to handling various by-products generated during production in accordance with various relevant environmental protection regulations, the Company and its subsidiaries strengthen the professional knowledge and equipment maintenance of operating personnel, and continue to invest in environmental protection equipment to comply with the laws and regulations.
4. In 2020, the production units of the Company's Taiwan and China regions mainly invested about NT\$123 million in related environmental protection expenditures, including expenditures related to water resource treatment of about NT\$40 million and air quality control of about NT\$81 million.

## **5.5 Labor Relations**

### **5.5.1 Present status and the implementation of employer-employee agreements:**

- **Employee Welfare:**

- The Company has formulated Work Rules in favor of the employees, established a Staff Welfare Committee, allocates employee benefits on a monthly basis, and regularly holds employee-employer meetings as an open communication channel between labor and management.
- To purchase employee group accident insurance and healthcare insurance to offer better protection for employees' families.
- To strengthen protection for employees' families, allowances and support are available to the families of employees who are disabled or deceased.
- To improve the quality of life of employees, promote employee friendships and encourage employees to organize self-improvement activities and provide subsidies.
- Encourage employees to organize clubs to organize activities that benefit the body and mind, and provide subsidies.
- Regularly conduct employee health checkups, and often organize a number of group sports activities to maintain employees' physical and mental health.

- **Employee Retirement Program:**

The Company's Taiwan region has implemented an employee retirement program in accordance with the Labor Standards Act and the Labor Pension Act, and has assembled a Supervisory Committees of Workers' Pension Reserve Funds and makes monthly contributions to the pension reserve. The Company regularly allocates 6% of the total salary expenses of employees under the old rules and saves it in a pension reserve account at the Bank of Taiwan. In addition, in compliance with the implementation of the Labor Pension Act, the Company makes monthly contributions of 6% of the total salary to individual pension accounts at the Bureau of Labor Insurance for existing employees who opted for the new rules and new employees who are subject to the new rules.

- **Labor-management Communications:**

The Company regularly convenes employer-employee meetings to communicate and coordinate with employees, and subsequently adjusts measures according to the consensus of both parties.

- **Continuing Education and Training for Employees**

The Company holds talent strategic development consensus meetings with executives, amends training development rules, and conducts assessments of employee competency at all levels to sustain the development of the Company and overcome any market and industry challenges. Systematic and continuous talent cultivation programs are provided to encourage employees to maximize their potential and improve their performance. Meanwhile, diversified learning resources are made available to employees (e.g., orientation training, management training, professional training, and general training) to encourage self-enhancement

among employees.

Orientation training: Aims to assist new employees to know their way around the workplace and understand the Company's vision, organizational structure, rules, and the operating status of each functional and business units.

Management training: Aims to strengthen the organization's management performance, and foster and improve supervisors' leadership and strategic thinking capabilities.

Professional training: Aims to enhance work-related skills of departmental professionals.

General training: Aims to foster employees' knowledge and skills required for independent operations, workplace communication, and job management to support the Company's future business development requirements and achieve long-term business goals.

The Company organized various education and training courses for employees in 2020, including 11,340 person-times and 34,284 hours of internal training and external training.

| Course type                           | Number of Classes | Total Number of Employees | Total Hours | Total Expenses (in thousand dollars) |
|---------------------------------------|-------------------|---------------------------|-------------|--------------------------------------|
| Professional competency               | 645               | 8,081                     | 23,273      | 2,083                                |
| Management and general knowledge      | 130               | 3,211                     | 10,403      | 807                                  |
| Cultural cultivation for new recruits | 4                 | 49                        | 608         | 1                                    |

#### ● Employee Safety and Health:

The Company is responsible for and obligated to protect the health and safety of its employees. In addition to the OHSAS 18001 certification for occupational safety and health, the Company's Mills have declared their determination to promote employee safety and the vision to create a corporate safety culture.

An occupational safety and health center was established to ensure employee health and safety. The following active measures are adopted in adherence to the aforementioned safety ideals:

- (1) Responsibilities of different levels of responsible units: The first level is the occupational safety and health center supervisor. A professional in occupational safety and health is responsible for cross-unit coordination and direct supervision of the safety and health policies, regulations, and practices adopted by each mill. The second level is the

Company's mills. Each mill appoints an occupational safety and health supervisor who reports to the supervisor of the center and is responsible for developing safety and health work rules for the mills, and acts as the counselor, supervisor, and auditor of safety and health measures.

- (2) Safe operations promotion: Through safety education and labor safety systems, the safety management functions of managers of all levels are reinforced to gradually establish a coherent set of safety values and standards, and build a consensus to promote safe operations.
- (3) Operation standardization: Standard operating procedures and work safety analysis are implemented for various operations.
- (4) Employee health management: Regular employee physical checkups are held and exceed requirements of the Labor Health Protection Regulations. Health promotion programs for employees are developed according to health checkup results.
- (5) Employee safety training: Employees and contractors must receive safety training upon entering the Company and during reassignments. Departments hold ad hoc work safety training and education seminars to increase collective safety awareness.
- (6) Accident reporting and investigation: Any work accident at any of the mills must be reported to the occupational safety and health center supervisor and the person in charge of the mill within 24 hours, and an investigation for cause and improvement must take place within one week. Meanwhile, all employees are informed of the incident to prevent it from repeating.
- (7) Work safety reviews and disaster drills: In addition to regular disaster drills and monthly occupational safety and health center meetings, equipment safety inspections are reinforced to actively improve the workplace and safety measures.

● Employee code of conduct or ethics:

The Company's Work Rules provide a service guideline and clear work principles for employee compliance. To more effectively protect the Company's trade secrets, operating profits, and competitive edge in response to the amendment made to the Trade Secrets Act in 2013, the Company has prescribed Integrity and Confidentiality of Intellectual Property Agreement as a mandatory document for registration of new recruits..

The Company subsequently promulgated the Employee Code of Conduct in July 2016.

Employees' behavior must comply with this Code of Conduct when performing daily tasks and operations: Employees must take the initiative to avoid improper benefits, perform their duties properly, and effectively utilize Company resources and public properties during work. The Employee Code of Conduct prescribes reporting channels and investigation procedures. Regular education and training programs are provided to raise employees' awareness towards ethical conduct.

- Other Important Agreements:  
None.

#### **5.5.2 Performance of Social Responsibilities:**

- (1). The Company has formulated Work Rules in favor of the employees and regularly holds employee-employer meetings as an open communication channel between labor and management.
- (2). The Company has set up an employee grievance mechanism and contact method, and handles complaints properly.
- (3). The Company's mills in Taiwan have all obtained OHSAS 18001 certification. Each mill has assembled a special unit for safety and health to actively promote related businesses, implement standard operating procedures and work safety analysis for the operations to fully standardize the operations and make them safe, and reinforce the safety management functions of the management to slowly establish a unified set of safety value and standards and build a consensus to promote safe operations. Employees are required to receive safety training upon entering the company and at reassignment. The departments hold regular safety training and education seminars to increase collective safety awareness and regular disaster drills and quarterly work safety reviews. They also reinforce equipment safety inspections to actively improve the workplace and safety measures.
- (4). The Company also organizes various education and training courses for employees which include professional competency, management and general knowledge, cultural cultivation for new recruits, and on-the-job continuing education to provide employees with development opportunities and cultivate effective occupational empowerment.

#### **5.5.3 Measures to specifically enhance employee benefits or rights compared to the previous year:**

- (1). Adjustments were made to employee health checkup items and frequency to provide employee health checkups that are superior to regulations.
- (2). Continued to increase the variety of welfare products to meet the different needs of employees.
- (3). Regularly organize birthday celebrations, employee travel, volunteer activities, etc., and encourage employees to actively participate in activities that are beneficial to both body and mind.

#### 5.5.4 Losses due to labor disputes last year and up to the print date for this annual report:

The Company has always had a harmonious labor-management relationship. No major labor disputes have occurred.

#### 5.5.5 As of the print date for this annual report, the following are the labor inspection results that violate the Labor Standards Act:

| Disposition date  | Disposition No.                              | Provisions(s) violated                                                                                                           | Content of provision(s) violated                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Content of disposition                                                          | Estimated values that might occur now and in the future and their countermeasures                                                                                                                                                                                                                                                |
|-------------------|----------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| December 24, 2020 | Fu-She-Lao-Zi No. 1090254902                 | Paragraph 2, Article 56 of the Labor Standards Act                                                                               | Before the end of each year, employers shall assess the balance in the designated labor pension reserve funds account of the preceding Paragraph. If the amount is inadequate to pay pensions calculated according to the preceding Article for workers retiring in the same year according to Article 53 or subparagraph 1 of Paragraph 1 of Article 54, the employer is required to make up the difference in one appropriation before the end of March the following year and submit the statement to the Business Entity Supervisory Committee of Labor Retirement Reserve for review. | NT\$150 thousand                                                                | The difference has been made up in accordance with regulations.                                                                                                                                                                                                                                                                  |
| August 20, 2020   | Fu-She-Lao-Zi No. 1090158366A to 1090158366E | Paragraphs 1 to 2 of Article 24, Paragraph 2 of Article 32, Paragraph 2 of Article 34, and Article 39 of the Labor Standards Act | The employer has not paid worker overtime wages and has not paid overtime wages for work on rest days in accordance with the regulations. The employer extended the working hours such that the working hours has exceeded 12 hours a day and more than 46 hours a month. The rest period between rotations are at least eleven continual hours. The employer has not doubled the overtime wages for work done on rest days.                                                                                                                                                               | NT40 thousand to NT\$50 thousand respectively, for a total of NT\$220 thousand. | Paid the overtime wages that were not paid in accordance with the regulations and revised the calculation method. For special situations, employee rotation schedules will be coordinated to shift their schedules to comply with the regulations, and the rotation method has been adjusted to avoid insufficient rest periods. |

| Disposition date | Disposition No.                                | Provisions(s) violated                                                                                                                                      | Content of provision(s) violated                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Content of disposition                                                                                           | Estimated values that might occur now and in the future and their countermeasures                                                                                                                                                                                                                                                                                                                  |
|------------------|------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| May 13, 2020     | Fu-She-Lao-Zi No. 10900879 20                  | Paragraph 2, Article 32 of the Labor Standards Act                                                                                                          | The extension of working hours caused the employee's working hours to exceed 12 hours a day and 46 hours a month.                                                                                                                                                                                                                                                                                                                                                                                                                           | NT\$50 thousand                                                                                                  | For special situations, employee rotation schedules will be coordinated to comply with the regulations.                                                                                                                                                                                                                                                                                            |
| April 9, 2020    | Fu-She-Lao-Zi No. 10900629 19A to 10900629 19F | Paragraph 2 of Article 22, Paragraph 1 and 2 of Article 24, Paragraph 2 of Article 32, Paragraph 2 of Article 34, and Article 39 of the Labor Standards Act | The employer has not paid worker wages in full, has not paid overtime wages, and has not paid overtime wages for work on rest days in accordance with the regulations. The employer extended the working hours such that the working hours has exceeded 12 hours a day and more than 46 hours a month. The rest period between rotations has not been set in accordance with the regulations and wages for rest days were not paid according to the regulations.                                                                            | NT\$20 thousand each, for a total of NT\$120 thousand.                                                           | Modified the calculation method for deducting pay for being late, paid the overtime wages that were not paid in accordance with the regulations and revised the calculation method. For special situations, employee rotation schedules will be coordinated to shift their schedules to comply with the regulations, and the rotation method has been adjusted to avoid insufficient rest periods. |
| January 17, 2020 | Gao-Shi-Lao-Tiao-Zi No. 10930397 200           | Paragraph 4, Article 32 of the Labor Standards Act; Paragraph 2, Article 34 of the Labor Standards Act; Article 36 of the Labor Standards Act               | Due to the occurrence of an act of God, an accident, or an unexpected event and when an employer has a necessity to have workers to perform the work besides regular working hours, may extend the working hours. However, the employer shall notify the labor union within twenty-four hours after the beginning of the extension. If there is no labor union, the employer shall report it to the local competent authority for record. Subsequent to the overtime, the employer shall offer workers suitable time off. The day and night | Each article violation is subject to a penalty of NT\$50 thousand; a total of NT\$150 thousand has been imposed. | The Company has devised a plan for adjusting the way shifts are scheduled in response, and implemented it only after obtaining the labor union's consent.                                                                                                                                                                                                                                          |

| Disposition date | Disposition No. | Provisions(s) violated | Content of provision(s) violated                                                                                                                                                                                     | Content of disposition | Estimated values that might occur now and in the future and their countermeasures |
|------------------|-----------------|------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|-----------------------------------------------------------------------------------|
|                  |                 |                        | rotation system does not give workers rest days in accordance with the regulations. The workers do not have two regular days off every seven days, where one day is a regular leave and the other one is a rest day. |                        |                                                                                   |

### **5.6 Major Contracts**

| Agreement               | Counterparty                                                                                                                                                 | Period                  | Major Contents                            | Restrictions |
|-------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|-------------------------------------------|--------------|
| Long term loan contract | Made jointly by Bank of Taiwan, Chang Hwa Bank, Land Bank of Taiwan, Taiwan Cooperative Bank, Hua Nan Bank, and Taipei Fubon Bank and 5 participating banks. | 3/31/2020~<br>3/31/2025 | 5-year syndicated loan repaid at maturity | None         |

## Financial Overview

### 6.1 Five-Year Financial Summary

#### 6.1.1 Condensed Balance Sheet and Condensed Statement of Comprehensive Income

##### A. Condensed Balance Sheet – IFRSs (Consolidated)

Unit: NT\$ thousands

| Item \ Year                                                                      |                     | Financial Summary for The Last Five Years |                                     |                                     |            |            |
|----------------------------------------------------------------------------------|---------------------|-------------------------------------------|-------------------------------------|-------------------------------------|------------|------------|
|                                                                                  |                     | 2016                                      | 2017<br>(Audited after<br>Restated) | 2018<br>(Audited after<br>Restated) | 2019       | 2020       |
| Current assets                                                                   |                     | 11,884,530                                | 12,937,151                          | 13,777,988                          | 13,098,672 | 12,893,835 |
| Property, Plant and Equipment                                                    |                     | 14,560,196                                | 14,345,577                          | 14,565,801                          | 14,654,819 | 14,570,020 |
| Long-Term Investment                                                             |                     | 1,803,660                                 | 1,602,555                           | 1,600,194                           | 1,835,627  | 1,707,274  |
| Other assets                                                                     |                     | 1,404,507                                 | 1,387,464                           | 1,433,589                           | 1,509,299  | 2,899,104  |
| Total assets                                                                     |                     | 29,652,893                                | 30,272,747                          | 31,377,572                          | 31,098,417 | 32,070,233 |
| Current liabilities                                                              | Before distribution | 7,416,126                                 | 8,871,833                           | 9,173,037                           | 11,116,249 | 11,435,465 |
|                                                                                  | After distribution  | 7,802,118                                 | 9,423,251                           | 9,559,029                           | 11,116,249 | Note1      |
| Non-current liabilities                                                          |                     | 4,177,440                                 | 3,219,365                           | 4,140,427                           | 2,587,144  | 3,649,014  |
| Total liabilities                                                                | Before distribution | 11,593,566                                | 12,091,198                          | 13,313,464                          | 13,703,393 | 15,084,479 |
|                                                                                  | After distribution  | 11,979,558                                | 12,642,616                          | 13,699,456                          | 13,703,393 | Note1      |
| Equity attributable to shareholders of the parent                                |                     | 15,713,957                                | 15,688,969                          | 15,621,710                          | 15,117,231 | 14,784,979 |
| Capital stock                                                                    |                     | 11,028,353                                | 11,028,353                          | 11,028,353                          | 11,028,353 | 11,028,353 |
| Capital surplus                                                                  |                     | 34,403                                    | 36,602                              | 31,468                              | 29,563     | 29,821     |
| Retained earnings                                                                | Before distribution | 4,186,649                                 | 4,398,747                           | 4,273,971                           | 3,649,276  | 3,446,694  |
|                                                                                  | After distribution  | 3,800,657                                 | 3,847,329                           | 3,887,979                           | 3,649,276  | Note1      |
| Other equity interest                                                            |                     | 464,552                                   | 225,267                             | 287,918                             | 410,039    | 416,837    |
| Treasury stock                                                                   |                     | -                                         | -                                   | -                                   | -          | (136,726)  |
| Equity Attributable To Former Owner Of Business Combination Under Common Control |                     | -                                         | 86,069                              | 13,440                              | -          | -          |
| Non-controlling interest                                                         |                     | 2,345,370                                 | 2,406,511                           | 2,428,958                           | 2,277,793  | 2,200,775  |
| Total equity                                                                     | Before distribution | 18,059,327                                | 18,181,549                          | 18,064,108                          | 17,395,024 | 16,985,754 |
|                                                                                  | After distribution  | 17,673,335                                | 17,630,131                          | 17,678,116                          | 17,395,024 | Note1      |

Note1: The loss appropriation for year 2020 has yet to be approved by the 2021 AGM.

## B. Condensed Statement of Comprehensive Income – IFRSs (Consolidated)

Unit: NT\$ thousands

| Item \ Year                                                                                    | Financial Summary for The Last Five Years |                                     |                                     |            |            |
|------------------------------------------------------------------------------------------------|-------------------------------------------|-------------------------------------|-------------------------------------|------------|------------|
|                                                                                                | 2016                                      | 2017<br>(Audited after<br>Restated) | 2018<br>(Audited after<br>Restated) | 2019       | 2020       |
| Operating revenue                                                                              | 22,001,536                                | 22,839,355                          | 24,025,221                          | 20,689,397 | 18,616,694 |
| Gross profit                                                                                   | 1,876,095                                 | 2,383,345                           | 2,336,838                           | 1,213,022  | 1,241,776  |
| Income from operations                                                                         | 385,108                                   | 817,915                             | 592,042                             | (383,777)  | (390,177)  |
| Non-operating income & expenses                                                                | (51,988)                                  | 90,796                              | 77,054                              | 21,365     | 86,693     |
| Income before tax                                                                              | 333,120                                   | 908,711                             | 669,096                             | (362,412)  | (303,484)  |
| Net income (Loss)                                                                              | 349,718                                   | 744,953                             | 532,245                             | (302,084)  | (312,392)  |
| Net income (Loss) from Discontinued Operations                                                 | -                                         | -                                   | -                                   | -          | -          |
| Net income (Loss) in the period                                                                | 349,718                                   | 744,953                             | 532,245                             | (302,084)  | (312,392)  |
| Other comprehensive income (income after tax)                                                  | (742,077)                                 | (302,896)                           | (47,309)                            | 34,337     | 39,592     |
| Total comprehensive income                                                                     | (392,359)                                 | 442,057                             | 484,936                             | (267,747)  | (272,800)  |
| Net income attributable to shareholders of the parent                                          | 391,114                                   | 618,582                             | 445,663                             | (245,098)  | (201,797)  |
| Net income attributable to Former Owner Of Business Combination Under Common Control           | -                                         | 18,738                              | 21,999                              | -          | -          |
| Net income attributable to non-controlling interest                                            | (41,396)                                  | 107,633                             | 64,583                              | (56,986)   | (110,595)  |
| Comprehensive income attributable to Shareholders of the parent                                | (144,472)                                 | 363,366                             | 445,156                             | (116,582)  | (195,782)  |
| Comprehensive income attributable to Former Owner Of Business Combination Under Common Control | -                                         | 17,550                              | 18,233                              | -          | -          |
| Comprehensive income attributable to non-controlling interest                                  | (247,887)                                 | 61,141                              | 21,547                              | (151,165)  | (77,018)   |
| Earnings per share                                                                             | 0.35                                      | 0.56                                | 0.40                                | (0.22)     | (0.18)     |

### C. Condensed Balance Sheet – IFRS (Stand-Alone)

Unit: NT\$ thousands

| Year<br>Item                                                 |                     | Financial Summary for The Last Five Years |                                     |                                     |            |            |
|--------------------------------------------------------------|---------------------|-------------------------------------------|-------------------------------------|-------------------------------------|------------|------------|
|                                                              |                     | 2016                                      | 2017<br>(Audited after<br>Restated) | 2018<br>(Audited after<br>Restated) | 2019       | 2020       |
| Current assets                                               |                     | 6,505,215                                 | 7,164,802                           | 7,971,014                           | 7,790,430  | 7,733,030  |
| Property, Plant and Equipment                                |                     | 11,893,495                                | 11,873,321                          | 12,255,178                          | 12,420,909 | 14,244,035 |
| Long-Term Investment                                         |                     | 7,125,512                                 | 6,986,810                           | 7,020,935                           | 6,718,464  | 6,511,721  |
| Other assets                                                 |                     | 815,469                                   | 857,262                             | 802,133                             | 997,434    | 1,032,040  |
| Total assets                                                 |                     | 26,339,691                                | 26,882,195                          | 28,049,260                          | 27,927,237 | 29,517,826 |
| Current liabilities                                          | Before distribution | 6,395,036                                 | 7,974,144                           | 8,474,607                           | 10,429,002 | 11,319,473 |
|                                                              | After distribution  | 6,781,028                                 | 8,525,562                           | 8,860,599                           | 10,429,002 | Note1      |
| Non-current liabilities                                      |                     | 4,230,698                                 | 3,133,013                           | 3,939,503                           | 2,381,004  | 3,413,374  |
| Total liabilities                                            | Before distribution | 10,625,734                                | 11,107,157                          | 12,414,110                          | 12,810,006 | 14,732,847 |
|                                                              | After distribution  | 11,011,726                                | 11,658,575                          | 12,800,102                          | 12,810,006 | Note1      |
| Capital stock                                                |                     | 11,028,353                                | 11,028,353                          | 11,028,353                          | 11,028,353 | 11,028,353 |
| Capital surplus                                              |                     | 34,403                                    | 36,602                              | 31,468                              | 29,563     | 29,821     |
| Retained earnings                                            | Before distribution | 4,186,649                                 | 4,398,747                           | 4,273,971                           | 3,649,276  | 3,446,694  |
|                                                              | After distribution  | 3,800,657                                 | 3,847,329                           | 3,887,979                           | 3,649,276  | Note1      |
| Other equity interest                                        |                     | 464,552                                   | 225,267                             | 287,918                             | 410,039    | 416,837    |
| Treasury stock                                               |                     | -                                         | -                                   | -                                   | -          | (136,726)  |
| Former Owner Of Business<br>Combination Under Common Control |                     | -                                         | 86,069                              | 13,440                              | 13,440     | -          |
| Total equity                                                 | Before distribution | 15,713,957                                | 15,775,038                          | 15,635,150                          | 15,117,231 | 14,784,979 |
|                                                              | After distribution  | 15,327,965                                | 15,223,620                          | 15,249,158                          | 15,117,231 | Note1      |

Note1: The loss appropriation for year 2020 has yet to be approved by the 2021 AGM.

## D. Condensed Statement of Comprehensive Income – IFRSs (Stand-Alone)

Unit: NT\$ thousands

| Item \ Year                                    | Financial Summary for The Last Five Years |                                     |                                     |            |            |
|------------------------------------------------|-------------------------------------------|-------------------------------------|-------------------------------------|------------|------------|
|                                                | 2016                                      | 2017<br>(Audited after<br>Restated) | 2018<br>(Audited after<br>Restated) | 2019       | 2020       |
| Operating revenue                              | 19,433,094                                | 19,905,161                          | 21,005,335                          | 18,328,975 | 16,720,832 |
| Gross profit                                   | 1,866,437                                 | 1,900,672                           | 1,765,932                           | 1,122,100  | 1,262,653  |
| Income from operations                         | 493,268                                   | 497,495                             | 291,560                             | (237,550)  | (150,501)  |
| Non-operating income & expenses                | 53,064                                    | 218,778                             | 244,752                             | (43,311)   | (51,296)   |
| Income before tax                              | 440,204                                   | 716,273                             | 536,312                             | (280,861)  | (201,797)  |
| Net profit for the current period              | 391,114                                   | 637,320                             | 467,662                             | (245,098)  | (201,797)  |
| Net income (Loss) from Discontinued Operations | -                                         | -                                   | -                                   | -          | -          |
| Net income (Loss)                              | 391,114                                   | 637,320                             | 467,662                             | (245,098)  | (201,797)  |
| Other comprehensive income (income after tax)  | (535,586)                                 | (256,404)                           | (4,273)                             | 128,516    | 6,015      |
| Total comprehensive income                     | (144,472)                                 | 380,916                             | 463,389                             | (116,582)  | (195,782)  |
| Earnings per share                             | 0.35                                      | 0.56                                | 0.40                                | (0.22)     | (0.18)     |

### 6.1.2 Auditors' Name and their Opinions

| Year | CPA's Name                   | Audit Opinion                                              |
|------|------------------------------|------------------------------------------------------------|
| 2016 | Shiow-Ming Shue, Denny Kuo   | An Unmodified Opinion                                      |
| 2017 | Shu-Wan Lin, Shiow-Ming Shue | An Unmodified Opinion                                      |
| 2018 | Shu-Wan Lin, Shiow-Ming Shue | An Unmodified Opinion<br>With Emphasis of Matter paragraph |
| 2019 | Shu-Wan Lin, Shiow-Ming Shue | An Unmodified Opinion<br>With Emphasis of Matter paragraph |
| 2020 | Shu-Wan Lin, Shiow-Ming Shue | An Unmodified Opinion<br>With Emphasis of Matter paragraph |

## 6.2 Five-Year Financial Analysis

### A. Consolidated Financial Analysis – IFRSs

| Year                    |                                                             | Financial Analysis for the Last Five Years |        |        |        |        |
|-------------------------|-------------------------------------------------------------|--------------------------------------------|--------|--------|--------|--------|
| Item                    |                                                             | 2016                                       | 2017   | 2018   | 2019   | 2020   |
| Financial Structure (%) | Debt Ratio                                                  | 39.10                                      | 40.02  | 42.44  | 44.06  | 48.01  |
|                         | Ratio of long-term capital to property, plant and equipment | 136.61                                     | 131.81 | 135.68 | 120.81 | 111.33 |
| Liquidity (%)           | Current ratio                                               | 160.25                                     | 144.97 | 150.10 | 117.83 | 107.13 |
|                         | Quick ratio                                                 | 113.15                                     | 105.04 | 99.94  | 77.48  | 68.93  |
|                         | Interest earned ratio (times)                               | 5.49                                       | 11.84  | 8.27   | (2.97) | (2.17) |
| Operating Ability       | Accounts receivable turnover (times)                        | 5.50                                       | 6.36   | 6.86   | 6.30   | 5.83   |
|                         | Average collection period                                   | 66.36                                      | 57.39  | 53.21  | 57.94  | 62.61  |
|                         | Inventory turnover (times)                                  | 5.94                                       | 6.77   | 6.00   | 4.82   | 4.54   |
|                         | Accounts payable turnover (times)                           | 7.20                                       | 9.04   | 9.54   | 9.82   | 9.33   |
|                         | Average days in sales                                       | 61.45                                      | 53.91  | 60.83  | 75.73  | 80.40  |
|                         | Property, plant and equipment turnover (times)              | 1.51                                       | 1.58   | 1.65   | 1.41   | 1.12   |
|                         | Total assets turnover (times)                               | 0.74                                       | 0.75   | 0.77   | 0.67   | 0.57   |
| Profitability           | Return on total assets (%)                                  | 1.37                                       | 2.65   | 1.96   | (0.73) | (0.74) |
|                         | Return on stockholders' equity (%)                          | 2.17                                       | 4.63   | 3.38   | (1.97) | (2.09) |
|                         | Pre-tax income to paid-in capital (%)                       | 3.02                                       | 8.02   | 6.03   | (3.29) | (2.75) |
|                         | Profit ratio (%)                                            | 1.59                                       | 3.20   | 2.20   | (1.46) | (1.68) |
|                         | Earnings per share (NT\$)                                   | 0.35                                       | 0.56   | 0.40   | (0.22) | (0.18) |
| Cash Flow               | Cash flow ratio (%)                                         | 27.59                                      | 21.45  | 5.39   | 7.38   | 2.23   |
|                         | Cash flow adequacy ratio (%)                                | 65.76                                      | 91.82  | 71.90  | 55.41  | 25.42  |
|                         | Cash reinvestment ratio (%)                                 | 2.71                                       | 2.95   | (0.11) | 0.88   | 0.53   |
| Leverage                | Operating leverage                                          | 3.42                                       | 2.43   | 2.94   | (1.99) | (1.95) |
|                         | Financial leverage                                          | 1.22                                       | 1.12   | 1.18   | 0.81   | 0.80   |

Explanation of the reasons for the changes in various financial ratios in the last two years:

Cash flow: The worsening pandemic and low international pulp prices in 2020 caused a decrease in cash flows from operating activities.

## B. Stand-Alone Financial Analysis – IFRSs

| Item                    | Year                                                        | Financial Analysis for the Last Five Years |       |        |        |        |
|-------------------------|-------------------------------------------------------------|--------------------------------------------|-------|--------|--------|--------|
|                         |                                                             | 2016                                       | 2017  | 2018   | 2019   | 2020   |
| Financial structure (%) | Debt Ratio                                                  | 40                                         | 41    | 44     | 46     | 50     |
|                         | Ratio of long-term capital to property, plant and equipment | 167                                        | 159   | 160    | 141    | 128    |
| Liquidity (%)           | Current ratio                                               | 100                                        | 90    | 94     | 75     | 68     |
|                         | Quick ratio                                                 | 57                                         | 50    | 49     | 41     | 36     |
|                         | Interest earned ratio (times)                               | 7                                          | 10    | 8      | (2)    | (1)    |
| Operating Ability       | Accounts receivable turnover (times)                        | 7.50                                       | 7.06  | 7.14   | 6.28   | 5.96   |
|                         | Average collection period                                   | 49                                         | 52    | 51     | 58     | 61     |
|                         | Inventory turnover (times)                                  | 5.82                                       | 6.72  | 5.98   | 5.12   | 5.07   |
|                         | Accounts payable turnover (times)                           | 9.66                                       | 9.03  | 9.49   | 9.89   | 9.31   |
|                         | Average days in sales                                       | 63                                         | 54    | 61     | 71     | 72     |
|                         | Property, plant and equipment turnover (times)              | 1.63                                       | 1.68  | 1.71   | 1.48   | 1.17   |
|                         | Total assets turnover (times)                               | 0.74                                       | 0.74  | 0.75   | 0.66   | 0.57   |
|                         | Return on total assets (%)                                  | 1.69                                       | 2.56  | 1.91   | (0.63) | (0.45) |
| Profitability           | Return on stockholders' equity (%)                          | 2.43                                       | 3.94  | 2.97   | (1.59) | (1.35) |
|                         | Pre-tax income to paid-in capital (%)                       | 3.99                                       | 6.32  | 4.84   | (2.55) | (1.83) |
|                         | Profit ratio (%)                                            | 2.01                                       | 3.11  | 2.21   | (1.34) | (1.21) |
|                         | Earnings per share (NT\$)                                   | 0.35                                       | 0.56  | 0.40   | (0.22) | (0.18) |
|                         |                                                             |                                            |       |        |        |        |
| Cash flow               | Cash flow ratio (%)                                         | 31                                         | 12    | 3      | 8      | 5      |
|                         | Cash flow adequacy ratio (%)                                | 65.76                                      | 79.80 | 60.69  | 39.95  | 31.31  |
|                         | Cash reinvestment ratio (%)                                 | 3.00                                       | 1.18  | (0.61) | 1.06   | 1.23   |
| Leverage                | Operating leverage                                          | 2.60                                       | 2.78  | 4.10   | (2.89) | (5.27) |
|                         | Financial leverage                                          | 1.17                                       | 1.18  | 1.34   | 0.74   | 0.62   |

Analysis of financial ratio differences for the last two years

1. Profitability: Due to the purchase of the Guanyin Factory in 2020, capital expenditures has increased, which will reduce profit indicators such as return on assets.
2. Cash flow: The worsening pandemic and low international pulp prices in 2020 caused a decrease in cash flows from operating activities, resulting in a decrease in relevant ratios.
3. Leverage: The worsening pandemic and low international pulp prices in 2020 caused a decrease in both operating income and variable operating costs, resulting in a decrease in the degree of operating leverage.

Note:

Financial Structure

(1) Debt to asset ratio = Total liabilities / Total assets

(2) Long-term fund to PP&E ratio = (Shareholders' equity + Long-term liabilities) / Net PP&E

Solvency

(1) Current ratio = Current assets / Current liabilities

(2) Quick ratio = (Current assets – Inventory – Prepaid expenses) / Current liabilities

(3) Interest coverage ratio = Income before interest and taxes / Interest expense

## Operation Performance

- (1) Accounts receivable turnover = Net revenue / Average accounts receivable
- (2) Average collection days = 365 / AR turnover
- (3) Inventory turnover = COGS / Average inventory
- (4) Accounts payable turnover = COGS / Average accounts payable
- (5) Average days sales = 365 / Inventory turnover
- (6) PP&E turnover = Net revenue / Average net PP&E
- (7) Total asset turnover = Net revenue / Average total assets

## Profitability

- (1) Return on assets = [Net income + Interest expense x (1 – Tax rate)] / Average assets
- (2) Return on equity = Net income / Average equity
- (3) Net income margin = Net income / Net sales
- (4) EPS = (Net income – Preferred stock dividends) / Weighted average outstanding shares

## Cash Flow

- (1) Cash flow ratio = Cash flow from operating activities / Current liabilities
- (2) Cash flow adequacy ratio = Net cash flow from operating activities for the past 5 years / (Capital expenditure + Increases in inventory + Cash dividends for the past 5 years)
- (3) Cash reinvestment rate = (Cash flow from operating activities – Cash dividends) / (Gross PP&E + Long-term investments + Other assets + Working capital)

## Leverage

- (1) Operating leverage = (Net revenue – Variable operating costs and expenses) / Operating income
- (2) Financial leverage = Operating income / (Operating income – Interest expense)

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

The Company's 2020 business report, financial statements and proposal of loss appropriation have been reviewed and determined to be correct and accurate by the Audit Committee, so according to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act, we hereby submit this report to the 2021 Annual General Meeting of shareholders of the Company.

Chung Hwa Pulp Corporation

Convener of the audit committee: Yi Lee

February 26, 2021

**6.4 Consolidated Financial Statements for the Years Ended December 31, 2020 and 2019, and  
Independent Auditors' Report**

**INDEPENDENT AUDITORS' REPORT**

The Board of Directors and the Shareholders  
Chung Hwa Pulp Corporation

**Opinion**

We have audited the accompanying consolidated financial statements of Chung Hwa Pulp Corporation (the “Company”) and its subsidiaries (collectively referred to as the “Group”) which comprise the consolidated balance sheets as of December 31, 2020 and 2019, 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, 2020 and 2019, 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 (FSC) 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 Matter**

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. The matter was 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 the matter.

The key audit matter identified in the consolidated financial statements for the year ended December 31, 2020 is as follows:

Estimation of Expected Credit Loss Recognized on Accounts Receivable

The accounts receivable of the Group is material in amount. In consideration of the business volume, the recoverability of accounts receivable is not only subject to each customer's financial condition but also management's estimation and judgement. Therefore, the estimation of expected credit loss recognized on accounts receivables was identified as a key audit matter.

The audit procedures that we performed in respect of the above key audit matter included the following:

1. We obtained and assessed the reasonableness of the method and the information used by management for the estimation of expected credit loss of accounts receivable.
2. We sample-tested items in the aging report on the balance sheet date and we verified and assessed the correctness of the calculation of the expected credit loss.
3. We analyzed and sample-tested the recoverability of the overdue receivables after the balance sheet date. We assessed the reasonableness of the expected credit loss recognized on the accounts receivable based on the customers' historical payment record, credit limit control and overdue receivables tracking.

#### **Other Matter**

We have also audited the parent company only financial statements of Chung Hwa Pulp Corporation as of and for the years ended December 31, 2020 and 2019, on which we have issued an unmodified opinion with emphasis of matter paragraph.

#### **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 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 the 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 statements 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 the matter that

was of most significance in the audit of the consolidated financial statements for the year ended December 31, 2020, and is therefore the key audit matter. We describe the matter 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 audits resulting in this independent auditors' report are Shu-Wan Lin and Shiow-Ming Shue.

Deloitte & Touche

Taipei, Taiwan

Republic of China

March 19, 2021

#### 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.*

# CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

| ASSETS                                                                                          | 2020                 |            | 2019                 |            |
|-------------------------------------------------------------------------------------------------|----------------------|------------|----------------------|------------|
|                                                                                                 | Amount               | %          | Amount               | %          |
| CURRENT ASSETS                                                                                  |                      |            |                      |            |
| Cash and cash equivalents (Notes 4 and 6)                                                       | \$ 386,604           | 1          | \$ 478,725           | 2          |
| Financial assets at fair value through profit or loss - current (Notes 4 and 7)                 | 6,731                | -          | 12,151               | -          |
| Financial assets at fair value through other comprehensive income - current (Notes 4 and 8)     | 1,170,239            | 4          | 1,328,656            | 4          |
| Financial assets at amortized cost - current (Notes 4 and 10)                                   | 8,000                | -          | 11,700               | -          |
| Financial assets for hedging - current (Notes 4 and 9)                                          | 54                   | -          | 24                   | -          |
| Notes and accounts receivable (Notes 4 and 11)                                                  | 2,809,182            | 9          | 2,649,484            | 9          |
| Notes and accounts receivable from related parties (Notes 4 and 28)                             | 475,592              | 1          | 455,513              | 1          |
| Other receivables from related parties (Notes 4 and 28)                                         | 111,613              | -          | 423,820              | 1          |
| Inventories (Notes 4 and 12)                                                                    | 3,775,155            | 12         | 3,886,070            | 13         |
| Biological assets (Notes 4 and 13)                                                              | 3,327,526            | 10         | 3,252,537            | 10         |
| Other current assets                                                                            | <u>823,139</u>       | <u>2</u>   | <u>599,992</u>       | <u>2</u>   |
| Total current assets                                                                            | <u>12,893,835</u>    | <u>39</u>  | <u>13,098,672</u>    | <u>42</u>  |
| NON-CURRENT ASSETS                                                                              |                      |            |                      |            |
| Financial assets at fair value through profit or loss - non-current (Notes 4 and 7)             | -                    | -          | 171,035              | 1          |
| Financial assets at fair value through other comprehensive income - non-current (Notes 4 and 8) | 721,919              | 2          | 575,788              | 2          |
| Financial assets at amortized cost - non-current (Notes 4 and 10)                               | 218,241              | 1          | 300,823              | 1          |
| Investments accounted for using the equity method (Notes 4 and 15)                              | 767,114              | 2          | 787,981              | 2          |
| Property, plant and equipment (Notes 4 and 16)                                                  | 16,557,872           | 51         | 14,654,819           | 47         |
| Right-of-use assets (Notes 4 and 17)                                                            | 468,453              | 2          | 487,433              | 2          |
| Investment properties (Notes 4 and 18)                                                          | 256,877              | 1          | 257,144              | 1          |
| Deferred tax assets (Notes 4 and 23)                                                            | 110,871              | -          | 110,052              | -          |
| Prepayments for equipment                                                                       | 600,787              | 2          | 570,344              | 2          |
| Net defined benefit assets (Note 4 and 20)                                                      | 9,406                | -          | -                    | -          |
| Other non-current assets                                                                        | <u>64,858</u>        | <u>-</u>   | <u>84,326</u>        | <u>-</u>   |
| Total non-current assets                                                                        | <u>19,776,398</u>    | <u>61</u>  | <u>17,999,745</u>    | <u>58</u>  |
| TOTAL                                                                                           | <u>\$ 32,670,233</u> | <u>100</u> | <u>\$ 31,098,417</u> | <u>100</u> |
| LIABILITIES AND EQUITY                                                                          |                      |            |                      |            |
| CURRENT LIABILITIES                                                                             |                      |            |                      |            |
| Short-term borrowings (Note 19)                                                                 | \$ 1,642,777         | 5          | \$ 5,245,500         | 17         |
| Short-term bills payable (Note 19)                                                              | 6,297,360            | 19         | 2,449,479            | 8          |
| Financial liabilities at fair value through profit or loss - current (Notes 4 and 7)            | 3,019                | -          | 5,995                | -          |
| Notes and accounts payable                                                                      | 1,495,978            | 5          | 1,365,942            | 4          |
| Notes and accounts payable to related parties (Note 28)                                         | 380,514              | 1          | 480,665              | 2          |
| Other payables                                                                                  | 1,702,471            | 5          | 1,025,660            | 3          |
| Other payables to related parties (Note 28)                                                     | -                    | -          | 5,194                | -          |
| Current tax liabilities (Note 23)                                                               | 1,421                | -          | 1,179                | -          |
| Lease liabilities - current (Notes 4 and 17)                                                    | 15,815               | -          | 20,202               | -          |
| Other current liabilities                                                                       | <u>496,110</u>       | <u>2</u>   | <u>516,433</u>       | <u>2</u>   |
| Total current liabilities                                                                       | <u>12,035,465</u>    | <u>37</u>  | <u>11,116,249</u>    | <u>36</u>  |
| NON-CURRENT LIABILITIES                                                                         |                      |            |                      |            |
| Long-term borrowings (Note 19)                                                                  | 1,390,592            | 4          | 147,675              | -          |
| Deferred tax liabilities (Notes 4 and 23)                                                       | 2,002,167            | 6          | 2,002,167            | 6          |
| Lease liabilities - non-current (Notes 4 and 17)                                                | 16,666               | -          | 26,243               | -          |
| Net defined benefit liabilities (Notes 4 and 20)                                                | -                    | -          | 202,645              | 1          |
| Other non-current liabilities                                                                   | <u>239,589</u>       | <u>1</u>   | <u>208,414</u>       | <u>1</u>   |
| Total non-current liabilities                                                                   | <u>3,649,014</u>     | <u>11</u>  | <u>2,587,144</u>     | <u>8</u>   |
| Total liabilities                                                                               | <u>15,684,479</u>    | <u>48</u>  | <u>13,703,393</u>    | <u>44</u>  |
| EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Note 21)                                          |                      |            |                      |            |
| Share capital                                                                                   | <u>11,028,353</u>    | <u>34</u>  | <u>11,028,353</u>    | <u>36</u>  |
| Capital surplus                                                                                 | <u>29,821</u>        | <u>-</u>   | <u>29,563</u>        | <u>-</u>   |
| Retained earnings                                                                               |                      |            |                      |            |
| Legal reserve                                                                                   | 226,257              | 1          | 226,257              | 1          |
| Special reserve                                                                                 | 1,186,894            | 3          | 1,186,894            | 4          |
| Unappropriated earnings                                                                         | <u>2,033,543</u>     | <u>6</u>   | <u>2,236,125</u>     | <u>7</u>   |
| Total retained earnings                                                                         | <u>3,446,694</u>     | <u>10</u>  | <u>3,649,276</u>     | <u>12</u>  |
| Other equity                                                                                    | <u>416,837</u>       | <u>1</u>   | <u>410,039</u>       | <u>1</u>   |
| Treasury shares                                                                                 | <u>(136,726)</u>     | <u>-</u>   | <u>-</u>             | <u>-</u>   |
| Total equity attributable to owners of the Company                                              | 14,784,979           | 45         | 15,117,231           | 49         |
| NON-CONTROLLING INTERESTS                                                                       | <u>2,200,775</u>     | <u>7</u>   | <u>2,277,793</u>     | <u>7</u>   |
| Total equity                                                                                    | <u>16,985,754</u>    | <u>52</u>  | <u>17,395,024</u>    | <u>56</u>  |
| TOTAL                                                                                           | <u>\$ 32,670,233</u> | <u>100</u> | <u>\$ 31,098,417</u> | <u>100</u> |

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

# CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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

|                                                                                                | 2020              |            | 2019              |            |
|------------------------------------------------------------------------------------------------|-------------------|------------|-------------------|------------|
|                                                                                                | Amount            | %          | Amount            | %          |
| OPERATING REVENUE (Note 28)                                                                    |                   |            |                   |            |
| Sales                                                                                          | \$ 18,671,879     | 100        | \$ 20,788,779     | 101        |
| Sales returns and allowances                                                                   | <u>103,301</u>    | -          | <u>147,984</u>    | <u>1</u>   |
| Net sales                                                                                      | 18,568,578        | 100        | 20,640,795        | 100        |
| Other operating revenue                                                                        | <u>48,116</u>     | -          | <u>48,602</u>     | -          |
| Total operating revenue                                                                        | <u>18,616,694</u> | <u>100</u> | <u>20,689,397</u> | <u>100</u> |
| OPERATING COSTS (Notes 12, 20,22 and 28)                                                       |                   |            |                   |            |
| Cost of goods sold                                                                             | 17,333,163        | 93         | 19,435,059        | 94         |
| Other operating cost                                                                           | <u>42,088</u>     | -          | <u>35,227</u>     | -          |
| Total operating costs                                                                          | <u>17,375,251</u> | <u>93</u>  | <u>19,470,286</u> | <u>94</u>  |
| GAIN (LOSS) FROM CHANGES IN FAIR<br>VALUE LESS COSTS TO SELL OF<br>BIOLOGICAL ASSETS (Note 13) | <u>333</u>        | -          | <u>(6,089)</u>    | -          |
| GROSS PROFIT                                                                                   | <u>1,241,776</u>  | <u>7</u>   | <u>1,213,022</u>  | <u>6</u>   |
| OPERATING EXPENSES (Notes 20,22 and 28)                                                        |                   |            |                   |            |
| Selling and marketing                                                                          | 1,181,986         | 6          | 1,117,383         | 5          |
| General and administrative                                                                     | 331,549           | 2          | 351,205           | 2          |
| Research and development                                                                       | <u>118,418</u>    | <u>1</u>   | <u>128,211</u>    | <u>1</u>   |
| Total operating expenses                                                                       | <u>1,631,953</u>  | <u>9</u>   | <u>1,596,799</u>  | <u>8</u>   |
| LOSS FROM OPERATIONS                                                                           | <u>(390,177)</u>  | <u>(2)</u> | <u>(383,777)</u>  | <u>(2)</u> |
| NON-OPERATING INCOME AND EXPENSES                                                              |                   |            |                   |            |
| Finance costs (Notes 22 and 28)                                                                | (95,751)          | -          | (91,305)          | -          |
| Share of profit (loss) of associates (Note 15)                                                 | 4,489             | -          | (3,987)           | -          |
| Interest income (Note 28)                                                                      | 11,539            | -          | 27,380            | -          |
| Dividend income                                                                                | 95,220            | 1          | 76,543            | -          |
| Gain from bargain purchase (Note 15)                                                           | 140               | -          | -                 | -          |
| Other income (Note 28)                                                                         | 66,896            | -          | 83,311            | -          |
| Gain (loss) on disposal of property, plant and<br>equipment                                    | 164               | -          | (219)             | -          |
| Gain on disposal of investments                                                                | -                 | -          | 9                 | -          |
| Foreign exchange gain (loss)                                                                   | 88,963            | -          | (66,848)          | -          |
| Loss on financial instruments at FVTPL                                                         | (80,078)          | -          | (1,672)           | -          |
| Other losses                                                                                   | <u>(4,889)</u>    | -          | <u>(1,847)</u>    | -          |

(Continued)

# CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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

|                                                                                    | 2020                |            | 2019                |            |
|------------------------------------------------------------------------------------|---------------------|------------|---------------------|------------|
|                                                                                    | Amount              | %          | Amount              | %          |
| Total non-operating income and expenses                                            | <u>86,693</u>       | <u>1</u>   | <u>21,365</u>       | <u>-</u>   |
| LOSS BEFORE INCOME TAX                                                             | (303,484)           | (1)        | (362,412)           | (2)        |
| INCOME TAX (EXPENSE) BENEFIT (Notes 4 and 23)                                      | <u>(8,908)</u>      | <u>-</u>   | <u>60,328</u>       | <u>1</u>   |
| NET LOSS FOR THE YEAR                                                              | <u>(312,392)</u>    | <u>(1)</u> | <u>(302,084)</u>    | <u>(1)</u> |
| OTHER COMPREHENSIVE INCOME (LOSS)                                                  |                     |            |                     |            |
| Items that will not be reclassified subsequently to profit or loss:                |                     |            |                     |            |
| Remeasurement of defined benefit plans (Note 20)                                   | (3,261)             | -          | (4,701)             | -          |
| Unrealized gain on investments in equity instruments at FVTOCI                     | 30,571              | -          | 308,482             | 2          |
| Share of the other comprehensive income of associates                              | 15,762              | -          | 23,302              | -          |
| Tax effect of items that will not be reclassified (Note 23)                        | 652                 | -          | 940                 | -          |
| Items that may be reclassified subsequently to profit or loss:                     |                     |            |                     |            |
| Exchange differences on translating the financial statements of foreign operations | (3,491)             | -          | (277,653)           | (2)        |
| Gain (loss) on hedging instruments                                                 | 527                 | -          | 1,185               | -          |
| Share of the other comprehensive loss of associates                                | <u>(1,168)</u>      | <u>-</u>   | <u>(17,218)</u>     | <u>-</u>   |
| Other comprehensive income for the year, net of income tax                         | <u>39,592</u>       | <u>-</u>   | <u>34,337</u>       | <u>-</u>   |
| TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR                                     | <u>\$ (272,800)</u> | <u>(1)</u> | <u>\$ (267,747)</u> | <u>(1)</u> |
| NET LOSS ATTRIBUTABLE TO:                                                          |                     |            |                     |            |
| Owners of the Company                                                              | \$ (201,797)        | (1)        | \$ (245,098)        | (1)        |
| Non-controlling interests                                                          | <u>(110,595)</u>    | <u>(1)</u> | <u>(56,986)</u>     | <u>-</u>   |
|                                                                                    | <u>\$ (312,392)</u> | <u>(2)</u> | <u>\$ (302,084)</u> | <u>(1)</u> |
| TOTAL COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO:                                 |                     |            |                     |            |
| Owners of the Company                                                              | \$ (195,782)        | (1)        | \$ (116,582)        | -          |
| Non-controlling interests                                                          | <u>(77,018)</u>     | <u>-</u>   | <u>(151,165)</u>    | <u>(1)</u> |

(Continued)

## CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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

|                          | <u>2020</u>         |            | <u>2019</u>         |            |
|--------------------------|---------------------|------------|---------------------|------------|
|                          | <u>Amount</u>       | <u>%</u>   | <u>Amount</u>       | <u>%</u>   |
|                          | <u>\$ (272,800)</u> | <u>(1)</u> | <u>\$ (267,747)</u> | <u>(1)</u> |
| LOSS PER SHARE (Note 24) |                     |            |                     |            |
| Basic                    | <u>\$ (0.18)</u>    |            | <u>\$ (0.22)</u>    |            |

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

(Concluded)

# CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019  
(In Thousands of New Taiwan Dollars)

|                                                                                                           | Equity Attributable to Owners of the Company (Notes 4 and 21) |                 |                   |               |                 |                         |                                                        |                                                                                             |                                   |            |                |               |                                                                                  |                           |               |
|-----------------------------------------------------------------------------------------------------------|---------------------------------------------------------------|-----------------|-------------------|---------------|-----------------|-------------------------|--------------------------------------------------------|---------------------------------------------------------------------------------------------|-----------------------------------|------------|----------------|---------------|----------------------------------------------------------------------------------|---------------------------|---------------|
|                                                                                                           |                                                               |                 |                   |               |                 |                         |                                                        | Other Equity                                                                                |                                   |            | Treasury Share | Total         | Equity Attributable to Former Owner of Business Combination Under Common Control | Non-controlling Interests | Total Equity  |
|                                                                                                           |                                                               |                 |                   |               |                 |                         |                                                        | Unrealized (Loss) Gain on Financial Assets at Fair Value Through Other Comprehensive Income | Gain (Loss) on Hedging Instrument |            |                |               |                                                                                  |                           |               |
|                                                                                                           | Share Capital                                                 | Capital Surplus | Retained Earnings |               |                 |                         | Exchange Differences on Translating Foreign Operations |                                                                                             |                                   |            |                |               |                                                                                  |                           |               |
|                                                                                                           | Shares (Thousands)                                            | Amount          |                   | Legal Reserve | Special Reserve | Unappropriated Earnings | Total                                                  |                                                                                             |                                   |            |                |               |                                                                                  |                           |               |
| BALANCE AT JANUARY 1, 2019                                                                                | 1,102,835                                                     | \$ 11,028,353   | \$ 31,468         | \$ 181,691    | \$ 1,186,894    | \$ 2,905,386            | \$ 4,273,971                                           | \$ (100,013)                                                                                | \$ 394,892                        | \$ (6,961) | \$ -           | \$ 15,621,710 | \$ 13,440                                                                        | \$ 2,428,958              | \$ 18,064,108 |
| Appropriation of 2018 earnings                                                                            |                                                               |                 |                   |               |                 |                         |                                                        |                                                                                             |                                   |            |                |               |                                                                                  |                           |               |
| Legal reserve                                                                                             | -                                                             | -               | -                 | 44,566        | -               | (44,566)                | -                                                      | -                                                                                           | -                                 | -          | -              | -             | -                                                                                | -                         | -             |
| Cash dividends distributed by the Company                                                                 | -                                                             | -               | -                 | -             | -               | (385,992)               | (385,992)                                              | -                                                                                           | -                                 | -          | -              | (385,992)     | -                                                                                | -                         | (385,992)     |
| Adjustments for the changes in equity of associates                                                       | -                                                             | -               | (1,024)           | -             | -               | -                       | -                                                      | -                                                                                           | -                                 | -          | -              | (1,024)       | -                                                                                | -                         | (1,024)       |
| Net loss for the year ended December 31, 2019                                                             | -                                                             | -               | -                 | -             | -               | (245,098)               | (245,098)                                              | -                                                                                           | -                                 | -          | -              | (245,098)     | -                                                                                | (56,986)                  | (302,084)     |
| Other comprehensive (loss) income for the year ended December 31, 2019                                    | -                                                             | -               | -                 | -             | -               | (3,949)                 | (3,949)                                                | (200,692)                                                                                   | 331,972                           | 1,185      | -              | 128,516       | -                                                                                | (94,179)                  | 34,337        |
| Total comprehensive (loss) income for the year ended December 31, 2019                                    | -                                                             | -               | -                 | -             | -               | (249,047)               | (249,047)                                              | (200,692)                                                                                   | 331,972                           | 1,185      | -              | (116,582)     | -                                                                                | (151,165)                 | (267,747)     |
| Business combination under common control                                                                 | -                                                             | -               | (865)             | -             | -               | -                       | -                                                      | -                                                                                           | -                                 | -          | -              | (865)         | (13,440)                                                                         | -                         | (14,305)      |
| Disposal of investments accounted for using the equity method                                             | -                                                             | -               | (16)              | -             | -               | -                       | -                                                      | -                                                                                           | -                                 | -          | -              | (16)          | -                                                                                | -                         | (16)          |
| Disposal of investments in equity instruments designated as at FVTOCI by associates                       | -                                                             | -               | -                 | -             | -               | 10,344                  | 10,344                                                 | -                                                                                           | (10,344)                          | -          | -              | -             | -                                                                                | -                         | -             |
| BALANCE AT DECEMBER 31, 2019                                                                              | 1,102,835                                                     | 11,028,353      | 29,563            | 226,257       | 1,186,894       | 2,236,125               | 3,649,276                                              | (300,705)                                                                                   | 716,520                           | (5,776)    | -              | 15,117,231    | -                                                                                | 2,277,793                 | 17,395,024    |
| Adjustments for the changes in equity of associates                                                       | -                                                             | -               | (191)             | -             | -               | (2)                     | (2)                                                    | -                                                                                           | -                                 | -          | -              | (193)         | -                                                                                | -                         | (193)         |
| Unclaimed dividends                                                                                       | -                                                             | -               | 449               | -             | -               | -                       | -                                                      | -                                                                                           | -                                 | -          | -              | 449           | -                                                                                | -                         | 449           |
| Net loss for the year ended December 31, 2020                                                             | -                                                             | -               | -                 | -             | -               | (201,797)               | (201,797)                                              | -                                                                                           | -                                 | -          | -              | (201,797)     | -                                                                                | (110,595)                 | (312,392)     |
| Other comprehensive (loss) income for the year ended December 31, 2020                                    | -                                                             | -               | -                 | -             | -               | (2,770)                 | (2,770)                                                | (38,236)                                                                                    | 46,494                            | 527        | -              | 6,015         | -                                                                                | 33,577                    | 39,592        |
| Total comprehensive (loss) income for the year ended December 31, 2020                                    | -                                                             | -               | -                 | -             | -               | (204,567)               | (204,567)                                              | (38,236)                                                                                    | 46,494                            | 527        | -              | (195,782)     | -                                                                                | (77,018)                  | (272,800)     |
| Disposal of investments in equity instruments designated as fair value through other comprehensive income | -                                                             | -               | -                 | -             | -               | 1,987                   | 1,987                                                  | -                                                                                           | (1,987)                           | -          | -              | -             | -                                                                                | -                         | -             |
| Buy-back of ordinary shares                                                                               | -                                                             | -               | -                 | -             | -               | -                       | -                                                      | -                                                                                           | -                                 | -          | (136,726)      | (136,726)     | -                                                                                | -                         | (136,726)     |
| BALANCE AT DECEMBER 31, 2020                                                                              | 1,102,835                                                     | \$ 11,028,353   | \$ 29,821         | \$ 226,257    | \$ 1,186,894    | \$ 2,033,543            | \$ 3,446,694                                           | \$ (338,941)                                                                                | \$ 761,027                        | \$ (5,249) | \$ (136,726)   | \$ 14,784,979 | \$ -                                                                             | \$ 2,200,775              | \$ 16,985,754 |

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

# CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(In Thousands of New Taiwan Dollars)

|                                                                                         | 2020           | 2019           |
|-----------------------------------------------------------------------------------------|----------------|----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                             |                |                |
| Loss before income tax                                                                  | \$ (303,484)   | \$ (362,412)   |
| Adjustments for:                                                                        |                |                |
| Depreciation and amortization expenses                                                  | 1,153,888      | 1,148,547      |
| Expected credit loss recognized on account receivables                                  | (2,609)        | (24,525)       |
| Loss on financial instruments at FVTPL                                                  | 80,078         | 1,672          |
| Finance costs                                                                           | 95,751         | 91,305         |
| Interest income                                                                         | (11,539)       | (27,380)       |
| Dividend income                                                                         | (95,220)       | (76,543)       |
| Share of (profit) loss of associates                                                    | (4,489)        | 3,987          |
| (Gain) loss on disposal of property, plant and equipment                                | (164)          | 219            |
| Gain on disposal of investments                                                         | -              | (9)            |
| (Reversal of write-down) Write-downs of inventories                                     | (9,921)        | 36,351         |
| Unrealized (gain) loss on foreign currency exchange                                     | (7,217)        | 41,638         |
| (Gain) loss on changes in fair value less costs to sell of biological assets            | (333)          | 6,089          |
| Gain from bargain purchase                                                              | (140)          | -              |
| Changes in operating assets and liabilities                                             |                |                |
| Financial assets mandatorily classified as at FVTPL                                     | (83,229)       | (127)          |
| Notes and accounts receivable                                                           | (142,489)      | (21,474)       |
| Notes and accounts receivable from related parties                                      | (18,155)       | 311,578        |
| Inventories                                                                             | 131,079        | 242,529        |
| Biological assets                                                                       | (23,231)       | (75,863)       |
| Other current assets                                                                    | (227,711)      | (214,718)      |
| Net defined benefit assets                                                              | (9,406)        | -              |
| Notes and accounts payable                                                              | 131,234        | (141,771)      |
| Notes and accounts payable to related parties                                           | (101,865)      | (90,228)       |
| Other payables                                                                          | 161,260        | (13,696)       |
| Other current liabilities                                                               | (139,918)      | 75,837         |
| Net defined benefit liabilities                                                         | (205,906)      | (36,991)       |
| Cash generated from operations                                                          | 366,264        | 874,015        |
| Interest received                                                                       | 12,136         | 27,302         |
| Interest paid                                                                           | (100,946)      | (89,931)       |
| Income tax (paid) received                                                              | (8,893)        | 9,213          |
| Net cash generated from operating activities                                            | <u>268,561</u> | <u>820,599</u> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                             |                |                |
| Purchase of financial assets at FVTOCI                                                  | -              | (3)            |
| Proceeds from sale of financial assets at FVTOCI                                        | 1,800          | -              |
| Proceeds from capital reduction on investments accounted for financial assets at FVTOCI | 41,057         | 17,229         |
| Purchase of financial assets at amortized cost                                          | (64,098)       | (314,548)      |
| Proceeds from sale of financial assets at amortized cost                                | 153,452        | -              |

(Continued)

# CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(In Thousands of New Taiwan Dollars)

|                                                                                      | 2020               | 2019               |
|--------------------------------------------------------------------------------------|--------------------|--------------------|
| Proceeds from sale of financial assets at fair value through profit or loss          | 176,829            | -                  |
| Proceeds from sale of financial instruments for hedging                              | 497                | 4,252              |
| Purchase of investments accounted for using the equity method                        | (104)              | -                  |
| Net cash outflow from acquisition of subsidiary under common control                 | -                  | (14,305)           |
| Proceeds from capital reduction on investments accounted for using the equity method | -                  | 27,168             |
| Payments for property, plant and equipment                                           | (2,456,636)        | (1,264,293)        |
| Proceeds from disposal of property, plant and equipment                              | 201                | 7,807              |
| Increase in other receivables from related parties                                   | 313,899            | 341,159            |
| Increase (decrease) in other non-current assets                                      | 85                 | (6,563)            |
| Increase in prepayments for equipment                                                | (30,035)           | (41,275)           |
| Dividends received from investments accounted for using equity method                | <u>135,220</u>     | <u>126,133</u>     |
| Net cash used in investing activities                                                | <u>(1,727,833)</u> | <u>(1,117,239)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES                                                 |                    |                    |
| (Increase) decrease in short-term borrowings                                         | (3,592,454)        | 1,553,977          |
| Increase in short-term bills payable                                                 | 3,847,881          | 599,770            |
| Proceeds from long-term borrowings                                                   | 1,700,000          | 2,402,000          |
| Repayments of long-term borrowings                                                   | (450,000)          | (3,952,000)        |
| Decrease in other payables to related parties                                        | (8,661)            | (2,027)            |
| Repayment of the principal portion of lease liabilities                              | (22,269)           | (21,633)           |
| Increase in other non-current liabilities                                            | 27,452             | 12,753             |
| Distribution of cash dividends                                                       | -                  | (385,992)          |
| Payments for buyback of ordinary shares                                              | (136,726)          | -                  |
| Capital surplus transferred from unclaimed dividends                                 | <u>449</u>         | <u>-</u>           |
| Net cash generated from financing activities                                         | <u>1,365,672</u>   | <u>206,848</u>     |
| EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES   | <u>1,479</u>       | <u>3,023</u>       |
| NET DECREASE IN CASH AND CASH EQUIVALENTS                                            | (92,121)           | (86,769)           |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR                               | <u>478,725</u>     | <u>565,494</u>     |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR                                     | <u>\$ 386,604</u>  | <u>\$ 478,725</u>  |

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

(Concluded)

# CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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

---

#### 1. GENERAL INFORMATION

Chung Hwa Pulp Corporation (the “Company”), is principally engaged in the production and sale of pulp and paper. The Company’s shares have been listed on the Taiwan Stock Exchange.

In line with the Company’s operating strategy to carry out vertical integration, in the meetings of the board of directors on March 21, 2012 and of the shareholders on June 27, 2012, the Company decided to issue new shares in exchange for YFY Inc.’s paper and cardboard business unit’s assets, liabilities and operations. After this transaction, the Company became a subsidiary of YFY Inc.

YFY Inc. and its subsidiaries held 58.6% and 57.7% of ordinary shares of the Company as of December 31, 2020 and 2019.

The consolidated financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) are presented in the Company’s functional currency, the New Taiwan dollar.

#### 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on February 26, 2021.

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

- a. Initial application of the amendments to the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC 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 IFRSs endorsed and issued into effect by the FSC did not have material impact on the Group’s accounting policies:

##### Amendment to IFRS 16 “Covid-19-Related Rent Concessions”

The Group elected to apply the practical expedient provided in the amendment to IFRS 16 with respect to rent concessions negotiated with the lessor as a direct consequence of the COVID-19. The related accounting policies are stated in Note 4. Prior to the application of the amendment, the Group shall determine whether or not the abovementioned rent concessions need to be accounted for as lease modifications.

The Group applied the amendment from January 1, 2020. Because the abovementioned rent concessions affect only in 2020, retrospective application of the amendment has no impact on the retained earnings as of January 1, 2020.

- b. The IFRSs endorsed by the Financial Supervisory Commission (FSC) for application starting from 2021

| <b>New IFRSs</b>                                                                                    | <b>Effective Date<br/>Announced by IASB</b>         |
|-----------------------------------------------------------------------------------------------------|-----------------------------------------------------|
| Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”                    | Effective immediately upon promulgation by the IASB |
| Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform - Phase 2” | January 1, 2021                                     |

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

| <b>New IFRSs</b>                                                                                                         | <b>Effective Date<br/>Announced by IASB (Note 1)</b> |
|--------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------|
| “Annual Improvements to IFRS Standards 2018-2020”                                                                        | January 1, 2022 (Note 2)                             |
| Amendments to IFRS 3 “Reference to the Conceptual Framework”                                                             | January 1, 2022 (Note 3)                             |
| 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, 2023                                      |
| Amendments to IFRS 17                                                                                                    | January 1, 2023                                      |
| Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”                                            | January 1, 2023                                      |
| Amendments to IAS 1 “Disclosure of Accounting Policies”                                                                  | January 1, 2023 (Note 6)                             |
| Amendments to IAS 8 “Definition of Accounting Estimates”                                                                 | January 1, 2023 (Note 7)                             |
| Amendments to IAS 16 “Property, Plant and Equipment - Proceeds before Intended Use”                                      | January 1, 2022 (Note 4)                             |
| Amendments to IAS 37 “Onerous Contracts - Cost of Fulfilling a Contract”                                                 | January 1, 2022 (Note 5)                             |

- Note 1: Unless stated otherwise, the above New IFRSs are effective for annual reporting periods beginning on or after their respective effective dates.
- Note 2: The amendments to IFRS 9 will be applied prospectively to modifications and exchanges of financial liabilities that occur on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IAS 41 “Agriculture” will be applied prospectively to the fair value measurements on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IFRS 1 “First-time Adoptions of IFRSs” will be applied retrospectively for annual reporting periods beginning on or after January 1, 2022.
- Note 3: The amendments are applicable to business combinations for which the acquisition date is on or after the beginning of the annual reporting period beginning on or after January 1, 2022.
- Note 4: The amendments are applicable to property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after January 1, 2021.
- Note 5: The amendments are applicable to contracts for which the entity has not yet fulfilled all its obligations on January 1, 2022.
- Note 6: The amendments will be applied prospectively for annual reporting periods beginning on or after January 1, 2023.
- Note 7: The amendments are applicable to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the annual reporting period beginning on or after January 1, 2023.

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**

For the convenience of readers, the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China (ROC). 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 consolidated financial statements shall prevail.

##### **a. Statement of compliance**

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

##### **b. Basis of preparation**

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value, biological assets which are measured at fair

value less costs to sell, and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

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 an 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 an asset or liability.

c. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company.

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.

See Note 14, Tables 7 and 8 for detailed information on subsidiaries (including percentages of ownership and main businesses).

d. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as they are incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Business combinations involving entities under common control are not accounted for by the acquisition method but are accounted for at the carrying amounts of the entities. Prior period comparative information in the consolidated financial statements is restated as if a business combination involving entities under common control had already occurred in that period. The acquirer is disclosed as if it has occurred before January 1, 2018, and the Group's financial statements for the year are restated. The equity held by original shareholders is recorded as "equity attributable to former owner of business combination under common control" when preparing the comparative consolidated balance sheet. In the preparation of the consolidated statement of changes in equity, the profit or loss recognized by original shareholders is attributed to "former owners' interests under common control".

e. Foreign currencies

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

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

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

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

For the purpose of presenting consolidated financial statements, the functional currencies of the Company and its foreign operations (including subsidiaries and associates in other countries that use currencies which are different from the currency of the Company) are translated into the presentation currency, the New Taiwan dollar, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income (attributed to the owners of the Company and non-controlling interests as appropriate).

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. Investment in associates

An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor an interest in a joint venture.

The Group uses the equity method to account for its investments in associates. Under the equity method, investments in an associate are initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. The Group also recognizes the changes in the Group's share of the equity of associates.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of an associate at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Company subscribes for additional new shares of an associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from

the amount of the Group's proportionate interest in the associate. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in capital surplus from investments in associates accounted for using the equity method. If the Group's ownership interest is reduced due to its additional subscription of the new shares of the associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required had the investee directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for using the equity method is insufficient, the shortage is debited to retained earnings.

When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Group has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

The entire carrying amount of an investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate. Any retained investment is measured at fair value at that date, and the fair value is regarded as the investment's fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required had that associate directly disposed of the related assets or liabilities. If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

When an entity in the Group transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent that interests in the associate are not related to the Group.

#### h. Property, plant and equipment

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

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

Freehold land is not depreciated.

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.

i. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss.

Investment properties acquired through leases were initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made on or before the commencement date, plus initial direct costs incurred and an estimate of costs needed to restore the underlying assets, less any lease incentives received. These investment properties are subsequently measured at cost less accumulated depreciation and accumulated impairment loss and adjusted for any remeasurement of the lease liabilities.

Depreciation is recognized using the straight-line method.

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.

j. Impairment of property, plant and equipment, right-of-use asset and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use asset and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered any impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation.

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized on the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

k. Financial instruments

Financial assets and financial liabilities are recognized when an entity in 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 issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs

directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

## 1) Financial assets

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

### a) Measurement category

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost, and investments in equity instruments at FVTOCI.

#### i. Financial assets at FVTPL

Financial assets are classified as at FVTPL when such a financial asset is mandatorily classified as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividends or interest earned on such a financial asset.

#### ii. 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 are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

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.

#### iii. 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.

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 accounts receivable).

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.

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

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 cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

2) Equity instruments

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

The repurchase of the Group'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 Group's own equity instruments.

### 3) Financial liabilities

#### a) Subsequent measurement

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

Financial liabilities are classified as at FVTPL when such financial liabilities are held for trading.

Financial liabilities held for trading are stated at fair value, and any interest paid on such financial liability is recognized in finance costs; any remeasurement gains or losses on such financial liabilities are recognized in other gains or losses. Fair value is determined in the manner described in Note 27.

#### b) Derecognition of financial liabilities

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

### 4) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks, including foreign exchange forward contracts.

Derivatives are initially recognized at fair value at the date on which the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instruments is negative, the derivative is recognized as a financial liability.

#### l. Hedge accounting

The Group designates certain hedging instruments as cash flow hedges to partially hedge its foreign exchange rate risks associated with certain highly probable forecast purchases. The effective portion of changes in the fair value of hedging instruments is recognized in other comprehensive income. When the forecast transactions actually take place, the associated gains or losses that were recognized in other comprehensive income are removed from equity and included in the initial cost of the hedged items. The gains or losses from hedging instruments relating to the ineffective portion are recognized immediately in profit or loss.

The Group discontinues hedge accounting only when the hedging relationship ceases to meet the qualifying criteria; for instance, when the hedging instrument expires or is sold, terminated or exercised.

#### m. Provisions

Provisions, including those arising from the contractual obligation, are stated at the best estimate of the discounted cash flow of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

n. Revenue recognition

The Group identifies contracts with customers and recognizes revenue when performance obligations are satisfied.

Revenue from the sale of goods is recognized when the goods are delivered to the customer's specific location and the performance obligation is satisfied because it is the time when customers have obtained control of the promised goods.

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable and reduced for estimated customer returns, rebates and other similar allowances. Estimated sales returns and allowances is generally made and adjusted based on historical experience and the consideration of varying contractual terms to recognize refund liabilities.

Due to the short term nature of the receivables from sale of goods with the immaterial discounted effect, the group measures them at the original invoice amounts without discounting.

o. Leases

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

1) The Group as lessor

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.

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. 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.

Lease liabilities are initially measured at the present value of the lease payments, which comprise fixed payments. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term or a change in future lease payments resulting from a change in an index or a rate used to determine those payments, the Group remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the consolidated balance sheets.

The Group negotiates with the lessor for rent concessions as a direct consequence of the Covid-19 to change the lease payments originally due by June 30, 2021, that results in the revised consideration for the lease. There is no substantive change to other terms and conditions. The Group elects to apply the practical expedient to all of these rent concessions and, therefore, does not assess whether the rent concessions are lease modifications. Instead, the Group recognizes the reduction in lease payment in profit or loss as a deduction of expenses of variable lease payments, in the period in which the events or conditions that trigger the concession occur, and makes a corresponding adjustment to the lease liability.

p. Borrowing costs

Borrowing costs directly attributable to the 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.

q. 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

Payments to defined contribution retirement benefit plans are recognized as expenses when employees have rendered services entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost and past service cost) and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in the period in which they occur or when the plan amendment or curtailment occurs. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling, and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Group's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

r. Taxation

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

1) Current tax

Income tax payable (recoverable) is based on taxable profit (loss) for the year determined according to the applicable tax laws of each tax jurisdiction.

According to the Income Tax Law in the ROC, an additional tax on unappropriated earnings is provided for in the year the shareholders approve to retain earnings.

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, to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint arrangements, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 asset 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.

## 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; in which case, the current and deferred taxes are also recognized in other comprehensive income.

## s. Biological assets

Biological assets are measured at fair value less costs to sell. The gains and losses arising from the change in fair value less costs to sell are recognized in profit or loss when they are incurred.

## 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, estimations, 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 estimates are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect 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 11. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

## 6. CASH AND CASH EQUIVALENTS

|                                                                  | <b>December 31</b> |                   |
|------------------------------------------------------------------|--------------------|-------------------|
|                                                                  | <b>2020</b>        | <b>2019</b>       |
| Cash on hand                                                     | \$ 1,576           | \$ 1,247          |
| Checking accounts and demand deposits                            | 343,295            | 255,485           |
| Cash equivalents                                                 |                    |                   |
| Time deposits with original maturities of less than three months | <u>41,733</u>      | <u>221,993</u>    |
|                                                                  | <u>\$ 386,604</u>  | <u>\$ 478,725</u> |

The market rate intervals of cash in bank (excluding checking accounts) at the end of the reporting period were as follows:

|                  | <b>December 31</b> |              |
|------------------|--------------------|--------------|
|                  | <b>2020</b>        | <b>2019</b>  |
| Bank balance     | 0.001%-0.36%       | 0.001%-0.38% |
| Cash equivalents | 0.35%-1.10%        | 0.55%-2.08%  |

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

|                                                               | <b>December 31</b> |                   |
|---------------------------------------------------------------|--------------------|-------------------|
|                                                               | <b>2020</b>        | <b>2019</b>       |
| <u>Financial assets at FVTPL - current</u>                    |                    |                   |
| Financial assets mandatorily classified as at FVTPL           |                    |                   |
| Derivative financial assets (not under hedge accounting)      |                    |                   |
| Foreign exchange forward contracts (a)                        | \$ 5,370           | \$ 10,794         |
| Non-derivative financial assets                               |                    |                   |
| Mutual funds                                                  | <u>1,361</u>       | <u>1,357</u>      |
|                                                               | <u>\$ 6,731</u>    | <u>\$ 12,151</u>  |
| <u>Financial assets at FVTPL - non-current</u>                |                    |                   |
| Non-derivative financial assets                               |                    |                   |
| Bank debentures in the ROC (b)                                | <u>\$ -</u>        | <u>\$ 171,035</u> |
| <u>Financial liabilities at FVTPL - current</u>               |                    |                   |
| Financial liabilities mandatorily classified as at FVTPL      |                    |                   |
| Derivative financial liabilities (not under hedge accounting) |                    |                   |
| Foreign exchange forward contracts (a)                        | <u>\$ 3,019</u>    | <u>\$ 5,995</u>   |

- a. At the end of the reporting year, outstanding foreign exchange forward contracts not under hedge accounting were as follows:

|                          | <b>Currency</b> | <b>Maturity Date</b>  | <b>Notional Amount<br/>(In Thousands)</b> |
|--------------------------|-----------------|-----------------------|-------------------------------------------|
| <u>December 31, 2020</u> |                 |                       |                                           |
| Buy                      | USD:NTD         | 2021.01.15-2021.03.15 | USD16,400/NTD467,072                      |
|                          | USD:RMB         | 2021.01.07-2021.01.29 | USD30,000/RMB195,747                      |
| <u>December 31, 2019</u> |                 |                       |                                           |
| Sell                     | USD:NTD         | 2020.01.10-2020.02.27 | USD33,400/NTD1,001,332                    |
| Buy                      | USD:RMB         | 2020.01.13-2020.01.21 | USD20,000/RMB139,524                      |

The Group entered into foreign exchange forward contracts to manage exposures to exchange rate fluctuations of foreign currency denominated assets and liabilities. The above foreign exchange forward contracts held by the Group did not meet hedge effectiveness, so they are not applicable for hedge accounting.

- b. In 2015, the Group bought subordinated financial bonds issued by Bank SinoPac with a coupon rate of 3.9% at par value of \$170,000 thousand. The bonds have no maturity date but may be redeemed by Bank SinoPac after 5 years from issue date. On November 6, 2020, Bank SinoPac had redeemed financial bonds with a par value of \$170,000 thousand.

## 8. INVESTMENT IN EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

|                      | <b>December 31</b>  |                     |
|----------------------|---------------------|---------------------|
|                      | <b>2020</b>         | <b>2019</b>         |
| <u>Current</u>       |                     |                     |
| Domestic investments |                     |                     |
| Listed shares        | <u>\$ 1,170,239</u> | <u>\$ 1,328,656</u> |
| <u>Non-current</u>   |                     |                     |
| Domestic investments |                     |                     |
| Listed shares        | \$ 349,956          | \$ 281,803          |
| Unlisted shares      | <u>371,963</u>      | <u>293,985</u>      |
|                      | <u>\$ 721,919</u>   | <u>\$ 575,788</u>   |

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 INSTRUMENTS FOR HEDGING

|                                                          | <b>December 31</b> |              |
|----------------------------------------------------------|--------------------|--------------|
|                                                          | <b>2020</b>        | <b>2019</b>  |
| <u>Financial assets under hedge accounting - current</u> |                    |              |
| Cash flow hedges - foreign exchange forward contracts    | <u>\$ 54</u>       | <u>\$ 24</u> |

The Group's hedge strategy is to enter into foreign exchange forward contracts to avoid its foreign currency exposure to certain foreign currency receipts and payments and to manage its foreign currency exposures in relation to foreign currency forecast purchases. When forecast purchases actually take place, the carrying amounts of the non-financial hedged items will be adjusted accordingly.

The Group determined that the value of the forward exchange contracts and the value of the

corresponding hedged items will systematically move in the opposite direction in response to changes in the underlying exchange rates based on their relationship.

The source of hedge ineffectiveness in these hedging relationships is the effect of the counterparty and the Group's own credit risk on the fair value of the forward exchange contracts. No other sources of ineffectiveness are expected to emerge from these hedging relationships.

The increase (decrease) in value used for calculating hedge ineffectiveness in 2020 and 2019 were \$527 thousand and \$(2,106) thousand, respectively, the following tables summarize the information relating to the hedges of foreign currency risk.

|                          | Currency                                     | Maturity Date | Notional Amount<br>(In Thousands)                                      |                                                               |
|--------------------------|----------------------------------------------|---------------|------------------------------------------------------------------------|---------------------------------------------------------------|
| <u>December 31, 2020</u> |                                              |               |                                                                        |                                                               |
| Buy                      | EUR:NTD                                      | 2021.01.29    | EUR300/NTD10,506                                                       |                                                               |
| <u>December 31, 2019</u> |                                              |               |                                                                        |                                                               |
| Buy                      | EUR:NTD                                      | 2020.01.31    | EUR300/NTD10,077                                                       |                                                               |
| <u>December 31, 2020</u> |                                              |               |                                                                        |                                                               |
|                          | Hedged Items                                 |               | Change in<br>Value Used for<br>Calculating<br>Hedge<br>Ineffectiveness | Other Equity<br>Carrying<br>Amount in<br>Continuing<br>Hedges |
| Cash flow hedge          |                                              |               |                                                                        |                                                               |
|                          | Forecast transactions (capital expenditures) |               | \$ 527                                                                 | \$ (5,249)                                                    |
| <u>December 31, 2019</u> |                                              |               |                                                                        |                                                               |
|                          | Hedged Items                                 |               | Change in<br>Value Used for<br>Calculating<br>Hedge<br>Ineffectiveness | Other Equity<br>Carrying<br>Amount in<br>Continuing<br>Hedges |
| Cash flow hedge          |                                              |               |                                                                        |                                                               |
|                          | Forecast transactions (capital expenditures) |               | \$ (2,106)                                                             | \$ (5,776)                                                    |

For the years ended December 31, 2020 and 2019, refer to Note 21(e) for information relating to gain (loss) on changes in the fair value of hedging instruments and the original carrying amount transferred to hedged items in 2020 and 2019.

# 10. FINANCIAL ASSETS AT AMORTIZED COST

|                                                                      | December 31     |                  |
|----------------------------------------------------------------------|-----------------|------------------|
|                                                                      | 2020            | 2019             |
| <u>Current</u>                                                       |                 |                  |
| Domestic investments                                                 |                 |                  |
| Time deposits with original maturity between three months and a year | \$ 8,000        | \$ 6,700         |
| Time deposits with original maturity of more than a year             | <u>-</u>        | <u>5,000</u>     |
|                                                                      | <u>\$ 8,000</u> | <u>\$ 11,700</u> |

|                                                          | December 31       |                   |
|----------------------------------------------------------|-------------------|-------------------|
|                                                          | 2020              | 2019              |
| <u>Non-current</u>                                       |                   |                   |
| Domestic investments                                     |                   |                   |
| Time deposits with original maturity of more than a year | <u>\$ 218,241</u> | <u>\$ 300,823</u> |
|                                                          |                   | (Concluded)       |

The interest rates for time deposits with original maturity between three months and a year were 0.41%-0.85% and 0.66%-0.82%, respectively, and the interest rates for time deposits with original maturity of more than a year were 3.96% and 1.12%-3.96%, respectively, at the end of the reporting year.

# 11. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

|                                     | December 31         |                     |
|-------------------------------------|---------------------|---------------------|
|                                     | 2020                | 2019                |
| Notes receivable - operating        | \$ 578,567          | \$ 465,228          |
| Accounts receivable - operating     | <u>2,243,746</u>    | <u>2,199,873</u>    |
| Gross carrying amount               | 2,822,313           | 2,665,101           |
| Less: Allowance for impairment loss | <u>(13,131)</u>     | <u>(15,617)</u>     |
|                                     | <u>\$ 2,809,182</u> | <u>\$ 2,649,484</u> |

The Group's customers are a large number of unrelated customers that did not create concentration of credit risk.

For the accounts receivable that were past due at the end of the reporting period, the Group did not recognize an allowance for impairment loss because there was no significant change in credit quality and the amounts were still considered recoverable. The Group held adequate collaterals or other credit enhancements for these receivables. In addition, the Group also did not have offset right for the receivables against the payables of the same parties.

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The expected credit losses on trade receivables are estimated using a provision matrix approach considering 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 forecast direction of economic conditions at the reporting date. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished according to the Group's different customer base.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. For trade receivables that have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

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

#### December 31, 2020

|                               | <b>Not Past Due</b> | <b>Less than 90 Days</b> | <b>91 Days to A Year</b> | <b>Over A Year</b> | <b>Total</b>        |
|-------------------------------|---------------------|--------------------------|--------------------------|--------------------|---------------------|
| Gross carrying amount         | \$ 2,491,435        | \$ 321,259               | \$ 9,619                 | \$ -               | \$ 2,822,313        |
| Loss allowance (Lifetime ECL) | <u>(8,433)</u>      | <u>(4,511)</u>           | <u>(187)</u>             | <u>-</u>           | <u>(13,131)</u>     |
| Amortized cost                | <u>\$ 2,483,002</u> | <u>\$ 316,748</u>        | <u>\$ 9,432</u>          | <u>\$ -</u>        | <u>\$ 2,809,182</u> |

#### December 31, 2019

|                               | <b>Not Past Due</b> | <b>Less than 90 Days</b> | <b>91 Days to A Year</b> | <b>Over A Year</b> | <b>Total</b>        |
|-------------------------------|---------------------|--------------------------|--------------------------|--------------------|---------------------|
| Gross carrying amount         | \$ 2,458,266        | \$ 183,499               | \$ 23,099                | \$ 237             | \$ 2,665,101        |
| Loss allowance (Lifetime ECL) | <u>(9,912)</u>      | <u>(5,063)</u>           | <u>(405)</u>             | <u>(237)</u>       | <u>(15,617)</u>     |
| Amortized cost                | <u>\$ 2,448,354</u> | <u>\$ 178,436</u>        | <u>\$ 22,694</u>         | <u>\$ -</u>        | <u>\$ 2,649,484</u> |

The movement of the loss allowance of trade receivables were as follows:

|                                               | <b>2020</b>      | <b>2019</b>      |
|-----------------------------------------------|------------------|------------------|
| Balance at January 1                          | \$ 15,617        | \$ 40,471        |
| Net remeasurement of loss allowance           | (2,609)          | (24,525)         |
| Foreign exchange translation gains and losses | <u>123</u>       | <u>(329)</u>     |
| Balance at December 31                        | <u>\$ 13,131</u> | <u>\$ 15,617</u> |

As of December 31, 2020 and 2019, the Group discounted a portion of its banker's acceptance bills in mainland China with an aggregate carrying amount of \$42,523 thousand and \$0. For information on the transfer of financial instruments, refer to Note 27.

## 12. INVENTORIES

|                              | <b>December 31</b>  |                     |
|------------------------------|---------------------|---------------------|
|                              | <b>2020</b>         | <b>2019</b>         |
| Finished and purchased goods | \$ 2,192,648        | \$ 2,131,072        |
| Work in process              | 354,696             | 374,046             |
| Materials                    | <u>1,227,811</u>    | <u>1,380,952</u>    |
|                              | <u>\$ 3,775,155</u> | <u>\$ 3,886,070</u> |

The cost of goods sold for the years ended December 31, 2020 and 2019 included reversal of inventory write-downs of \$9,921 thousand and write-downs of \$36,351 thousand, respectively.

## 13. BIOLOGICAL ASSETS

|                                                           | <b>For the Year Ended December 31</b> |                     |
|-----------------------------------------------------------|---------------------------------------|---------------------|
|                                                           | <b>2020</b>                           | <b>2019</b>         |
| Balance at January 1                                      | \$ 3,252,537                          | \$ 3,317,475        |
| Increase due to planting                                  | 122,125                               | 201,244             |
| Gain (loss) from changes in fair value less costs to sell | 333                                   | (6,089)             |
| Decrease due to harvest                                   | (98,894)                              | (125,381)           |
| Net exchange differences                                  | <u>51,425</u>                         | <u>(134,712)</u>    |
| Balance at December 31                                    | <u>\$ 3,327,526</u>                   | <u>\$ 3,252,537</u> |

The biological assets and their fair values measured on a recurring basis (before deducting costs to sell) were as follows:

|                                                                        | <b>For the Year Ended December 31</b> |                     |
|------------------------------------------------------------------------|---------------------------------------|---------------------|
|                                                                        | <b>2020</b>                           | <b>2019</b>         |
| Eucalyptus (Level 3)                                                   | <u>\$ 3,437,755</u>                   | <u>\$ 3,360,128</u> |
| Opening balance                                                        | \$ 3,360,128                          | \$ 3,396,946        |
| Increase due to planting                                               | 126,964                               | 211,239             |
| Gain (loss) from changes in fair value less costs to sell - unrealized | 346                                   | (6,392)             |
| Decrease due to harvest                                                | (102,812)                             | (131,608)           |
| Foreign exchange translation gains and losses                          | <u>53,129</u>                         | <u>(110,057)</u>    |
| Ending balance                                                         | <u>\$ 3,437,755</u>                   | <u>\$ 3,360,128</u> |

The financial risks related to biological assets arose from the estimation of eucalyptus volume since the method used in estimation is highly uncertain.

#### 14. SUBSIDIARIES

Subsidiaries included in the consolidated financial statements:

| Investor                            | Investee                                  | Main Business                                                                                                              | <b>% of Ownership</b> |             |
|-------------------------------------|-------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|-----------------------|-------------|
|                                     |                                           |                                                                                                                            | <b>December 31</b>    |             |
|                                     |                                           |                                                                                                                            | <b>2020</b>           | <b>2019</b> |
| The Company                         | CHP International (BVI) Corporation       | Investment and holding.                                                                                                    | 100.0                 | 100.0       |
|                                     | Hwa Fong Investment Co., Ltd.             | Investment and holding.                                                                                                    | 100.0                 | 100.0       |
| CHP International (BVI) Corporation | Guangdong Dingfung Pulp & Paper Co., Ltd. | Pulp and paper production, trading and forestry business.                                                                  | 60.0                  | 60.0        |
|                                     | Zhaoqing Dingfung Forestry Ltd.           | Seedling cultivation and sales, reforestation, sales-cum-forest logging and other forestry, processing and transportation. | 20.2                  | 20.2        |
|                                     | Syntax Communication (H.K.) Limited (b)   | Sale and print of paper merchandise.                                                                                       | 100.0                 | 100.0       |

| Investor                                  | Investee                                         | Main Business                                                                                                                                                                                                                                                                                                        | % of Ownership<br>December 31 |       |
|-------------------------------------------|--------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|-------|
|                                           |                                                  |                                                                                                                                                                                                                                                                                                                      | 2020                          | 2019  |
| Hwa Fong Investment Co., Ltd.             | Genovella Renewables Inc. (c)                    | Sale and production of fertilizer, retail sale of food products and groceries, plant cultivation, refractory materials manufacturing, cement and concrete products manufacturing, refractory materials wholesale and sale of building material, manpower services and wholesale and sale of chemistry raw materials. | 100.0                         | 100.0 |
| Guangdong Dingfung Pulp & Paper Co., Ltd. | Zhaoqing Dingfung Forestry Ltd.                  | Seedling cultivation and sales, reforestation, sales-cum-forest logging and other forestry, processing and transportation.                                                                                                                                                                                           | 66.3                          | 66.3  |
|                                           | Shenzhen Jinglun Paper Co., Ltd. (b)             | Paper trading, cargo and technic import and export business.                                                                                                                                                                                                                                                         | 100.0                         | 100.0 |
|                                           | Zhaoging Xinchuan Green Technology Co., Ltd. (d) | Environment equipment technology research and development, construction for wastewater, flue gas, noise and solid waste treatment, pure water construction, environment technology consulting, sale of environment equipment and chemical raw material, cargo and technic import and export.                         | 100.0                         | 100.0 |

(Concluded)

- a. The financial statements of Genovella Renewables Inc. have not been audited; as of December 31, 2020 and 2019, combined total assets of this subsidiary were \$23,211 thousand and \$13,735 thousand, respectively, representing 0.07% and 0.04%, respectively, of the total consolidated assets, and combined total liabilities of this subsidiary were \$9,503 thousand and \$4,306 thousand, respectively, representing 0.06% and 0.03%, respectively, of the total consolidated liabilities. For the years ended December 31, 2020 and 2019, net sales were about \$30,634 thousand and \$15,145 thousand respectively, representing 0.16% and 0.07%, respectively, of the total consolidated net sales, respectively; the net loss were about \$4,729 thousand and \$2,453 thousand, respectively, representing (1.51)% and (0.81)%, respectively, of the total consolidated net loss. Management

believes that the amounts do not have material impact even if the financial statements were audited.

- b. CHP International (BVI) Corporation., a subsidiary of the Group, acquired 100% equity of Syntax Communication (H.K.) Limited from fellow subsidiaries of YFY Group for HK\$3,653 thousand in the first quarter of 2019. In compliance with the “Comments on IFRS” and Interpretation 2012-301 issued by Accounting Research and Development Foundation, the acquisitions resulted in joint control restructuring. In the preparation of comparative consolidated financial statements, the acquisitions are disclosed as if they have occurred before January 1, 2018. The related equity adjustments are recognized as equity attributable to former owner of business combination under common control.
- c. Kuang Hwa Fertilizer Limited Company was renamed as Genovella Renewables Inc. on April 22, 2019.
- d. Guangdong Dingfung Pulp & Paper Co., Ltd. established Zhaoging Xinchuan Green Technology Co., Ltd., on September 12, 2019, after the Company’s board of directors passed the resolution with a total investment of RMB10,000 thousand and Guangdong Dingfung Pulp & Paper Co., Ltd. held 100% ownership interest. To meet the capital funding, a capital of RMB2,000 thousand was injected as of December 31, 2020.

## 15. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

|                                               | <b>December 31</b> |                   |
|-----------------------------------------------|--------------------|-------------------|
|                                               | <b>2020</b>        | <b>2019</b>       |
| Associates that are not individually material | <u>\$ 767,114</u>  | <u>\$ 787,981</u> |

Aggregate information of associates that are not individually material were as follows:

|                                          | <b>December 31</b> |                 |
|------------------------------------------|--------------------|-----------------|
|                                          | <b>2020</b>        | <b>2019</b>     |
| The Group’s share of:                    |                    |                 |
| Profit (loss) from continuing operations | \$ 4,489           | \$ (3,987)      |
| Other comprehensive income               | <u>14,594</u>      | <u>6,084</u>    |
| Total comprehensive income for the year  | <u>\$ 19,083</u>   | <u>\$ 2,097</u> |

The combined ownership held by the Group and its parent company, YFY Inc., in some associates that are not individually material was more than 20%. Thus, the Group used the equity method to account for its investments in these associates.

Between August and October 2020, subsidiary Hwa Fong Investment Co., Ltd. obtained 20,504 voting shares of Union Paper Corporation., Ltd. at \$5 per share, with a total investment of \$102 thousands and 0.02% of voting rights. Hwa Fong Investment Co., Ltd recognized gain from bargain purchase of \$140 thousands.

The Group is able to exercise significant influence over some associates that are not individually

material even if it holds less than 20% of their voting rights. Thus, the Group uses the equity method to account for its investments in these associates.

## 16. PROPERTY, PLANT AND EQUIPMENT

|                                                 | Freehold Land       | Buildings           | Machinery            | Electric Equipment  | Tools               | Miscellaneous Equipment | Property in Construction | Total                |
|-------------------------------------------------|---------------------|---------------------|----------------------|---------------------|---------------------|-------------------------|--------------------------|----------------------|
| <u>Cost</u>                                     |                     |                     |                      |                     |                     |                         |                          |                      |
| Balance at January 1, 2019                      | \$ 6,637,258        | \$ 3,815,936        | \$ 28,950,266        | \$ 2,966,986        | \$ 1,724,793        | \$ 769,498              | \$ 981,308               | \$ 45,846,045        |
| Additions                                       | -                   | 11,996              | 54,765               | 13,774              | 29,235              | 9,580                   | 1,158,024                | 1,277,374            |
| Disposals                                       | -                   | (6,236)             | (301,701)            | (56,500)            | (27,840)            | (23,863)                | -                        | (416,140)            |
| Effect of foreign currency exchange differences | -                   | (29,373)            | (165,508)            | -                   | (51)                | (6,860)                 | (8,400)                  | (210,192)            |
| Reclassifications                               | -                   | 20,722              | 715,154              | 31,046              | 45,760              | 15,200                  | (827,882)                | -                    |
| Balance at December 31, 2019                    | <u>\$ 6,637,258</u> | <u>\$ 3,813,045</u> | <u>\$ 29,252,976</u> | <u>\$ 2,955,306</u> | <u>\$ 1,771,897</u> | <u>\$ 763,555</u>       | <u>\$ 1,303,050</u>      | <u>\$ 46,497,087</u> |
| <u>Accumulated depreciation and impairment</u>  |                     |                     |                      |                     |                     |                         |                          |                      |
| Balance at January 1, 2019                      | \$ -                | \$ 2,805,733        | \$ 24,000,093        | \$ 2,429,384        | \$ 1,438,765        | \$ 606,269              | \$ -                     | \$ 31,280,244        |
| Disposals                                       | -                   | (6,236)             | (294,052)            | (56,500)            | (27,783)            | (23,543)                | -                        | (408,114)            |
| Depreciation expense                            | -                   | 101,873             | 767,134              | 75,786              | 101,113             | 41,995                  | -                        | 1,087,901            |
| Effect of foreign currency exchange differences | -                   | (9,975)             | (103,966)            | -                   | (41)                | (3,781)                 | -                        | (117,763)            |
| Balance at December 31, 2019                    | <u>\$ -</u>         | <u>\$ 2,891,395</u> | <u>\$ 24,369,209</u> | <u>\$ 2,448,670</u> | <u>\$ 1,512,054</u> | <u>\$ 620,940</u>       | <u>\$ -</u>              | <u>\$ 31,842,268</u> |
| Carrying amounts at December 31, 2019           | <u>\$ 6,637,258</u> | <u>\$ 921,650</u>   | <u>\$ 4,883,767</u>  | <u>\$ 506,636</u>   | <u>\$ 259,843</u>   | <u>\$ 142,615</u>       | <u>\$ 1,303,050</u>      | <u>\$ 14,654,819</u> |
| <u>Cost</u>                                     |                     |                     |                      |                     |                     |                         |                          |                      |
| Balance at January 1, 2020                      | \$ 6,637,258        | \$ 3,813,045        | \$ 29,252,976        | \$ 2,955,306        | \$ 1,771,897        | \$ 763,555              | \$ 1,303,050             | \$ 46,497,087        |
| Additions                                       | 1,560,400           | 203,304             | 285,039              | 15,972              | 28,895              | 12,248                  | 862,244                  | 2,968,102            |
| Disposals                                       | -                   | (1,288)             | (301,580)            | (49,012)            | (135,574)           | (13,775)                | -                        | (501,229)            |
| Effect of foreign currency exchange differences | -                   | 11,156              | 65,500               | -                   | (123)               | 2,497                   | 4,643                    | 83,673               |
| Reclassifications                               | -                   | 32,569              | 872,577              | 134,714             | 82,112              | 51,275                  | (1,173,247)              | -                    |
| Balance at December 31, 2020                    | <u>\$ 8,197,658</u> | <u>\$ 4,058,786</u> | <u>\$ 30,174,512</u> | <u>\$ 3,056,980</u> | <u>\$ 1,747,207</u> | <u>\$ 815,800</u>       | <u>\$ 996,690</u>        | <u>\$ 49,047,633</u> |
| <u>Accumulated depreciation and impairment</u>  |                     |                     |                      |                     |                     |                         |                          |                      |
| Balance at January 1, 2020                      | \$ -                | \$ 2,891,395        | \$ 24,369,209        | \$ 2,448,670        | \$ 1,512,054        | \$ 620,940              | \$ -                     | \$ 31,842,268        |
| Disposals                                       | -                   | (1,288)             | (301,542)            | (49,012)            | (135,574)           | (13,776)                | -                        | (501,192)            |
| Depreciation expense                            | -                   | 100,128             | 770,769              | 83,257              | 102,302             | 44,209                  | -                        | 1,100,665            |
| Effect of foreign currency exchange differences | -                   | 4,290               | 42,296               | -                   | (103)               | 1,537                   | -                        | 48,020               |
| Balance at December 31, 2020                    | <u>\$ -</u>         | <u>\$ 2,994,525</u> | <u>\$ 24,880,732</u> | <u>\$ 2,482,915</u> | <u>\$ 1,478,679</u> | <u>\$ 652,910</u>       | <u>\$ -</u>              | <u>\$ 32,489,761</u> |
| Carrying amounts at December 31, 2020           | <u>\$ 8,197,658</u> | <u>\$ 1,064,261</u> | <u>\$ 5,293,780</u>  | <u>\$ 574,065</u>   | <u>\$ 268,528</u>   | <u>\$ 162,890</u>       | <u>\$ 996,690</u>        | <u>\$ 16,557,872</u> |

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

### Buildings

Main buildings 15-35 years

Others 3-44 years

Machinery 3-15 years

Electric equipment 5-15 years

Tools 3-5 years

Miscellaneous equipment 3-20 years

## 17. LEASE ARRANGEMENTS

### a. Right-of-use assets

|                                             | <b>December 31</b>                    |                   |
|---------------------------------------------|---------------------------------------|-------------------|
|                                             | <b>2020</b>                           | <b>2019</b>       |
| <u>Carrying amount</u>                      |                                       |                   |
| Land                                        | \$ 441,401                            | \$ 445,680        |
| Buildings                                   | 16,394                                | 26,714            |
| Office equipment                            | 7,612                                 | 11,785            |
| Transportation equipment                    | <u>3,046</u>                          | <u>3,254</u>      |
|                                             | <u>\$ 468,453</u>                     | <u>\$ 487,433</u> |
|                                             | <b>For the Year Ended December 31</b> |                   |
|                                             | <b>2020</b>                           | <b>2019</b>       |
| Additions to right-of-use assets            | <u>\$ 7,795</u>                       | <u>\$ 14,209</u>  |
| Depreciation charge for right-of-use assets |                                       |                   |
| Land                                        | \$ 14,090                             | \$ 14,233         |
| Buildings                                   | 11,311                                | 12,071            |
| Office equipment                            | 6,205                                 | 5,583             |
| Transportation equipment                    | <u>1,882</u>                          | <u>1,583</u>      |
|                                             | <u>\$ 33,488</u>                      | <u>\$ 33,470</u>  |

Except for the aforementioned addition and recognized depreciation, the Group did not have significant sublease or impairment of right-of-use assets during the nine months ended December 31, 2020 and 2019.

### b. Lease liabilities

|                        | <b>December 31</b> |                  |
|------------------------|--------------------|------------------|
|                        | <b>2020</b>        | <b>2019</b>      |
| <u>Carrying amount</u> |                    |                  |
| Current                | <u>\$ 15,815</u>   | <u>\$ 20,202</u> |
| Non-current            | <u>\$ 16,666</u>   | <u>\$ 26,243</u> |

Range of discount rates for lease liabilities was as follows:

|                          | <b>December 31</b> |             |
|--------------------------|--------------------|-------------|
|                          | <b>2020</b>        | <b>2019</b> |
| Land                     | 1.02%-1.21%        | 1.21%       |
| Buildings                | 1.02%-3.5%         | 1.21%-3.5%  |
| Office equipment         | 1.02%-1.21%        | 1.21%       |
| Transportation equipment | 1.02%-1.21%        | 1.21%       |

c. Material lease-in activities and terms

The Group leases certain equipment for the use of operating activities with lease terms of 2 to 5 years. These arrangements do not contain renewal or purchase options at the end of the lease terms.

The Group also leases land and buildings for the use of plants, offices, and warehouses with lease terms of 2 to 8 years. The lease contract for land and buildings located in China specifies that land and buildings are mainly used as plants, and lease payments will be made at the beginning of the contract with lease terms of 50 years. The Group does not have bargain purchase options to acquire the leasehold land and buildings at the end of the lease terms.

d. Other lease information

Lease arrangements under operating leases for the leasing out of investment properties are set out in Note 18.

|                                                                   | <b>For the Year Ended December 31</b> |                   |
|-------------------------------------------------------------------|---------------------------------------|-------------------|
|                                                                   | <b>2020</b>                           | <b>2019</b>       |
| Expenses relating to short-term leases and low-value asset leases | <u>\$ 55,919</u>                      | <u>\$ 54,842</u>  |
| Total cash outflow for leases                                     | <u>\$(83,030)</u>                     | <u>\$(80,634)</u> |

All lease commitments with lease terms commencing after the balance sheet dates are as follows:

|                   | <b>December 31</b> |                  |
|-------------------|--------------------|------------------|
|                   | <b>2020</b>        | <b>2019</b>      |
| Lease commitments | <u>\$ 40,580</u>   | <u>\$ 39,641</u> |

## 18. INVESTMENT PROPERTIES

|                 | <b>For the Year Ended December 31</b> |                   |
|-----------------|---------------------------------------|-------------------|
|                 | <b>2020</b>                           | <b>2019</b>       |
| <u>Cost</u>     |                                       |                   |
| Opening balance | <u>\$ 272,334</u>                     | <u>\$ 272,334</u> |
| Ending balance  | <u>\$ 272,334</u>                     | <u>\$ 272,334</u> |

|                                                | <b>For the Year Ended December 31</b> |                    |
|------------------------------------------------|---------------------------------------|--------------------|
|                                                | <b>2020</b>                           | <b>2019</b>        |
| <u>Accumulated depreciation and impairment</u> |                                       |                    |
| Opening balance                                | \$ (15,190)                           | \$ (14,923)        |
| Depreciation expense                           | <u>(267)</u>                          | <u>(267)</u>       |
| Ending balance                                 | <u>\$ (15,457)</u>                    | <u>\$ (15,190)</u> |
| Ending carrying amount                         | <u>\$ 256,877</u>                     | <u>\$ 257,144</u>  |

The investment properties held by the Group are depreciated over their estimated useful life of 55 years, using the straight-line method.

The valuation was done by the Group using market evidence of transaction prices for similar properties. The fair values of the investment properties owned by the Group were as follows:

|            | <b>December 31</b> |                   |
|------------|--------------------|-------------------|
|            | <b>2020</b>        | <b>2019</b>       |
| Fair value | <u>\$ 347,731</u>  | <u>\$ 347,731</u> |

The investment properties were leased out as operating leases from July 1, 2020 to June 30, 2025. The lessees do not have bargain purchase options to acquire the investment properties at the expiry of the lease periods.

The future minimum lease payments of non-cancellable operating lease commitments as of December 31, 2020 and 2019 are as follows:

|                                           | <b>December 31</b> |                 |
|-------------------------------------------|--------------------|-----------------|
|                                           | <b>2020</b>        | <b>2019</b>     |
| Lease commitment of investment properties | <u>\$ 33,241</u>   | <u>\$ 3,540</u> |

## 19. BORROWINGS

### a. Short-term borrowings

|                        | December 31         |                     |
|------------------------|---------------------|---------------------|
|                        | 2020                | 2019                |
| Bank credit loans      | \$ 855,000          | \$ 4,917,000        |
| Letter of credit loans | <u>787,777</u>      | <u>328,500</u>      |
|                        | <u>\$ 1,642,777</u> | <u>\$ 5,245,500</u> |

As of December 31, 2020 and 2019, the interest rates of short-term borrowings were 0.52%-1.05% per annum and 0.92%-2.68% per annum, respectively.

### b. Short-term bills payable

|                                              | December 31         |                     |
|----------------------------------------------|---------------------|---------------------|
|                                              | 2020                | 2019                |
| Commercial paper                             | \$ 6,300,000        | \$ 2,450,000        |
| Less: Unamortized discounts on bills payable | <u>(2,640)</u>      | <u>(521)</u>        |
|                                              | <u>\$ 6,297,360</u> | <u>\$ 2,449,479</u> |

Short-term bills payable are commercial papers due within one year. Interest rates on these bills payable were 0.78%-0.85% and 0.98%-1.17% as of December 31, 2020 and 2019, respectively.

### c. Long-term borrowings

|                            | December 31         |                   |
|----------------------------|---------------------|-------------------|
|                            | 2020                | 2019              |
| Unsecured bank loans       | \$ 1,400,000        | \$ 150,000        |
| Less: Loan management fees | <u>(9,408)</u>      | <u>(2,325)</u>    |
|                            | <u>\$ 1,390,592</u> | <u>\$ 147,675</u> |

|                           | Due Date   | Article                                                                                                                                             | Interest Rate | December 31         |                   |
|---------------------------|------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------------|-------------------|
|                           |            |                                                                                                                                                     |               | 2020                | 2019              |
| Taiwan Bank Credit loan A | 2025.03.31 | The credit can be revolved within 60 months from March 31, 2020, the first drawdown date of the loan.                                               | 1.79%         | \$ 1,400,000        | \$ -              |
| KGI Bank Credit loan      | 2021.01.04 | The credit can be revolved within 24 months from January 4, 2019, the first drawdown date of the loan. Principal was fully paid in advance in 2020. | 1.05%-1.10%   | <u>-</u>            | <u>150,000</u>    |
|                           |            |                                                                                                                                                     |               | <u>\$ 1,400,000</u> | <u>\$ 150,000</u> |

## 20. RETIREMENT BENEFIT PLANS

### a. Defined contribution plans

The Company, Hwa Fong Investment Co., Ltd. and Genovella Renewables Inc. of the Group adopted a pension plan under the Labor Pension Act (LPA), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

The employees of the Group's subsidiary in mainland China are members of a state-managed retirement benefit plan operated by the government of mainland China. The subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

### b. Defined benefit plans

The defined benefit plan adopted by the Group in accordance with the Labor Standards Law is operated by the government of the Republic of China. Pension benefits are calculated on the basis of the length of service and average monthly salary of the six months before retirement. The Group contributes specific percentage of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Group assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (the "Bureau"); the Group has no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of the Group's defined benefit plans were as follows:

|                                             | <b>December 31</b> |                   |
|---------------------------------------------|--------------------|-------------------|
|                                             | <b>2020</b>        | <b>2019</b>       |
| Present value of defined benefit obligation | \$ 513,617         | \$ 542,868        |
| Fair value of plan assets                   | <u>(523,023)</u>   | <u>(340,223)</u>  |
| Net defined benefit (asset) liability       | <u>\$ (9,406)</u>  | <u>\$ 202,645</u> |

Movements in net defined benefit (asset) liability were as follows:

|                                                                       | <b>Present Value<br/>of the Defined<br/>Benefit<br/>Obligation</b> | <b>Fair Value of<br/>the Plan<br/>Assets</b> | <b>Net Defined<br/>Benefit<br/>Liability<br/>(Assets)</b> |
|-----------------------------------------------------------------------|--------------------------------------------------------------------|----------------------------------------------|-----------------------------------------------------------|
| Balance at January 1, 2019                                            | <u>\$ 602,251</u>                                                  | <u>\$(367,316)</u>                           | <u>\$ 234,935</u>                                         |
| Service cost                                                          |                                                                    |                                              |                                                           |
| Current service cost                                                  | 17,257                                                             | -                                            | 17,257                                                    |
| Net interest expense (income)                                         | <u>8,563</u>                                                       | <u>(5,392)</u>                               | <u>3,171</u>                                              |
| Recognized in profit or loss                                          | <u>25,820</u>                                                      | <u>(5,392)</u>                               | <u>20,428</u>                                             |
| Remeasurement                                                         |                                                                    |                                              |                                                           |
| Return on plan assets (excluding<br>amounts included in net interest) | -                                                                  | (12,270)                                     | (12,270)                                                  |
| Actuarial loss - experience adjustments                               | 341                                                                | -                                            | 341                                                       |
| Actuarial loss - changes in financial<br>assumptions                  | <u>16,630</u>                                                      | <u>-</u>                                     | <u>16,630</u>                                             |
| Recognized in other comprehensive<br>income                           | <u>16,971</u>                                                      | <u>(12,270)</u>                              | <u>4,701</u>                                              |
| Contributions from the employer                                       | -                                                                  | (57,419)                                     | (57,419)                                                  |
| Benefits paid                                                         | <u>(102,174)</u>                                                   | <u>102,174</u>                               | <u>-</u>                                                  |
| Balance at December 31, 2019                                          | <u>\$ 542,868</u>                                                  | <u>\$(340,223)</u>                           | <u>\$ 202,645</u>                                         |

(Continued)

|                                                                       | <b>Present Value<br/>of the Defined<br/>Benefit<br/>Obligation</b> | <b>Fair Value of<br/>the Plan<br/>Assets</b> | <b>Net Defined<br/>Benefit<br/>Liability<br/>(Assets)</b> |
|-----------------------------------------------------------------------|--------------------------------------------------------------------|----------------------------------------------|-----------------------------------------------------------|
| Balance at January 1, 2020                                            | <u>\$ 542,868</u>                                                  | <u>\$(340,223)</u>                           | <u>\$ 202,645</u>                                         |
| Service cost                                                          |                                                                    |                                              |                                                           |
| Current service cost                                                  | 15,135                                                             | -                                            | 15,135                                                    |
| Net interest expense (income)                                         | <u>5,181</u>                                                       | <u>(4,403)</u>                               | <u>778</u>                                                |
| Recognized in profit or loss                                          | <u>20,316</u>                                                      | <u>(4,403)</u>                               | <u>15,913</u>                                             |
| Remeasurement                                                         |                                                                    |                                              |                                                           |
| Return on plan assets (excluding<br>amounts included in net interest) | -                                                                  | (11,321)                                     | (11,321)                                                  |
| Actuarial gain - experience adjustments                               | (1,039)                                                            | -                                            | (1,039)                                                   |
| Actuarial loss - changes in financial<br>assumptions                  | <u>15,621</u>                                                      | <u>-</u>                                     | <u>15,621</u>                                             |
| Recognized in other comprehensive<br>income                           | <u>14,582</u>                                                      | <u>(11,321)</u>                              | <u>3,261</u>                                              |
| Contributions from the employer                                       | -                                                                  | (229,698)                                    | (229,698)                                                 |
| Benefits paid                                                         | (62,622)                                                           | 62,622                                       | -                                                         |
| Accounts paid                                                         | <u>(1,527)</u>                                                     | <u>-</u>                                     | <u>(1,527)</u>                                            |
| Balance at December 31, 2020                                          | <u>\$ 513,617</u>                                                  | <u>\$(523,023)</u>                           | <u>\$ (9,406)</u>                                         |

(Concluded)

Through the defined benefit plans under the Labor Standards Law, the Group is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government and corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

|                                                        | <b>December 31</b> |             |
|--------------------------------------------------------|--------------------|-------------|
|                                                        | <b>2020</b>        | <b>2019</b> |
| Discount rates                                         | 0.50%              | 1.00%       |
| Expected rates of salary increase - less than 16 years | 1.50%              | 1.50%       |
| Expected rates of salary increase - more than 16 years | 1.00%              | 1.00%       |

If possible reasonable changes in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

|                                   | <b>December 31</b> |                   |
|-----------------------------------|--------------------|-------------------|
|                                   | <b>2020</b>        | <b>2019</b>       |
| Discount rates                    |                    |                   |
| 0.125% increase                   | <u>\$ (3,987)</u>  | <u>\$ (4,246)</u> |
| 0.125% decrease                   | <u>\$ 4,042</u>    | <u>\$ 4,306</u>   |
| Expected rates of salary increase |                    |                   |
| 0.125% increase                   | <u>\$ 4,018</u>    | <u>\$ 4,301</u>   |
| 0.125% decrease                   | <u>\$ (5,973)</u>  | <u>\$ (4,252)</u> |

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

|                                                           | <b>December 31</b> |                   |
|-----------------------------------------------------------|--------------------|-------------------|
|                                                           | <b>2020</b>        | <b>2019</b>       |
| The expected contributions to the plans for the next year | <u>\$ 374,514</u>  | <u>\$ 229,698</u> |
| The average duration of the defined benefit obligation    | 6.3 years          | 6.4 years         |

## 21. EQUITY

### a. Ordinary shares

|                                                       | <b>December 31</b>   |                      |
|-------------------------------------------------------|----------------------|----------------------|
|                                                       | <b>2020</b>          | <b>2019</b>          |
| Number of shares authorized (in thousands)            | <u>1,300,000</u>     | <u>1,300,000</u>     |
| Shares authorized                                     | <u>\$ 13,000,000</u> | <u>\$ 13,000,000</u> |
| Number of shares issued and fully paid (in thousands) | <u>1,102,835</u>     | <u>1,102,835</u>     |
| Shares issued                                         | <u>\$ 11,028,353</u> | <u>\$ 11,028,353</u> |

Fully paid ordinary shares, which have a par value of \$10, carry one vote per share and a right to dividends.

b. Capital surplus

|                                                                                                                            | <b>December 31</b> |                  |
|----------------------------------------------------------------------------------------------------------------------------|--------------------|------------------|
|                                                                                                                            | <b>2020</b>        | <b>2019</b>      |
| May be used to offset a deficit, distributed as cash dividends, or transferred to share capital*                           |                    |                  |
| Arising from treasury share transactions                                                                                   | \$ 20,817          | \$ 20,817        |
| The difference between consideration paid and the carrying amount of the subsidiary's net assets during actual acquisition | 484                | 484              |
| <u>May be used to offset a deficit only</u>                                                                                |                    |                  |
| Arising from share of changes in capital surplus of associates                                                             | 8,071              | 8,262            |
| Capital surplus transferred from unclaimed dividends                                                                       | <u>449</u>         | <u>-</u>         |
|                                                                                                                            | <u>\$ 29,821</u>   | <u>\$ 29,563</u> |

\* 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 paid-in capital).

c. Retained earnings and dividends policy

Under the dividends policy as set forth in the amended Articles, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, and setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for distribution of dividends and bonus to shareholders. For the policies on the distribution of compensation of employees and remuneration of directors and supervisors after the amendment, refer to compensation of employees and remuneration of directors and supervisors in Note 22 (c).

In making its dividends policy, the Company takes into account future capital expenditures and working capital requirements. Based on this policy, dividends should be distributed as follows:

- 1) At least 20% as cash dividends; and
- 2) Remainder, as share dividends. If there is a requirement for capital expenditure, the Company may distribute only share dividends.

An 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.

Under Order No. 1010012865 and Order No. 1010047490 and Order No. 1030006415 issued by the

FSC and in the directive titled “Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs”, the Company should appropriate to or reverse from a special reserve. Any special reserve appropriated may be reversed to the extent that the net debit balance reverses and thereafter distributed.

The offsetting of deficit for 2019 had been approved in the shareholders’ meeting on June 30, 2020, which resolved not to distribute dividend. The appropriations of earnings for 2018 approved in the shareholders’ meetings on June 21, 2019 were as follows:

|                                 | <b>Appropriation<br/>of Earnings<br/>For the Year<br/>Ended<br/>December 31,<br/>2018</b> |
|---------------------------------|-------------------------------------------------------------------------------------------|
| Legal reserve                   | <u>\$ 44,566</u>                                                                          |
| Cash dividends                  | <u>\$ 385,992</u>                                                                         |
| Cash dividends per share (NT\$) | \$0.35                                                                                    |

d. Special reserves

|                  | <b>For the Year Ended December<br/>31</b> |                     |
|------------------|-------------------------------------------|---------------------|
|                  | <b>2020</b>                               | <b>2019</b>         |
| Special reserves | <u>\$ 1,186,894</u>                       | <u>\$ 1,186,894</u> |

The Company appropriated a special reserve in an amount equal to the unrealized revaluation increment, which was already transferred to retained earnings.

e. Other equity items

|                                                                                                            | <b>Exchange<br/>Differences on<br/>Translation of<br/>the Financial<br/>Statements of<br/>Foreign<br/>Operations</b> | <b>Unrealized<br/>(Loss) Gain on<br/>Financial<br/>Assets at<br/>FVTOCI</b> | <b>Gain (Loss) on<br/>Hedging<br/>Instruments</b> | <b>Total</b>      |
|------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|---------------------------------------------------|-------------------|
| <u>2020</u>                                                                                                |                                                                                                                      |                                                                             |                                                   |                   |
| Balance at January 1                                                                                       | \$(300,705)                                                                                                          | \$ 716,520                                                                  | \$ (5,776)                                        | \$ 410,039        |
| Unrealized gain on financial<br>assets at FVTOCI                                                           | -                                                                                                                    | 30,571                                                                      | -                                                 | 30,571            |
| Exchange differences on<br>translation of the Financial<br>Statements of foreign<br>operations             | (37,068)                                                                                                             | -                                                                           | -                                                 | (37,068)          |
| Loss arising on changes in<br>the fair value of hedging<br>instrument                                      | -                                                                                                                    | -                                                                           | 527                                               | 527               |
| Share of other<br>comprehensive income<br>(loss) of associates                                             | (1,168)                                                                                                              | 15,923                                                                      | -                                                 | 14,755            |
| Cumulative unrealized loss<br>of equity instruments<br>transferred to retained<br>earnings due to disposal | <u>-</u>                                                                                                             | <u>(1,987)</u>                                                              | <u>-</u>                                          | <u>(1,987)</u>    |
| Balance at December 31                                                                                     | <u>\$(338,941)</u>                                                                                                   | <u>\$ 761,027</u>                                                           | <u>\$ (5,249)</u>                                 | <u>\$ 416,837</u> |

|                                                                                                                      | <b>Exchange<br/>Differences<br/>on<br/>Translation<br/>of the<br/>Financial<br/>Statements of<br/>Foreign<br/>Operations</b> | <b>Unrealized<br/>(Loss) Gain<br/>on Financial<br/>Assets at<br/>FVTOCI</b> | <b>Gain (Loss)<br/>on Hedging<br/>Instruments</b> | <b>Total</b>      |
|----------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|---------------------------------------------------|-------------------|
| <u>2019</u>                                                                                                          |                                                                                                                              |                                                                             |                                                   |                   |
| Balance at January 1                                                                                                 | \$(100,013)                                                                                                                  | \$ 394,892                                                                  | \$ (6,961)                                        | \$ 287,918        |
| Unrealized gain on financial<br>assets at FVTOCI                                                                     | -                                                                                                                            | 308,482                                                                     | -                                                 | 308,482           |
| Exchange differences on<br>translation of the Financial<br>Statements of foreign<br>operations                       | (183,474)                                                                                                                    | -                                                                           | -                                                 | (183,474)         |
| Loss arising on changes in<br>the fair value of hedging<br>instrument                                                | -                                                                                                                            | -                                                                           | (2,106)                                           | (2,106)           |
| The amount transferred to<br>initial carrying amount of<br>hedged items                                              | -                                                                                                                            | -                                                                           | 3,291                                             | 3,291             |
| Share of other<br>comprehensive loss of<br>associates                                                                | (17,218)                                                                                                                     | 23,490                                                                      | -                                                 | 6,272             |
| Cumulative unrealized gain<br>(loss) of equity<br>instruments transferred to<br>retained earnings due to<br>disposal | <u>-</u>                                                                                                                     | <u>(10,344)</u>                                                             | <u>-</u>                                          | <u>(10,344)</u>   |
| Balance at December 31                                                                                               | <u>\$(300,705)</u>                                                                                                           | <u>\$ 716,520</u>                                                           | <u>\$ (5,776)</u>                                 | <u>\$ 410,039</u> |

f. Non-controlling interests

|                                                                                       | <b>For the Year Ended December</b> |                     |
|---------------------------------------------------------------------------------------|------------------------------------|---------------------|
|                                                                                       | <b>31</b>                          |                     |
|                                                                                       | <b>2020</b>                        | <b>2019</b>         |
| Balance at January 1                                                                  | \$ 2,277,793                       | \$ 2,428,958        |
| Attributable to non-controlling interests:                                            |                                    |                     |
| Share of (loss) profit for the year                                                   | (110,595)                          | (56,986)            |
| Exchange differences on translation of the financial statements of foreign operations | <u>33,577</u>                      | <u>(94,179)</u>     |
| Business combination under common control                                             |                                    |                     |
| Balance at December 31                                                                | <u>\$ 2,200,775</u>                | <u>\$ 2,277,793</u> |

- g. As of December 31, 2020, the Company had bought back 15,944 thousand treasury shares for transferring to employees with an average buy-back price of \$8.58 per share. The acquisition was approved by the board of directors on May 14, 2020 and fully executed on July 14, 2020. 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. NET (LOSS) PROFIT FROM CONTINUING OPERATIONS

a. Finance costs

|                                                         | <b>For the Year Ended December</b> |                  |
|---------------------------------------------------------|------------------------------------|------------------|
|                                                         | <b>31</b>                          |                  |
|                                                         | <b>2020</b>                        | <b>2019</b>      |
| Interest on bank loans                                  | \$ 96,918                          | \$ 93,038        |
| Less: Amounts included in the cost of qualifying assets | <u>(1,167)</u>                     | <u>(1,733)</u>   |
|                                                         | <u>\$ 95,751</u>                   | <u>\$ 91,305</u> |

Information about capitalized interest was as follows:

|                     | <b>For the Year Ended December</b> |             |
|---------------------|------------------------------------|-------------|
|                     | <b>31</b>                          |             |
|                     | <b>2020</b>                        | <b>2019</b> |
| Capitalization rate | 0.83%-1.14%                        | 0.99%-1.24% |

b. Depreciation and amortization

|                                         | <b>For the Year Ended December 31</b> |                     |
|-----------------------------------------|---------------------------------------|---------------------|
|                                         | <b>2020</b>                           | <b>2019</b>         |
| An analysis of depreciation by function |                                       |                     |
| Operating costs                         | \$ 1,109,578                          | \$ 1,090,512        |
| Operating expenses                      | <u>24,842</u>                         | <u>31,126</u>       |
|                                         | <u>\$ 1,134,420</u>                   | <u>\$ 1,121,638</u> |
| An analysis of amortization by function |                                       |                     |
| Operating costs                         | \$ 164                                | \$ 163              |
| Operating expenses                      | <u>19,304</u>                         | <u>26,746</u>       |
|                                         | <u>\$ 19,468</u>                      | <u>\$ 26,909</u>    |

c. Employee benefit expense

|                                                     | <b>For the Year Ended December 31</b> |                     |
|-----------------------------------------------------|---------------------------------------|---------------------|
|                                                     | <b>2020</b>                           | <b>2019</b>         |
| Post-employment benefits                            |                                       |                     |
| Defined contribution plans                          | \$ 58,467                             | \$ 67,279           |
| Defined benefit plans                               | <u>15,913</u>                         | <u>20,428</u>       |
|                                                     | 74,380                                | 87,707              |
| Other employee benefits                             | <u>1,818,450</u>                      | <u>1,782,035</u>    |
| Total employee benefit expense                      | <u>\$ 1,892,830</u>                   | <u>\$ 1,869,742</u> |
| An analysis of employee benefit expense by function |                                       |                     |
| Operating costs                                     | \$ 1,683,546                          | \$ 1,660,197        |
| Operating expenses                                  | <u>209,284</u>                        | <u>209,545</u>      |
|                                                     | <u>\$ 1,892,830</u>                   | <u>\$ 1,869,742</u> |

As of December 31, 2020 and 2019, the Group had 2,614 and 2,642 employees, respectively. The calculation basis is consistent with the employee benefits.

According to the Articles of Incorporation of the Company, the Company accrued compensation of employees and remuneration of directors and supervisors at the rates of no less than 1% and no higher than 2%, respectively, of net profit before income tax, compensation of employees, and remuneration of directors and supervisors. For the year ended 2020 and 2019, due to operation loss, the Company did not estimate the compensation of employees and the remuneration of directors and supervisors.

If there will be a change in the amounts after the annual consolidated financial statements are authorized for issue, the differences will be recorded as a change in the accounting estimate in the following year.

The appropriations of compensation of employees and remuneration of directors and supervisors for 2018 that were resolved by the board of directors on March 21, 2019 are as shown below:

|                                           | <b>For the Year<br/>Ended<br/>December 31,<br/>2018</b> |
|-------------------------------------------|---------------------------------------------------------|
|                                           | <b>Cash</b>                                             |
| Compensation of employees                 | \$ 5,500                                                |
| Remuneration of directors and supervisors | 7,000                                                   |

There was no difference between the actual amounts of the compensation and remuneration proposed in 2018, and the amounts recognized in the consolidated financial statements for the years ended December 31, 2018.

Information on the compensation of employees and remuneration of directors and supervisors resolved by the Company's board of directors is available at the Market Observation Post System website of the Taiwan Stock Exchange.

## 23. INCOME TAXES RELATING TO CONTINUING OPERATIONS

### a. Income tax recognized in profit or loss

The major components of tax expense (benefit) were as follows:

|                                                           | <b>For the Year Ended December 31</b> |                   |
|-----------------------------------------------------------|---------------------------------------|-------------------|
|                                                           | <b>2020</b>                           | <b>2019</b>       |
| Current tax                                               |                                       |                   |
| In respect of the current year                            | \$ 8,908                              | \$ 5,637          |
| Adjustments for prior years                               | <u>-</u>                              | <u>(30,421)</u>   |
|                                                           | 8,908                                 | (24,784)          |
| Deferred tax                                              |                                       |                   |
| In respect of the current year                            | (182)                                 | (36,608)          |
| Adjustments for prior years                               | <u>182</u>                            | <u>1,064</u>      |
|                                                           | <u>-</u>                              | <u>(35,544)</u>   |
| Income tax expense (benefit) recognized in profit or loss | <u>\$ 8,908</u>                       | <u>\$(60,328)</u> |

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

|                                                                                               | <b>For the Year Ended December 31</b> |                    |
|-----------------------------------------------------------------------------------------------|---------------------------------------|--------------------|
|                                                                                               | <b>2020</b>                           | <b>2019</b>        |
| (Loss) before tax from continuing operations                                                  | <u>\$(303,484)</u>                    | <u>\$(362,412)</u> |
| Income tax benefit calculated at the statutory rate                                           | \$ (60,697)                           | \$ (72,482)        |
| Permanent differences                                                                         | (35,455)                              | (22,925)           |
| Tax on undistributed profit                                                                   | 93                                    | -                  |
| Unrecognized loss carryforwards                                                               | 103,308                               | 64,605             |
| Adjustments for prior years                                                                   | 182                                   | (29,357)           |
| Effect of different tax rates of group entities in the Group operating in other jurisdictions | <u>1,477</u>                          | <u>(169)</u>       |
| Income tax expense (benefit) recognized in profit or loss                                     | <u>\$ 8,908</u>                       | <u>\$ (60,328)</u> |

The applicable tax rate used by subsidiaries in China is 25%. Under the “Criteria for Designation of High and New Technology Enterprise”, a designated high and new technology enterprise is allowed a 15% income tax rate. Guangdong Dingfung Pulp & Paper Co., Ltd. had obtained its qualification certificates and have a tax incentive of 15% income tax rate. Tax rates used by other entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

b. Income tax recognized in other comprehensive income

|                                       | <b>For the Year Ended December 31</b> |               |
|---------------------------------------|---------------------------------------|---------------|
|                                       | <b>2020</b>                           | <b>2019</b>   |
| <u>Deferred tax</u>                   |                                       |               |
| Remeasurement on defined benefit plan | <u>\$ 652</u>                         | <u>\$ 940</u> |

c. Deferred tax assets and liabilities

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

For the year ended December 31, 2020

|                            | Opening<br>Balance | Recognized<br>in Profit or<br>Loss | Recognized<br>in Other<br>Compre-<br>hensive<br>Income | Exchange<br>Differences | Closing<br>Balance |
|----------------------------|--------------------|------------------------------------|--------------------------------------------------------|-------------------------|--------------------|
| <u>Deferred tax assets</u> |                    |                                    |                                                        |                         |                    |
| Temporary differences      |                    |                                    |                                                        |                         |                    |
| Defined benefit obligation | \$ 40,529          | \$ -                               | \$ 652                                                 | \$ -                    | \$ 41,181          |
| Loss carryforwards         | 36,072             | -                                  | -                                                      | -                       | 36,072             |
| Others                     | <u>33,451</u>      | <u>-</u>                           | <u>-</u>                                               | <u>167</u>              | <u>33,618</u>      |
|                            | <u>\$ 110,052</u>  | <u>\$ -</u>                        | <u>\$ 652</u>                                          | <u>\$ 167</u>           | <u>\$ 110,871</u>  |

Deferred tax liabilities

|                          |                     |             |             |             |                     |
|--------------------------|---------------------|-------------|-------------|-------------|---------------------|
| Temporary differences    |                     |             |             |             |                     |
| Land value increment tax | \$ 1,924,940        | \$ -        | \$ -        | \$ -        | \$ 1,924,940        |
| Others                   | <u>77,227</u>       | <u>-</u>    | <u>-</u>    | <u>-</u>    | <u>77,227</u>       |
|                          | <u>\$ 2,002,167</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,002,167</u> |

For the year ended December 31, 2019

|                            | Opening<br>Balance | Recognized<br>in Profit or<br>Loss | Recognized<br>in Other<br>Compre-<br>hensive<br>Income | Exchange<br>Differences | Closing<br>Balance |
|----------------------------|--------------------|------------------------------------|--------------------------------------------------------|-------------------------|--------------------|
| <u>Deferred tax assets</u> |                    |                                    |                                                        |                         |                    |
| Temporary differences      |                    |                                    |                                                        |                         |                    |
| Defined benefit obligation | \$ 46,987          | \$ (7,398)                         | \$ 940                                                 | \$ -                    | \$ 40,529          |
| Loss carryforwards         | 9,896              | 26,176                             | -                                                      | -                       | 36,072             |
| Others                     | <u>20,093</u>      | <u>13,473</u>                      | <u>-</u>                                               | <u>(115)</u>            | <u>33,451</u>      |
|                            | <u>\$ 76,976</u>   | <u>\$ 32,251</u>                   | <u>\$ 940</u>                                          | <u>\$ (115)</u>         | <u>\$ 110,052</u>  |

Deferred tax liabilities

|                          |                     |                   |             |             |                     |
|--------------------------|---------------------|-------------------|-------------|-------------|---------------------|
| Temporary differences    |                     |                   |             |             |                     |
| Land value increment tax | \$ 1,924,940        | \$ -              | \$ -        | \$ -        | \$ 1,924,940        |
| Others                   | <u>80,520</u>       | <u>(3,293)</u>    | <u>-</u>    | <u>-</u>    | <u>77,227</u>       |
|                          | <u>\$ 2,005,460</u> | <u>\$ (3,293)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,002,167</u> |

- d. Unused loss carryforwards for which no deferred tax assets have been recognized in the consolidated balance sheets

Hwa Fong Investments Co., Ltd.

|                                  | <b>December 31</b> |               |
|----------------------------------|--------------------|---------------|
|                                  | <b>2020</b>        | <b>2019</b>   |
| Loss carryforwards               |                    |               |
| Expiry in 2028                   | \$ 76              | \$ 82         |
| Expiry in 2029                   | 119                | 120           |
| Expiry in 2030                   | <u>402,046</u>     | <u>-</u>      |
|                                  | <u>\$ 402,241</u>  | <u>\$ 202</u> |
| Deductible temporary differences | <u>\$ 225,461</u>  | <u>\$ -</u>   |

- e. Loss carryforwards as of December 31, 2019 comprised:

| <b>Unused<br/>Amount</b> | <b>Expiry Year</b> |
|--------------------------|--------------------|
| \$ 44,158                | 2024               |
| 76                       | 2028               |
| 135,415                  | 2029               |
| 402,046                  | 2030               |
| <u>12,658</u>            | Unlimited          |
| <u>\$ 594,353</u>        |                    |

- f. Deferred tax liabilities associated with investments

As of December 31, 2020 and 2019, the taxable temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognized were \$580,951 thousand and \$636,479 thousand, respectively.

- g. Income tax assessments

|                                | <b>Latest<br/>Approved Year</b> |
|--------------------------------|---------------------------------|
| The Company                    | 2018                            |
| Hwa Fong Investments Co., Ltd. | 2019                            |
| Genovella Renewables Inc.      | 2018                            |

## 24. (LOSS) EARNINGS PER SHARE

|                      | <b>For the Year Ended December 31</b> |                  |
|----------------------|---------------------------------------|------------------|
|                      | <b>2020</b>                           | <b>2019</b>      |
| Basic loss per share | <u>\$ (0.18)</u>                      | <u>\$ (0.22)</u> |

The loss and weighted average number of ordinary shares outstanding in the computation of loss per share from continuing operations were as follows:

Net loss for the year:

|                                                         | <b>For the Year Ended December 31</b> |                    |
|---------------------------------------------------------|---------------------------------------|--------------------|
|                                                         | <b>2020</b>                           | <b>2019</b>        |
| Loss for the year attributable to owners of the Company | <u>\$(201,797)</u>                    | <u>\$(245,098)</u> |

Weighted average number of ordinary shares outstanding (in thousands of shares):

|                                                                                            | <b>For the Year Ended December 31</b> |                  |
|--------------------------------------------------------------------------------------------|---------------------------------------|------------------|
|                                                                                            | <b>2020</b>                           | <b>2019</b>      |
| Weighted average number of ordinary shares used in the computation of basic loss per share | <u>1,094,406</u>                      | <u>1,102,835</u> |

If the Group offered to settle compensation or bonuses paid to employees in cash or shares, the Group assumes 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, as 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.

## 25. BUSINESS COMBINATIONS

### a. Subsidiaries acquired

| <b>Subsidiary</b>                   | <b>Principal Activity</b> | <b>Date of Reorganization</b> | <b>Proportion of Voting Equity Interests Acquired (%)</b> | <b>Consideration Transferred</b> |
|-------------------------------------|---------------------------|-------------------------------|-----------------------------------------------------------|----------------------------------|
| Syntax Communication (H.K.) Limited | Note 14                   | The first quarter, 2019       | 100                                                       | <u>\$ 14,305</u>                 |

The acquisition of Syntax Communication (H.K.) Limited is the Group's operating strategy to continue the expansion of its business activities in Hong Kong.

b. Consideration transferred

**Syntax  
Communication  
(H.K.) Limited**

|      |                  |
|------|------------------|
| Cash | <u>\$ 14,305</u> |
|------|------------------|

The Group paid HK\$3,653 thousand to the related parties of YFY Group in exchange for the equity of Syntax Communication (H.K.) Limited, and the amount of investments held by the related parties were measured at the carrying amount of HK\$3,428 thousand, by using the equity method at the time of acquisition.

c. Assets acquired and liabilities assumed at the date of acquisition

**Syntax  
Communication  
(H.K.) Limited**

|                             |                  |
|-----------------------------|------------------|
| Current assets              |                  |
| Cash and cash equivalents   | \$ 12,115        |
| Trade and other receivables | 2,003            |
| Other current assets        | 383              |
| Non-current assets          | 2,692            |
| Current liabilities         |                  |
| Trade and other payables    | (3,654)          |
| Other current liabilities   | <u>(99)</u>      |
|                             | <u>\$ 13,440</u> |

d. The difference between consideration paid and the carrying amount of the subsidiaries' net assets during actual acquisition

**Syntax  
Communication  
(H.K.) Limited**

|                                                                                      |                 |
|--------------------------------------------------------------------------------------|-----------------|
| Consideration transferred                                                            | \$ 14,305       |
| Less: Carrying amount of identifiable net assets acquired                            | <u>(13,440)</u> |
|                                                                                      | 865             |
| Equity attributable to former owner due to business combination under common control |                 |
| Capitals surplus                                                                     | (865)           |
| Non-controlling interests                                                            | <u>-</u>        |
|                                                                                      | <u>\$ -</u>     |

## 26. CAPITAL MANAGEMENT

The capital structure of the Group consists of debt and equity of the Group (comprising issued capital, reserves, retained earnings and other equity).

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. In order to balance the overall capital structure, the Group may adjust the amount of new debt issued or existing debt redeemed.

## 27. FINANCIAL INSTRUMENTS

### a. Fair value of financial instruments

#### 1) Fair value of financial instruments not carried at fair value

The management of the Group considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements to approximate their fair values.

#### 2) Fair value of financial instruments measured at fair value on a recurring basis

December 31, 2020

December 31, 2020

|                                                                                                        | Level 1             | Level 2         | Level 3           | Total               |
|--------------------------------------------------------------------------------------------------------|---------------------|-----------------|-------------------|---------------------|
| Financial assets at FVTPL                                                                              |                     |                 |                   |                     |
| Mutual funds                                                                                           | \$ 1,361            | \$ -            | \$ -              | \$ 1,361            |
| Derivative financial assets -<br>foreign exchange forward<br>contracts (not under<br>hedge accounting) | -                   | 5,370           | -                 | 5,370               |
|                                                                                                        | <u>\$ 1,361</u>     | <u>\$ 5,370</u> | <u>\$ -</u>       | <u>\$ 6,731</u>     |
| Financial assets at FVTOCI                                                                             |                     |                 |                   |                     |
| Securities listed in the ROC                                                                           | \$ 1,520,195        | \$ -            | \$ -              | \$ 1,520,195        |
| Domestic unlisted shares                                                                               | -                   | -               | 371,963           | 371,963             |
|                                                                                                        | <u>\$ 1,520,195</u> | <u>\$ -</u>     | <u>\$ 371,963</u> | <u>\$ 1,892,158</u> |
| Hedging financial assets                                                                               |                     |                 |                   |                     |
| Derivative financial assets -<br>foreign exchange forward<br>contracts                                 | \$ -                | \$ 54           | \$ -              | \$ 54               |

(Continued)

|                                                                                                    | <b>Level 1</b> | <b>Level 2</b>  | <b>Level 3</b> | <b>Total</b>    |
|----------------------------------------------------------------------------------------------------|----------------|-----------------|----------------|-----------------|
| Hedging financial liabilities at FVTPL                                                             |                |                 |                |                 |
| Derivative financial liabilities - foreign exchange forward contracts (not under hedge accounting) | \$ <u>-</u>    | \$ <u>3,019</u> | \$ <u>-</u>    | \$ <u>3,019</u> |

December 31, 2019

|                                                                                               | <b>Level 1</b>  | <b>Level 2</b>    | <b>Level 3</b> | <b>Total</b>      |
|-----------------------------------------------------------------------------------------------|-----------------|-------------------|----------------|-------------------|
| Financial assets at FVTPL                                                                     |                 |                   |                |                   |
| Mutual funds                                                                                  | \$ 1,357        | \$ -              | \$ -           | \$ 1,357          |
| Derivative financial assets - foreign exchange forward contracts (not under hedge accounting) | -               | 10,794            | -              | 10,794            |
| Bank debentures in the ROC                                                                    | <u>-</u>        | <u>171,035</u>    | <u>-</u>       | <u>171,035</u>    |
|                                                                                               | <u>\$ 1,357</u> | <u>\$ 181,829</u> | <u>\$ -</u>    | <u>\$ 183,186</u> |

|                              |                     |             |                   |                     |
|------------------------------|---------------------|-------------|-------------------|---------------------|
| Financial assets at FVTOCI   |                     |             |                   |                     |
| Securities listed in the ROC | \$ 1,610,459        | \$ -        | \$ -              | \$ 1,610,459        |
| Domestic unlisted shares     | <u>-</u>            | <u>-</u>    | <u>293,985</u>    | <u>293,985</u>      |
|                              | <u>\$ 1,610,459</u> | <u>\$ -</u> | <u>\$ 293,985</u> | <u>\$ 1,904,444</u> |

|                                                                  |             |              |             |              |
|------------------------------------------------------------------|-------------|--------------|-------------|--------------|
| Hedging financial assets                                         |             |              |             |              |
| Derivative financial assets - foreign exchange forward contracts | \$ <u>-</u> | \$ <u>24</u> | \$ <u>-</u> | \$ <u>24</u> |

|                                                                                                    |             |                 |             |                 |
|----------------------------------------------------------------------------------------------------|-------------|-----------------|-------------|-----------------|
| Hedging financial liabilities at FVTPL                                                             |             |                 |             |                 |
| Derivative financial liabilities - foreign exchange forward contracts (not under hedge accounting) | \$ <u>-</u> | \$ <u>5,995</u> | \$ <u>-</u> | \$ <u>5,995</u> |

There were no transfers between Levels 1 and 2 for the years ended December 31, 2020 and 2019.

3) Reconciliation of Level 3 fair value measurements of financial assets

| <b>Financial Assets</b>                  | <b>Financial Assets of Equity Securities at FVTOCI</b> |
|------------------------------------------|--------------------------------------------------------|
| Balance at January 1, 2020               | \$ 293,985                                             |
| Proceeds from capital reduction          | (41,057)                                               |
| Recognized in other comprehensive income | 120,835                                                |
| Settlements                              | <u>(1,800)</u>                                         |
| Balance at December 31, 2020             | <u>\$ 371,963</u>                                      |

| <b>Financial Assets</b>                  | <b>Financial Assets of Equity Securities at FVTOCI</b> |
|------------------------------------------|--------------------------------------------------------|
| Balance at January 1, 2019               | \$ 300,123                                             |
| Purchases                                | 3                                                      |
| Proceeds from capital reduction          | (17,229)                                               |
| Recognized in other comprehensive income | <u>11,088</u>                                          |
| Balance at December 31, 2019             | <u>\$ 293,985</u>                                      |

4) Valuation techniques and inputs applied for Level 2 fair value measurement

| <b>Financial Instruments</b>                     | <b>Valuation Techniques and Inputs</b>                                                                                                                                                                                                                                                                  |
|--------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Derivatives - foreign exchange forward contracts | Discounted cash flow.<br><br>a) The average exchange rate (i.e., difference between the highest and the lowest exchange rates) of the counterparties' financial institutions in accordance with the Reuters quoting system, or<br><br>b) The daily spot exchange rate quoted by financial institutions. |
| Bank debentures in the ROC                       | Discounted cash flow.<br><br>Future cash flows are discounted at a rate that reflects current borrowing interest rates of the debenture issuers at the end of the reporting period.                                                                                                                     |

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

The fair values of unlisted equity securities - ROC were determined using the assets approach. The total value of individual assets and individual liabilities reflects the overall value of the investment. The significant unobservable inputs used are listed in the table below. A decrease in discount for lack of marketability used in isolation would result in increases in fair value.

|                                    | <b>December 31</b> |             |
|------------------------------------|--------------------|-------------|
|                                    | <b>2020</b>        | <b>2019</b> |
| Discount for lack of marketability | 15%                | 15%         |

If the inputs to the valuation model were changed to reflect reasonably possible alternative assumptions while all the other variables were held constant, the fair value of the shares would have increased (decreased) as follows:

|                                    | <b>December 31</b>        |                          |
|------------------------------------|---------------------------|--------------------------|
|                                    | <b>2020</b>               | <b>2019</b>              |
| Discount for lack of marketability |                           |                          |
| 2.5% increase                      | <u><u>\$ (11,218)</u></u> | <u><u>\$ (8,647)</u></u> |
| 2.5% decrease                      | <u><u>\$ 11,218</u></u>   | <u><u>\$ 8,647</u></u>   |

b. Categories of financial instruments

|                                        | <b>December 31</b> |             |
|----------------------------------------|--------------------|-------------|
|                                        | <b>2020</b>        | <b>2019</b> |
| <u>Financial assets</u>                |                    |             |
| Financial assets at FVTPL              |                    |             |
| Mandatorily classified as at FVTPL     | \$ 6,731           | \$ 183,186  |
| Financial assets for hedging           | 54                 | 24          |
| Financial assets at amortized cost (1) | 4,073,113          | 4,403,820   |
| Financial assets at FVTOCI             | 1,892,158          | 1,904,444   |

Financial liabilities

|                                             |            |            |
|---------------------------------------------|------------|------------|
| Financial liabilities at FVTPL              | 3,019      | 5,995      |
| Financial liabilities at amortized cost (2) | 13,149,281 | 10,928,529 |

- 1) The balances include financial assets measured at amortized cost, which comprise cash and cash equivalents, debt investments, notes and accounts receivable, notes and accounts receivable from related parties, other receivables from related parties, other receivables (accounted as other current assets), and refundable deposits (accounted as other non-current assets).
- 2) The balances include financial liabilities measured at amortized cost, which comprise short-term borrowings, short-term bills payable, notes and accounts payable, notes and accounts payable to related parties, other payables, other payables to related parties, long-term borrowings, and deposits received (accounted as other non-current liabilities).

c. Financial risk management objectives and policies

The Group's main target in financial risk management is to manage the market risk related to operating activities (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk. To reduce the potential and detrimental influence of the fluctuations in market on the Group's financial performance, the Group is devoted to identify, estimate and hedge the uncertainties of the market.

The Group sought to minimize the effects of these risks by using both derivative and non-derivative financial instruments to avoid risk exposures. The use of financial instruments is governed by the Group's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, derivative and non-derivative financial instruments, and investment of excess liquidity. Compliance with policies and exposure limits is being reviewed by the internal auditors on a regular basis. The Group did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

1) Market risk

a) Foreign currency risk

The Group had foreign currency sales and purchases, which exposed the Group to foreign currency risk. The Group used foreign exchange forward contracts to eliminate currency exposure. These foreign exchange forward contracts could reduce the influence of the exchange rate fluctuations on the Group's income.

Sensitivity analysis

For the position of financial assets and liabilities that had significant influence on the Group, the risk was measured by considering the net position of foreign currency forward contracts that was in effect.

The Group is mainly exposed to the USD and RMB.

The following table details the Group's sensitivity to a 5% increase in the functional currency against the relevant foreign currencies. For a 5% weakening of the New Taiwan dollar against the relevant currency, there would be an equal and opposite impact on pre-tax profit and the balances below would be negative.

|                                            | <b>For the Year Ended December</b> |             |
|--------------------------------------------|------------------------------------|-------------|
|                                            | <b>31</b>                          |             |
|                                            | <b>2020</b>                        | <b>2019</b> |
| Influence to profit or loss at 5% variance |                                    |             |
| USD                                        | \$ (3,356)                         | \$ 52,288   |
| RMB                                        | 98,968                             | 85,031      |

b) Interest rate risk

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

|                               | <b>December 31</b> |              |
|-------------------------------|--------------------|--------------|
|                               | <b>2020</b>        | <b>2019</b>  |
| Fair value interest rate risk |                    |              |
| Financial assets              | \$ 379,587         | \$ 1,129,371 |
| Financial liabilities         | 7,687,952          | 2,602,348    |
| Cash flow interest rate risk  |                    |              |
| Financial assets              | 343,295            | 255,484      |
| Financial liabilities         | 1,642,777          | 5,245,500    |

Due to the close and long-term relationship with banks, the Group obtained better and flexible interest rates from banks. The impact of changing in interest rates is not significant to the Group.

Sensitivity analysis

For the Group's floating interest rate financial liabilities, if interest rates had been 0.1% higher/lower and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2020 and 2019 would have decreased/increased as follows:

|                   | <b>For the Year Ended December 31</b> |                 |
|-------------------|---------------------------------------|-----------------|
|                   | <b>2020</b>                           | <b>2019</b>     |
| Decrease/increase | <u>\$ 1,299</u>                       | <u>\$ 4,990</u> |

c) Other price risk

The Group was exposed to equity price risk through its investments in equity securities and mutual funds. To prevent significant price risk, the Group has built an immediate control system.

Sensitivity analysis

The sensitivity analyses below were determined based on the exposure to equity price risks at the end of the reporting period.

If equity prices had been 5% higher/lower, the Group's comprehensive income for the years ended December 31, 2020 and 2019 would have increased/decreased as follows:

|                            | <b>For the Year Ended December 31</b> |             |
|----------------------------|---------------------------------------|-------------|
|                            | <b>2020</b>                           | <b>2019</b> |
| Profit before tax          |                                       |             |
| Increase/decrease          | \$ 68                                 | \$ 68       |
| Other comprehensive income |                                       |             |
| Increase/decrease          | 94,608                                | 95,222      |

## 2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. At the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to the failure of the counterparty to discharge its obligation is at the level of the carrying amounts of the respective recognized financial assets which comprise receivables from operating activities and financial assets from investing activities as stated in the consolidated balance sheets.

The Group's transactions are done with a large number of unrelated customers and various industries. The Group continuously evaluates the financial conditions of those customers.

To maintain the quality of the accounts receivable, the Group has developed a credit risk management procedure to reduce the credit risk from specific customer. The credit evaluation of individual customer includes considering factors that will affect its payment ability such as financial condition, past transaction records and current economic conditions. Credit risk of bank deposits, fixed-income investments and other financial instruments with banks is evaluated and monitored by the Group's financial department. Since the counterparties are creditworthy banks and financial institutions with good credit rating, there was no significant credit risk.

## 3) Liquidity risk

The objective of liquidity risk management is to maintain adequate cash and cash equivalents with high liquidity and sufficient bank facilities required by business operation and to ensure the Group has sufficient financial flexibility.

As of December 31, 2020 and 2019, the Group's unused financing facilities were \$7,288,161 thousand and \$8,339,131 thousand, respectively.

## d. Transfers of financial assets

The Group transferred a portion of its banker's acceptance bills in mainland China to other bank in order to generate working capital. Since the Group transferred substantially all risks and rewards relating to these bills receivable, the Group derecognized the full carrying amount of the banker's acceptance bills. The Group's discounted and received amount and the ranges of interest rates were as follows:

|                       | <b>For the Year Ended December</b> |             |
|-----------------------|------------------------------------|-------------|
|                       | <b>31</b>                          |             |
|                       | <b>2020</b>                        | <b>2019</b> |
| The discounted amount | <u>\$ 42,523</u>                   | <u>\$ -</u> |
| The received amount   | <u>\$ 41,094</u>                   | <u>\$ -</u> |
| Interest rates        | 3.72%-3.84%                        | -           |

## 28. TRANSACTIONS WITH RELATED PARTIES

The Company's parent is YFY Inc., which held 57.8% and 56.9% of the ordinary shares of the Company as of December 31, 2020 and 2019.

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. Details of transactions between the Group and other related parties are disclosed below.

a. Related party name and category

| <b>Related Party Name</b>                                   | <b>Related Party Category</b> |
|-------------------------------------------------------------|-------------------------------|
| YFY Consumer Products Co., Ltd.                             | Fellow subsidiary             |
| YFY Packaging Inc.                                          | Fellow subsidiary             |
| YFY International Ltd.                                      | Fellow subsidiary             |
| Yuen Foong Yu Paper MFG (Yangzhou) Co., Ltd.                | Fellow subsidiary             |
| YFY Family Care (Kunshan) Co., Ltd.                         | Fellow subsidiary             |
| YFY Family Paper (Beijing) Co., Ltd.                        | Fellow subsidiary             |
| YFY Development Corp. (formerly as YFY Capital Co., Ltd.)   | Fellow subsidiary             |
| Union Paper Corp.                                           | Fellow subsidiary             |
| Shin Foong Specialty & Applied Materials Co., Ltd.          | Fellow subsidiary             |
| YFY Japan Co., Ltd.                                         | Fellow subsidiary             |
| YFY Investment Co., Ltd.                                    | Fellow subsidiary             |
| China Color Printing Co., Ltd.                              | Fellow subsidiary             |
| Cupid InfoTech Co., Ltd.                                    | Fellow subsidiary             |
| Ever Growing Agriculture Biotech Co., Ltd.                  | Fellow subsidiary             |
| Arizon RFID Technology (Hong Kong) Co., Ltd., Taiwan Branch | Fellow subsidiary             |
| Yuen Foong Yu Consumer Products (Yangzhou) Co., Ltd.        | Fellow subsidiary             |
| Sustainable Carbohydrate Innovation Co., Ltd.               | Fellow subsidiary             |
| YFY Jupiter Ltd.                                            | Fellow subsidiary             |
| MOBIUS 105 LIMITED                                          | Fellow subsidiary             |
| YFY Holding Management Co., Ltd.                            | Fellow subsidiary             |
| Yuen Foong Shop Co., Ltd.                                   | Fellow subsidiary             |
| YFY Biotechnology Co., Ltd.                                 | Parent's associates           |
| E Ink Holdings Inc.                                         | Parent's associates           |
| Beautone Co., Ltd.                                          | Substantial related party     |
| Shin-Yi Foundation                                          | Substantial related party     |
| Shin-Yi Enterprise Co., Ltd.                                | Substantial related party     |
| Yuen Foong Paper Co., Ltd.                                  | Substantial related party     |
| SinoPac Leasing Co., Ltd.                                   | Substantial related party     |
| SinoPac Securities Co., Ltd.                                | Substantial related party     |

b. Sales of goods

| <b>Related Party Type</b> | <b>For the Year Ended December 31</b> |             |
|---------------------------|---------------------------------------|-------------|
|                           | <b>2020</b>                           | <b>2019</b> |

|                             |                     |                     |
|-----------------------------|---------------------|---------------------|
| Fellow subsidiaries         | \$ 3,067,823        | \$ 3,891,318        |
| Substantial related parties | 238,561             | 305,268             |
| Parent company              | 41                  | 41                  |
| Parent's associates         | <u>2</u>            | <u>76</u>           |
|                             | <u>\$ 3,306,427</u> | <u>\$ 4,196,703</u> |

For sales of goods to related parties, the prices and terms of receivables approximate to those with non-related parties.

c. Purchases of goods

| Related Party Type          | For the Year Ended December 31 |                     |
|-----------------------------|--------------------------------|---------------------|
|                             | 2020                           | 2019                |
| Fellow subsidiaries         | \$ 1,993,746                   | \$ 2,429,748        |
| Substantial related parties | 1,925                          | 2,263               |
| Parent's associates         | <u>349</u>                     | <u>599</u>          |
|                             | <u>\$ 1,996,020</u>            | <u>\$ 2,432,610</u> |

For purchases of goods from related parties, the prices and terms of payables approximate to those with non-related parties.

d. Notes and accounts receivable from related parties

| Related Party Type             | December 31       |                   |
|--------------------------------|-------------------|-------------------|
|                                | 2020              | 2019              |
| Fellow subsidiaries            |                   |                   |
| YFY Consumer Products Co., Ltd | \$ 125,921        | \$ 49,565         |
| YFY Investment Co., Ltd.       | 125,893           | 107,284           |
| YFY Development Corp.          | 60,340            | 53,914            |
| Union Paper Corp.              | 50,667            | 54,999            |
| Others                         | <u>63,513</u>     | <u>129,453</u>    |
|                                | 426,334           | 395,215           |
| Substantial related parties    | 49,254            | 60,256            |
| Parent's associates            | 1                 | 39                |
| Parent company                 | <u>3</u>          | <u>3</u>          |
|                                | <u>\$ 475,592</u> | <u>\$ 455,513</u> |

The outstanding accounts receivable from related parties are unsecured. No bad debt was recognized for the years ended December 31, 2020 and 2019 for allowance of impaired accounts receivable from related parties.

e. Notes and accounts payable to related parties

| Related Party Type | December 31 |      |
|--------------------|-------------|------|
|                    | 2020        | 2019 |

|                                                    |                   |                   |
|----------------------------------------------------|-------------------|-------------------|
| Fellow subsidiaries                                |                   |                   |
| YFY Packaging Inc.                                 | \$ 215,407        | \$ 260,528        |
| Shin Foong Specialty & Applied Materials Co., Ltd. | 78,534            | 97,603            |
| Others                                             | <u>85,586</u>     | <u>120,755</u>    |
|                                                    | 379,527           | 478,886           |
| Substantial related parties                        | 987               | 1,491             |
| Parent company                                     | -                 | 259               |
| Parent's associates                                | <u>-</u>          | <u>29</u>         |
|                                                    | <u>\$ 380,514</u> | <u>\$ 480,665</u> |

The outstanding accounts payable to related parties are unsecured.

f. Loan to related parties (interest receivable included)

| Related Party Type                           | December 31       |                   |
|----------------------------------------------|-------------------|-------------------|
|                                              | 2020              | 2019              |
| Fellow subsidiaries                          |                   |                   |
| Yuen Foong Yu Paper MFG (Yangzhou) Co., Ltd. | \$ 111,613        | \$ 121,926        |
| YFY International Ltd.                       | <u>-</u>          | <u>301,894</u>    |
|                                              | <u>\$ 111,613</u> | <u>\$ 423,820</u> |

The Group provided fellow subsidiaries with short-term loans at rates comparable to the market rate of interest.

For the years ended December 31, 2020 and 2019, the interest income from the loans to related parties amounted to \$8,737 thousand and \$21,805 thousand, respectively.

g. Loans from related parties

| Related Party Type                           | December 31 |                 |
|----------------------------------------------|-------------|-----------------|
|                                              | 2020        | 2019            |
| Fellow subsidiaries                          |             |                 |
| Yuen Foong Yu Paper MFG (Yangzhou) Co., Ltd. | <u>\$ -</u> | <u>\$ 5,194</u> |

The Group obtained loans at rates comparable to market interest rates for the loans from related parties.

For the years ended December 31, 2020 and 2019, the interest expense from the loans to related parties amounted to \$929 thousand and \$570 thousand, respectively.

h. Acquisition of investment properties

| Related Party Type  | December 31  |             |
|---------------------|--------------|-------------|
|                     | 2020         | 2019        |
| Fellow subsidiaries | \$ <u>65</u> | \$ <u>-</u> |

i. Disposals of property, plant and equipment

| Related Party Type                                   | Proceeds           |                 | (Loss) Gain on Disposal |             |
|------------------------------------------------------|--------------------|-----------------|-------------------------|-------------|
|                                                      | For the Year Ended |                 | For the Year Ended      |             |
|                                                      | December 31        |                 | December 31             |             |
|                                                      | 2020               | 2019            | 2020                    | 2019        |
| Fellow subsidiaries                                  |                    |                 |                         |             |
| Yuen Foong Yu Consumer Products (Yangzhou) Co., Ltd. | \$ <u>-</u>        | \$ <u>7,867</u> | \$ <u>-</u>             | \$ <u>-</u> |

j. Lease arrangements

| Related Party Type          | For the Year Ended December 31 |                  |
|-----------------------------|--------------------------------|------------------|
|                             | 2020                           | 2019             |
| <u>Lease liabilities</u>    |                                |                  |
| Parent company              | \$ <u>14,455</u>               | \$ <u>19,016</u> |
| <u>Interest expense</u>     |                                |                  |
| Parent company              | \$ <u>205</u>                  | \$ <u>260</u>    |
| <u>Lease expense</u>        |                                |                  |
| Parent company              | \$ <u>10,885</u>               | \$ <u>10,885</u> |
| Substantial related parties | <u>7,036</u>                   | <u>7,049</u>     |
|                             | \$ <u>17,921</u>               | \$ <u>17,934</u> |

k. Other transactions with related parties

| Rental Income |
|---------------|
|---------------|

| <b>Related Party Type</b> | <b>(Accounted as Other Income)</b> |                 |
|---------------------------|------------------------------------|-----------------|
|                           | <b>For the Year Ended December</b> |                 |
|                           | <b>31</b>                          |                 |
|                           | <b>2020</b>                        | <b>2019</b>     |
| Fellow subsidiaries       | \$ 1,429                           | \$ 1,429        |
| Parent company            | <u>114</u>                         | <u>114</u>      |
|                           | <u>\$ 1,543</u>                    | <u>\$ 1,543</u> |

| <b>Related Party Type</b> | <b>Other Operating Expense</b>        |                  |
|---------------------------|---------------------------------------|------------------|
|                           | <b>For the Year Ended December 31</b> |                  |
|                           | <b>2020</b>                           | <b>2019</b>      |
| Fellow subsidiaries       | \$ <u>44,873</u>                      | \$ <u>42,117</u> |

| <b>Related Party Type</b> | <b>Management Fee (Accounted as Operating Expenses)</b> |                  |
|---------------------------|---------------------------------------------------------|------------------|
|                           | <b>For the Year Ended December</b>                      |                  |
|                           | <b>31</b>                                               |                  |
|                           | <b>2020</b>                                             | <b>2019</b>      |
| Fellow subsidiaries       | \$ <u>89,678</u>                                        | \$ <u>84,932</u> |

The amount of management fee was depended on the agreements; rental income and expenses which were received or paid monthly were based on the market price.

1. Compensation of key management personnel

|                       | <b>For the Year Ended December 31</b> |                  |
|-----------------------|---------------------------------------|------------------|
|                       | <b>2020</b>                           | <b>2019</b>      |
|                       |                                       |                  |
| Salaries and benefits | \$ 25,269                             | \$ 22,140        |
| Executive fees        | <u>3,051</u>                          | <u>2,900</u>     |
|                       | <u>\$ 28,320</u>                      | <u>\$ 25,040</u> |

The remuneration of directors and key executives was determined by the remuneration committee having regard to the performance of individuals and market trends.

## 29. SIGNIFICANT COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2020 and 2019, unused letters of credit for purchases of raw materials and

machinery and equipment amounted to approximately \$267,462 thousand and \$113,669 thousand, respectively.

### 30. OTHER ITEMS

Due to the impact of the COVID-19 pandemic in 2020, some of the Group's subsidiaries, clients and suppliers located in severely affected areas are under quarantine and travel restriction policies. The Group evaluated that there were no material impact on the business operations and financial conditions. Hence there are no issues arising from its ability to continue as a going concern, asset impairment and financial risk.

### 31. EXCHANGE RATE OF FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following is information on the foreign currencies other than the functional currencies of the entities in the Group and the related exchange rates between the foreign currencies and respective functional currencies. The significant assets and liabilities denominated in foreign currencies were as follows:

| December 31, 2020       |                                          |                  |                       |
|-------------------------|------------------------------------------|------------------|-----------------------|
|                         | Foreign<br>Currency<br>(In<br>Thousands) | Exchange<br>Rate | New Taiwan<br>Dollars |
| <u>Financial assets</u> |                                          |                  |                       |
| Monetary items          |                                          |                  |                       |
| USD                     | \$ 69,841                                | 28.48            | \$ 1,989,072          |
| RMB                     | 453,480                                  | 4.365            | 1,979,358             |
| Non-monetary items      |                                          |                  |                       |
| Derivative instruments  |                                          |                  |                       |
| USD                     | 16,400                                   | 28.48            | 467,072               |
| EUR                     | 300                                      | 35.02            | 10,506                |
| (Continued)             |                                          |                  |                       |

| December 31, 2020            |                                          |                  |                       |
|------------------------------|------------------------------------------|------------------|-----------------------|
|                              | Foreign<br>Currency<br>(In<br>Thousands) | Exchange<br>Rate | New Taiwan<br>Dollars |
| <u>Financial liabilities</u> |                                          |                  |                       |
| Monetary items               |                                          |                  |                       |
| USD                          | \$ 58,598                                | 28.48            | \$ 1,668,871          |
| Non-monetary items           |                                          |                  |                       |
| Derivative instruments       |                                          |                  |                       |
| USD                          | 30,000                                   | 28.48            | 854,400               |
|                              |                                          |                  | (Concluded)           |

| December 31, 2019       |                                          |                  |                       |
|-------------------------|------------------------------------------|------------------|-----------------------|
|                         | Foreign<br>Currency<br>(In<br>Thousands) | Exchange<br>Rate | New Taiwan<br>Dollars |
| <u>Financial assets</u> |                                          |                  |                       |
| Monetary items          |                                          |                  |                       |
| USD                     | \$ 44,979                                | 29.98            | \$ 1,348,470          |
| RMB                     | 395,767                                  | 4.297            | 1,700,611             |
| Non-monetary items      |                                          |                  |                       |
| Derivative instruments  |                                          |                  |                       |
| USD                     | 33,400                                   | 29.98            | 1,001,332             |

|                              |        |       |         |
|------------------------------|--------|-------|---------|
| <u>Financial liabilities</u> |        |       |         |
| Monetary items               |        |       |         |
| USD                          | 23,497 | 29.98 | 704,440 |
| Non-monetary items           |        |       |         |
| Derivative instruments       |        |       |         |
| USD                          | 20,000 | 29.98 | 599,600 |
| EUR                          | 300    | 33.59 | 10,077  |

For the years ended December 31, 2020 and 2019, realized and unrealized foreign exchange (losses) gains were \$88,963 thousand and \$(66,848) thousand, respectively. It is impractical to disclose net foreign exchange gains by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the entities in the Group.

## 32. SEPARATELY DISCLOSED ITEMS

### a. Information about significant transactions and investees:

- 1) Financing provided to others (Table 1)
- 2) Endorsements/guarantees provided (Table 2)
- 3) Marketable securities held (Table 3)
- 4) Marketable securities acquired and disposed at costs or prices 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 (Table 4)
- 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 5)
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital (Table 6)
- 9) Trading in derivative instruments (Notes 7 and 9)
- 10) Intercompany relationships and significant intercompany transactions (Table 9)
- 11) Information on investees (Table 7)

### 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 8)
- 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:
  - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period (Table 5)
  - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period (Tables 5 and 9)

- c) The amount of property transactions and the amount of the resultant gains or losses (None)
  - d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes (Table 2)
  - e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds (Table 1)
  - f) Other transactions that have a material effect on the profit or loss for the year or on the financial position, such as the rendering or receipt of services (None)
- c. Information of major shareholders: List all shareholders with ownership of 5% or greater, showing the name of the shares owned, and percentage of ownership of each shareholder (Table 10)

### 33. SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment.

|                                                   | <b>Business Unit<br/>of Pulp and<br/>Fine Paper</b> | <b>Business Unit<br/>of Forestry</b> | <b>Other<br/>Segment</b> | <b>Adjustment<br/>and<br/>Elimination</b> | <b>Total</b>         |
|---------------------------------------------------|-----------------------------------------------------|--------------------------------------|--------------------------|-------------------------------------------|----------------------|
| <u>For the year ended December 31, 2020</u>       |                                                     |                                      |                          |                                           |                      |
| Revenue from external customers                   | <u>\$ 18,546,544</u>                                | <u>\$ 22,034</u>                     | <u>\$ 48,116</u>         | <u>\$ -</u>                               | <u>\$ 18,616,694</u> |
| Revenue from other internal operating<br>segments | <u>\$ 1,480,696</u>                                 | <u>\$ 219,947</u>                    | <u>\$ 19,040</u>         | <u>\$ (1,719,683)</u>                     | <u>\$ -</u>          |
| Segment profit or loss                            | <u>\$ (330,998)</u>                                 | <u>\$ 22,526</u>                     | <u>\$ (3,920)</u>        | <u>\$ -</u>                               | <u>\$ (312,392)</u>  |
| <u>For the year ended December 31, 2019</u>       |                                                     |                                      |                          |                                           |                      |
| Revenue from external customers                   | <u>\$ 20,602,331</u>                                | <u>\$ 38,464</u>                     | <u>\$ 48,602</u>         | <u>\$ -</u>                               | <u>\$ 20,689,397</u> |
| Revenue from other internal operating<br>segments | <u>\$ 1,133,382</u>                                 | <u>\$ 180,434</u>                    | <u>\$ 8,868</u>          | <u>\$ (1,322,684)</u>                     | <u>\$ -</u>          |
| Segment profit or loss                            | <u>\$ (307,581)</u>                                 | <u>\$ 7,175</u>                      | <u>\$ (1,678)</u>        | <u>\$ -</u>                               | <u>\$ (302,084)</u>  |

The Group classifies its products into two segments in accordance with their characteristics, as follows:

- a. Pulp and fine paper segment
  - Manufacture and sale of cardboard, paper and pulp.
- b. Forestry segment
  - Seedling cultivation and reforestation.

The accounting policies of each segment are the same as those accounting policies stated in Note 4. The performance of segments is measured by income after tax. Revenue and profit between segments have been adjusted; these adjustments include the elimination of inter-segment transactions to reconcile the segment information with that reported for the Group as a whole.

### Geographical Information

The Group operates in two principal geographical areas - Taiwan and mainland China.

The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of assets are detailed below.

|                | <b>Revenue from External Customers</b> |                      | <b>Non-current Assets</b> |                      |
|----------------|----------------------------------------|----------------------|---------------------------|----------------------|
|                | <b>For the Year Ended</b>              |                      | <b>December 31</b>        |                      |
|                | <b>2020</b>                            | <b>2019</b>          | <b>2020</b>               | <b>2019</b>          |
| Taiwan         | \$ 15,251,729                          | \$ 17,201,870        | \$ 15,165,656             | \$ 13,312,792        |
| Mainland China | <u>3,364,965</u>                       | <u>3,487,527</u>     | <u>2,783,189</u>          | <u>2,741,508</u>     |
|                | <u>\$ 18,616,694</u>                   | <u>\$ 20,689,397</u> | <u>\$ 17,948,845</u>      | <u>\$ 16,054,300</u> |

### Information about Major Customers

No other single customers contributed 10% or more to the Group's revenue for both 2020 and 2019.

TABLE 1

CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

FINANCING PROVIDED TO OTHERS  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| No.<br>(Note 1) | Lender                                    | Borrower                                    | Financial Statement<br>Account         | Related<br>Party | Highest Balance<br>for the Period<br>(Foreign<br>Currencies in<br>Thousands)<br>(Notes 2 and 4) | Ending Balance<br>(Foreign<br>Currencies in<br>Thousands)<br>(Notes 2 and 4) | Actual<br>Borrowing<br>Amount<br>(Foreign<br>Currencies in<br>Thousands)<br>(Note 4) | Interest Rate<br>(%) | Nature of<br>Financing | Business<br>Transaction<br>Amount | Reasons for<br>Short-term<br>Financing | Allowance for<br>Impairment<br>Loss | Collateral |       | Financing Limit<br>for Each<br>Borrower<br>(Foreign<br>Currencies in<br>Thousands)<br>(Notes 3 and 4) | Aggregate<br>Financing Limit<br>(Foreign<br>Currencies in<br>Thousands)<br>(Notes 3 and 4) |
|-----------------|-------------------------------------------|---------------------------------------------|----------------------------------------|------------------|-------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|----------------------|------------------------|-----------------------------------|----------------------------------------|-------------------------------------|------------|-------|-------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|
|                 |                                           |                                             |                                        |                  |                                                                                                 |                                                                              |                                                                                      |                      |                        |                                   |                                        |                                     | Item       | Value |                                                                                                       |                                                                                            |
| 1               | Guangdong Dingfung Pulp & Paper Co., Ltd. | Yuen Foong Yu Paper MFG (Yangzhou) Co., Ltd | Other receivables from related parties | Yes              | \$ 497,365<br>(RMB 113,949)                                                                     | \$ 481,166<br>(RMB 110,237)                                                  | \$ 110,063<br>(RMB 25,216)                                                           | 3.25                 | Short-term financing   | \$ -                              | Operating capital                      | \$ -                                | -          | -     | \$ 481,166<br>(RMB 110,237)                                                                           | \$ 1,924,663<br>(RMB 440,949)                                                              |
| 2               | CHP International (BVI) Corporation       | YFY International BVI Corp.                 | Other receivables from related parties | Yes              | 302,500<br>(US\$ 10,621)                                                                        | -                                                                            | -                                                                                    | -                    | Short-term financing   | -                                 | Operating capital                      | -                                   | -          | -     | 487,736<br>(US\$ 17,126)                                                                              | 1,950,945<br>(US\$ 68,502)                                                                 |
|                 |                                           | Guangdong Dingfung Pulp & Paper Co., Ltd.   | Other receivables from related parties | Yes              | 1,121,182<br>(RMB 256,868)                                                                      | 1,117,393<br>(RMB 256,000)                                                   | 1,117,393<br>(RMB 256,000)                                                           | 2.1-3.1              | Short-term financing   | -                                 | Operating capital                      | -                                   | -          | -     | 1,950,945<br>(RMB 446,971)                                                                            | 1,950,945<br>(RMB 446,971)                                                                 |
|                 |                                           | Zhaoqing Dingfung Forestry Ltd.             | Other receivables from related parties | Yes              | 363,000<br>(US\$ 12,746)                                                                        | 341,760<br>(US\$ 12,000)                                                     | 341,760<br>(US\$ 12,000)                                                             | 1.5-2.5              | Short-term financing   | -                                 | Operating capital                      | -                                   | -          | -     | 1,950,945<br>(US\$ 68,502)                                                                            | 1,950,945<br>(US\$ 68,502)                                                                 |
|                 |                                           | Shenzhen Jinglun Paper Co., Ltd.            | Other receivables from related parties |                  | 183,944<br>(RMB 42,142)                                                                         | 183,322<br>(RMB 42,000)                                                      | 183,322<br>(RMB 42,000)                                                              | 2.1                  | Short-term financing   | -                                 | Operating capital                      | -                                   | -          | -     | 1,950,945<br>(RMB 446,971)                                                                            | 1,950,945<br>(RMB 446,971)                                                                 |
| 3               | Shenzhen Jinglun Paper Co., Ltd.          | Yuen Foong Yu Paper MFG (Yangzhou) Co., Ltd | Other receivables from related parties | Yes              | 11,941<br>(RMB 2,736)                                                                           | 11,900<br>(RMB 2,726)                                                        | 1,164<br>(RMB 267)                                                                   | 3.25                 | Short-term financing   | -                                 | Operating capital                      | -                                   | -          | -     | 11,900<br>(RMB 2,726)                                                                                 | 47,602<br>(RMB 10,906)                                                                     |

Note 1: The number column of financing provided to others by Chung Hwa Pulp Corporation and subsidiaries is illustrated as follows:

- a. The Company is numbered 0.
- b. The subsidiaries of the Company are sequentially numbered from 1 based on their investment structures.

Note 2: The balances are the approved amount that could be financed to others, including those not actually borrowed.

Note 3: a. Limitation of financing provided to the Company:

In the provision of loans due to business dealings, total loans shall not exceed 40% of the lender’s net equity of the prior year while individual loans shall not exceed the total purchases and sales between the lender and the borrower of the prior year. In the provision of short-term loans, total loans shall not exceed 40% of the lender’s net equity of the prior year.

b. Limitation of financing provided to Guangdong Dingfung Pulp & Paper Co., Ltd:

In the provision of loans due to business dealings, total loans shall not exceed 40% of the lender’s net equity of the prior year while individual loans shall not exceed the total purchases and sales between the lender and the borrower of the prior year. In the provision of short-term loans, total loans shall not exceed 40% of the lender’s net equity of the prior year. Contributions to the cash pool to be used for lending purposes shall not exceed 10% of the lender’s net equity of the prior year.

c. Limitation of financing provided to CHP International (BVI) Corporation:

In the provision of loans due to business dealings, total loans shall not exceed 40% of the lender’s net equity of the prior year while individual loans shall not exceed the total purchases and sales between the lender and the borrower of the prior year. In the provision of short-term loans, total loans shall not exceed 40% of the lender’s net equity of the prior year. Financing to YFY International Ltd. is for revolving credit facility purposes, and the financing amount shall not exceed 10% of the lender’s net equity of the prior year.

d. Limitation of financing provided to Zhaoqing Dingfung Forestry Ltd.:

In the provision of loans due to business dealings, total loans shall not exceed 40% of the lender’s net equity of the prior year while individual loans shall not exceed the total purchases and sales between the lender and the borrower of the prior year. In the provision of short-term loans, total loans shall not exceed 40% of the lender’s net equity of the prior year.

e. Limitation of financing provided to Shenzhen Jinglun Paper Co., Ltd.:

In the provision of loans due to business dealings, total loans shall not exceed 40% of the lender’s net equity of the prior year while individual loans shall not exceed the total purchases and sales between the lender and the borrower of the prior year. In the provision of short-term loans, total loans shall not exceed 40% of the lender’s net equity of the prior year. Contributions to the cash pool to be used for lending purposes shall not exceed 10% of the lender’s net equity of the prior year.

Note 4: The exchange rates are US\$1=NT\$28.480000 or RMB1=NT\$4.364818 as of December 31, 2020.

Note 5: In preparing the consolidated financial statements, the transaction has been eliminated.

CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

ENDORSEMENTS/GUARANTEES PROVIDED  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| No.<br>(Note 1) | Endorser/Guarantor         | Endorsee/Guarantee                        |                          | Limit on<br>Endorsement/<br>Guarantee Given<br>on Behalf of Each<br>Party (Note 3) | Maximum<br>Amount<br>Endorsed/<br>Guaranteed<br>During the Period<br>(Foreign<br>Currencies in<br>Thousands)<br>(Note 4) | Outstanding<br>Endorsement/<br>Guarantee at the<br>End of the Period<br>(Foreign<br>Currencies in<br>Thousands)<br>(Note 5) | Actual Borrowing<br>Amount (Note 6) | Amount<br>Endorsed/<br>Guaranteed by<br>Collateral | Ratio of<br>Accumulated<br>Endorsement/<br>Guarantee to Net<br>Equity in Latest<br>Financial<br>Statements<br>(%) | Aggregate<br>Endorsement/<br>Guarantee Limit<br>(Note 3) | Endorsement/<br>Guarantee Given<br>by Parent on<br>Behalf of<br>Subsidiaries<br>(Note 7) | Endorsement/<br>Guarantee Given<br>by Subsidiaries on<br>Behalf of Parent<br>(Note 7) | Endorsement/<br>Guarantee Given<br>on Behalf of<br>Companies in<br>Mainland China<br>(Note 7) |
|-----------------|----------------------------|-------------------------------------------|--------------------------|------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|-------------------------------------|----------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|
|                 |                            | Name                                      | Relationship<br>(Note 2) |                                                                                    |                                                                                                                          |                                                                                                                             |                                     |                                                    |                                                                                                                   |                                                          |                                                                                          |                                                                                       |                                                                                               |
| 0               | Chung Hwa Pulp Corporation | Hwa Fong Investment Ind. Co., Ltd.        | b.                       | \$ 22,675,847                                                                      | \$ 130,000<br>(US\$ 4,565)                                                                                               | \$ 130,000<br>(US\$ 4,565)                                                                                                  | \$ -                                | \$ -                                               | 0.88                                                                                                              | \$ 30,234,462                                            | Note 8                                                                                   | N                                                                                     | N                                                                                             |
|                 |                            | CHP International (BVI) Corporation       | b.                       | 22,675,847                                                                         | 710,875<br>(US\$ 24,960)                                                                                                 | 526,880<br>(US\$ 18,500)                                                                                                    | 96,832                              | -                                                  | 3.56                                                                                                              | 30,234,462                                               | Note 8                                                                                   | N                                                                                     | N                                                                                             |
|                 |                            | Guangdong Dingfung Pulp & Paper Co., Ltd. | b.                       | 22,675,847                                                                         | 175,330<br>(RMB 40,169)                                                                                                  | 174,593<br>(RMB 40,000)                                                                                                     | -                                   | -                                                  | 1.18                                                                                                              | 30,234,462                                               | Note 8                                                                                   | N                                                                                     | Note 8                                                                                        |

Note 1: The number column is illustrated as follows:

- a. The Company is numbered 0.
- b. The subsidiaries of the Company are sequentially numbered from 1 based on their investment structure.

Note 2: The 7 different relationships between endorsee and guarantee are as follows:

- a. The companies with which it has business relations.
- b. Subsidiaries in which it holds more than 50% of its total outstanding ordinary shares.
- c. Companies in which it holds more than 50% of its total outstanding ordinary shares.
- d. Companies in which it holds more than 90% of its total outstanding ordinary shares.
- e. Companies in same type of business and providing mutual endorsements/guarantees in favor of each other in accordance with the contractual obligations in order to fulfill the needs of the construction project.
- f. Shareholders making endorsements/guarantees for their mutually invested companies in proportion to their shareholding percentages.
- g. Companies in the same industry provide among themselves joint and several security for a performance guarantee of a sales contract for pre-construction homes pursuant to the Consumer Protection Act for each other.

Note 3: Limit on endorsement/guarantee given on behalf of Chung Hwa Pulp Corporation to a single entity is 150% of the net equity of the prior year. Limit on endorsement/guarantee is 200% of the net equity of the prior year.

Note 4: The balance is the maximum amount endorsed/guaranteed to others during the period.

Note 5: The balance is the amount approved by the board of directors. If the chairman is authorized by the board of directors to make the endorsement/guarantee decisions based on the guidelines for lending of capital, endorsements and guarantees by Public Companies Art. 12.8, the balance is the amount approved by the chairman.

Note 6: The balance is the actual borrowing amount determined by the endorsee/guarantee within the limit.

Note 7: Endorsement/guarantee given by parent on behalf of subsidiaries, endorsement/guarantee given by subsidiaries on behalf of parent, and endorsement/guarantee given on behalf of companies in mainland China should be Y.

Note 8: The endorsee and guarantee jointly issued promissory notes in consideration of the line of credit of financial institutions.

TABLE 3

CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES HELD  
DECEMBER 31, 2020  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| Holding Company Name          | Type and Name of Marketable Securities                           | Relationship with the Holding Company                            | Financial Statement Account                                                     | December 31, 2020 |                 |                             |                     |
|-------------------------------|------------------------------------------------------------------|------------------------------------------------------------------|---------------------------------------------------------------------------------|-------------------|-----------------|-----------------------------|---------------------|
|                               |                                                                  |                                                                  |                                                                                 | Number of Shares  | Carrying Amount | Percentage of Ownership (%) | Fair Value (Note 1) |
| Chung Hwa Pulp Corporation    | <u>Ordinary shares</u><br>SinoPac Holdings Co., Ltd.             | -                                                                | Financial assets at fair value through other comprehensive income - current     | 99,809,327        | \$ 1,142,817    | 0.90                        | \$ 1,142,817        |
|                               | NTU Innovation & Incubation Co., Ltd.                            | The investor is the member of the investee's board of directors. | Financial assets at fair value through profit or loss - non-current             | 800,000           | -               | 6.30                        | -                   |
|                               | Groundhog Technologies Inc.                                      | -                                                                | Financial assets at fair value through profit or loss - non-current             | 275,000           | -               | 1.00                        | -                   |
|                               | KHL IB Venture Capital Co., Ltd.                                 | -                                                                | Financial assets at fair value through other comprehensive income - non-current | 15,055,884        | 371,960         | 14.88                       | 371,960             |
|                               | Direct Insight Inc.                                              | -                                                                | Financial assets at fair value through other comprehensive income - non-current | 265,000           | 3               | 1.00                        | 3                   |
|                               | TaiGen Biopharmaceuticals Holdings Ltd.                          | -                                                                | Financial assets at fair value through other comprehensive income - non-current | 15,315,356        | 349,956         | 2.10                        | 349,956             |
| Hwa Fong Investment Co., Ltd. | <u>Ordinary shares</u><br>Caihui Technology Co., Ltd.            | -                                                                | Financial assets at fair value through profit or loss - non-current             | 150,000           | -               | 0.20                        | -                   |
|                               | SinoPac Holdings Co., Ltd.                                       | -                                                                | Financial assets at fair value through other comprehensive income - current     | 2,394,960         | 27,422          | -                           | 27,422              |
| Genovella Renewables Inc.     | <u>Beneficiary certificates</u><br>SinoPac TWD Money Market Fund | -                                                                | Financial assets at fair value through profit or loss - current                 | 97,099            | 1,361           | -                           | 1,361               |

Note 1: The securities mentioned in the table above are those classified as financial instruments under IFRS 9, including shares, bonds, beneficiary certificates, and all other securities derived from those items.

Note 2: Refer to Table 8 and Table 9 for information on investments in subsidiaries and associates.

TABLE 4

CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(In Thousands of New Taiwan Dollars)

| Buyer                      | Property                      | Event Date | Transaction Amount | Payment Status                                                                                     | Counterparty                                    | Relationship      | Information on Previous Title Transfer If Counterparty Is A Related Party |              |                  | Pricing Reference | Purpose of Acquisition | Other Terms                                   |   |
|----------------------------|-------------------------------|------------|--------------------|----------------------------------------------------------------------------------------------------|-------------------------------------------------|-------------------|---------------------------------------------------------------------------|--------------|------------------|-------------------|------------------------|-----------------------------------------------|---|
|                            |                               |            |                    |                                                                                                    |                                                 |                   | Property Owner                                                            | Relationship | Transaction Date |                   |                        |                                               |   |
| Chung Hwa Pulp Corporation | Land, buildings and equipment | 2020/10/23 | \$ 2,000,000       | Based on the terms in the contract, at the end of the reporting period, the group paid \$1,400,000 | Alpha Beta Global Tapes And Adhesives Co., Ltd. | Non-related party | -                                                                         | -            | -                | \$ -              | Market price           | Build a non-plastic material development base | - |

**TABLE 5****CHUNG HWA PULP CORPORATION AND SUBSIDIARIES****TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2020****(In Thousands of New Taiwan Dollars)**

| Buyer/Seller                              | Related Party                                        | Relationship<br>(Note 1) | Transaction Details |                         |               |                                   | Abnormal Transaction |                  | Notes/Accounts<br>Receivable (Payable) |               | Unrealized<br>Gain (Loss) |
|-------------------------------------------|------------------------------------------------------|--------------------------|---------------------|-------------------------|---------------|-----------------------------------|----------------------|------------------|----------------------------------------|---------------|---------------------------|
|                                           |                                                      |                          | Purchase/<br>Sale   | Amount                  | % of<br>Total | Payment Terms                     | Unit Price           | Payment<br>Terms | Ending<br>Balance                      | % of<br>Total |                           |
| Chung Hwa Pulp Corporation                | YFY Development (Note 3)                             | a.                       | Sale                | \$ (800,236)            | (5)           | 0.5 month after transaction month | \$ -                 | -                | \$ 60,340                              | 2             | \$ -                      |
|                                           | Shenzhen Jinglun Paper Co., Ltd.                     | b.                       | Sale                | (1,462,855)<br>(Note 2) | (9)           | 5 months after transaction month  | -                    | -                | 627,173                                | 23            | 1,412                     |
|                                           | YFY Consumer Products Co., Ltd.                      | a.                       | Sale                | (409,135)               | (2)           | 2 months after transaction month  | -                    | -                | 125,921                                | 5             | -                         |
|                                           | YFY Packaging Inc.                                   | a.                       | Sale                | (184,907)               | (1)           | 3 months after transaction month  | -                    | -                | 44,418                                 | 2             | -                         |
|                                           | YFY Packaging Inc.                                   | a.                       | Purchase            | 1,106,192               | 7             | 2 months after transaction month  | -                    | -                | (215,407)                              | (13)          | -                         |
|                                           | Union Paper Corp.                                    | a.                       | Sale                | (694,398)               | (4)           | 1 month after transaction month   | -                    | -                | 50,667                                 | 2             | -                         |
|                                           | Union Paper Corp.                                    | a.                       | Purchase            | 162,050                 | 1             | 1 month after transaction month   | -                    | -                | (18,979)                               | (1)           | -                         |
|                                           | Beautone Co., Ltd.                                   | c.                       | Sale                | (198,821)               | (1)           | 1 month after transaction month   | -                    | -                | 37,946                                 | 1             | -                         |
|                                           | YFY Japan Co., Ltd.                                  | a.                       | Purchase            | 232,652                 | 2             | In agreed terms                   | -                    | -                | -                                      | -             | -                         |
|                                           | Shin Foong Specialty and Applied Materials Co., Ltd. | a.                       | Purchase            | 192,954                 | 1             | 4 months after transaction month  | -                    | -                | (78,534)                               | (5)           | -                         |
| Guangdong Dingfung Pulp & Paper Co., Ltd. | YFY Investment Co., Ltd.                             | a.                       | Sale                | (819,909)               | (47)          | 2 months after transaction month  | -                    | -                | 119,490                                | 23            | -                         |
|                                           | YFY Investment Co., Ltd.                             | a.                       | Purchase            | 289,834                 | 15            | 2 months after transaction month  | -                    | -                | (16,148)                               | (5)           | -                         |
|                                           | Zhaoqing Dingfung Forestry Ltd.                      | b.                       | Purchase            | 219,947<br>(Note 2)     | 12            | In agreed terms                   | -                    | -                | (149,861)                              | (50)          | -                         |
| Zhaoqing Dingfung Forestry Ltd.           | Guangdong Dingfung Pulp & Paper Co., Ltd.            | b.                       | Sale                | (219,947)<br>(Note 2)   | (91)          | In agreed terms                   | -                    | -                | 149,861                                | 100           | -                         |
| Shenzhen Jinglun Paper Co., Ltd.          | Chung Hwa Pulp Corporation                           | b.                       | Purchase            | 1,462,855<br>(Note 2)   | 100           | 5 months after transaction month  | -                    | -                | (627,173)                              | (100)         | -                         |

Note 1: a. Fellow subsidiaries.  
b. Parent company and subsidiary.  
c. Substantial related parties.

Note 2: In preparing the consolidated financial statements, the transaction has been eliminated.

Note 3: Formerly as YFY Capital Co., Ltd.

**TABLE 6**

**CHUNG HWA PULP CORPORATION AND SUBSIDIARIES**

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL**  
**DECEMBER 31, 2020**  
**(In Thousands of New Taiwan Dollars)**

| Company Name                              | Related Party                                                                 | Relationship                                         | Ending Balance                  | Turnover Rate | Overdue |               | Amounts Received in Subsequent Period | Allowance for Impairment Loss |
|-------------------------------------------|-------------------------------------------------------------------------------|------------------------------------------------------|---------------------------------|---------------|---------|---------------|---------------------------------------|-------------------------------|
|                                           |                                                                               |                                                      |                                 |               | Amount  | Actions Taken |                                       |                               |
| Chung Hwa Pulp Corporation                | Yuen Foong Yu Consumer Products Co., Ltd.<br>Shenzhen Jinglun Paper Co., Ltd. | Fellow subsidiaries<br>Parent company and subsidiary | \$ 125,921<br>627,173<br>(Note) | 4.66          | \$ -    | -             | \$ 72,867<br>148,831                  | \$ -<br>-                     |
|                                           |                                                                               |                                                      |                                 | 2.16          | -       | -             |                                       |                               |
| Guangdong Dingfung Pulp & Paper Co., Ltd. | YFY Investment Co., Ltd.                                                      | Fellow subsidiaries                                  | 119,490                         | 7.23          | -       | -             | 15,457                                | -                             |
| Zhaoqing Dingfund forestry Ltd.           | Guandong Difung Pulp & Paper Co., Ltd.                                        | Parent company and subsidiary                        | 149,861<br>(Note)               | 2.08          | -       | -             | 47,140                                | -                             |

Note: In preparing the consolidated financial statements, the transaction has been eliminated.

**TABLE 7****CHUNG HWA PULP CORPORATION AND SUBSIDIARIES****INFORMATION ON INVESTEEES****FOR THE YEAR ENDED DECEMBER 31, 2020****(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Investor Company              | Investee Company                    | Location              | Main Businesses and Products                                                                                                                                                                                                                                                                                         | Investment Amount   |                     | As of December 31, 2020 |        |                 | Net Income (Loss) of the Investee | Share of Profits (Loss) | Note |
|-------------------------------|-------------------------------------|-----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|-------------------------|--------|-----------------|-----------------------------------|-------------------------|------|
|                               |                                     |                       |                                                                                                                                                                                                                                                                                                                      | December 31, 2020   | December 31, 2019   | Number of Shares        | %      | Carrying Amount |                                   |                         |      |
| Chung Hwa Pulp Corporation    | CHP International (BVI) Corporation | British Virgin Island | Investment and holding.                                                                                                                                                                                                                                                                                              | \$ 1,747,085        | \$ 1,747,085        | 61,039,956              | 100.0  | \$ 4,975,733    | \$ (122,856)                      | \$ (123,756)            | a.   |
|                               | E Ink Holdings Inc.                 | Hsinchu, Taiwan       | To research, develop, produce and sale of thin-film transistor liquid crystal display.                                                                                                                                                                                                                               | 329,000             | 329,000             | 20,000,000              | 1.8    | 443,635         | 3,602,589                         | 63,315                  | b.   |
|                               | Effion Enertech Co., Ltd.           | Taipei, Taiwan        | To operate cogeneration and provide power technology.                                                                                                                                                                                                                                                                | 343,000             | 343,000             | 34,300,000              | 49.0   | 225,552         | (121,033)                         | (59,306)                | b.   |
|                               | Taiwan Global BioFund Co., Ltd.     | Taipei, Taiwan        | Biotechnology and biopharmaceutical business investment.                                                                                                                                                                                                                                                             | 32,832              | 32,832              | 3,283,200               | 4.4    | 93,076          | 37,945                            | 1,686                   | b.   |
| Hwa Fong Investment Co., Ltd. | Hwa Fong Investment Co., Ltd.       | Taipei, Taiwan        | Investment and holding.                                                                                                                                                                                                                                                                                              | 36,000              | 36,000              | 3,600,000               | 100.0  | 51,806          | 5,206                             | 5,206                   | a.   |
|                               | Effion Enertech Co., Ltd.           | Taipei, Taiwan        | To operate cogeneration and provide power technology.                                                                                                                                                                                                                                                                | 7,000               | 7,000               | 700,000                 | 1.0    | 4,604           | (121,033)                         | (1,210)                 | b.   |
|                               | Genovella Renewables Inc.           | Hualien, Taiwan       | Fertilizer production, sale of fertilizer, retail sale of food products and groceries, special crop and edible fungus cultivation, refractory materials manufacturing, cement and concrete products manufacturing, ready-mixed concrete manufacturing, refractory materials wholesale and sale of building material. | 5,000               | 5,000               | -                       | 100.0  | 14,158          | 4,729                             | 4,729                   | a.   |
|                               | Union Paper Corp                    | Yunlin, Taiwan        | Pulp manufacturing, processing and sales business.                                                                                                                                                                                                                                                                   | 103                 | -                   | 20,504                  | 0.0198 | 247             | 58,321                            | 4                       | b.   |
|                               | Syntax Communication (H.K.) Limited | Hong Kong             | Sale and print of paper merchandise.                                                                                                                                                                                                                                                                                 | US\$ 466 thousand s | US\$ 466 thousand s | 34,000,000              | 100.0  | 12,064          | (1,127)                           | (1,127)                 | a.   |

Note: a. Subsidiaries.  
b. Investments accounted for using the equity method.  
c. Refer to Table 8 for information on investments in mainland China.

TABLE 8

CHUNG HWA PULP CORPORATION AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| Investee Company                                      | Main Businesses and Products                                                                                                                                                                                                                                                                                                | Paid-in Capital<br>(Foreign Currencies<br>in Thousand)<br>(Note 1) | Method of Investment                                                      | Accumulated<br>Outward<br>Remittance for<br>Investment from<br>Taiwan as of<br>January 1, 2020<br>(Foreign Currencies<br>in Thousand)<br>(Note 1) | Remittance of Funds |        | Accumulated<br>Outward<br>Remittance for<br>Investment from<br>Taiwan as of<br>December 31, 2019<br>(Foreign Currencies<br>in Thousand)<br>(Note 1) | Net Income (Loss) of<br>the Investee | % Ownership of<br>Direct or Indirect<br>Investment | Investment<br>Gain (Loss)   | Carrying<br>Amount as of<br>December 31, 2020 | Accumulated<br>Repatriation of<br>Investment Income<br>as of December 31,<br>2020 |
|-------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------|---------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|--------|-----------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|----------------------------------------------------|-----------------------------|-----------------------------------------------|-----------------------------------------------------------------------------------|
|                                                       |                                                                                                                                                                                                                                                                                                                             |                                                                    |                                                                           |                                                                                                                                                   | Outward             | Inward |                                                                                                                                                     |                                      |                                                    |                             |                                               |                                                                                   |
| Guangdong Dingfung Pulp & Paper Co., Ltd.             | Pulp and paper production, trading and forestry business                                                                                                                                                                                                                                                                    | \$ 2,438,742<br>(US\$ 85,630)<br>(Note 3)                          | Investment in mainland China through companies set up in another country. | \$ 375,936<br>(US\$ 13,200)                                                                                                                       | \$ -                | \$ -   | \$ 375,936<br>(US\$ 13,200)                                                                                                                         | \$ (284,085)<br>(Note 2,b.)          | 60.0                                               | \$ (170,451)<br>(Note 2,b.) | \$ 2,713,276                                  | \$ -                                                                              |
| Shenzhen Jinglun Paper Co., Ltd.                      | Sale of paper merchandise and import/export business                                                                                                                                                                                                                                                                        | 13,967<br>(RMB 3,200)                                              | (Note 5)                                                                  | (Note 5)                                                                                                                                          | -                   | -      | (Note 5)                                                                                                                                            | 23,885<br>(Note 2,b.)                | 100.0                                              | 23,885<br>(Note 2,b.)       | 143,347                                       | -                                                                                 |
| Zhaoqing Dingfung Forestry Ltd.                       | Export factoring, domestic factoring, business factoring and related consulting services, develop credit risk management platform                                                                                                                                                                                           | 623,142<br>(US\$ 21,880)                                           | Investment in mainland China through companies set up in another country. | 126,109<br>(US\$ 4,428)                                                                                                                           | -                   | -      | 126,109<br>(US\$ 4,428)                                                                                                                             | 22,526<br>(Note 2,b.)                | 86.5<br>(Note 4)                                   | 19,487<br>(Note 2,b.)       | 2,512,980                                     | -                                                                                 |
| Zhaoqing Xinchuan Green Technology Co., Ltd. (Note 4) | Environmental equipment technology research and development; construction of wastewater, flue gas, noise and solid waste treatment; pure water treatment construction; environmental technology consulting; sale of environmental protection equipment and chemical raw material; import and export of cargo and technology | 8,730<br>(RMB 2,000)                                               | (Note 5)                                                                  | (Note 5)                                                                                                                                          | -                   | -      | (Note 5)                                                                                                                                            | 44<br>(Note 2,b.)                    | 100.0                                              | 44<br>(Note 2,b.)           | 9,456                                         | -                                                                                 |

| Accumulated Investment in Mainland China as of<br>December 31, 2020 | Investment Amounts Authorized by<br>Investment Commission, MOEA | Upper Limit on Investment |
|---------------------------------------------------------------------|-----------------------------------------------------------------|---------------------------|
| \$502,045<br>(Note 1)                                               | \$1,213,419<br>(Note 1)                                         | \$8,870,987               |

- Note 1: The exchange rates are US\$1=NT\$28.48 or RMB1=NT\$4.364818 as of December 31, 2020.
- Note 2: The recognition basis for investment gain (loss) are as follows:
- a. Financial statements audited by an international CPA firm with the cooperation of the ROC CPA firm.
  - b. Financial statements audited by the ROC CPA firm.
  - c. Others.
- Note 3: Guangdong Dingfung Pulp & Paper Co., Ltd. increased its capital by retained earnings in an amount of US\$41,630 thousand from 2004 to 2007, and increased its capital by retained earnings from 2007 and 2008 in an amount of US\$22,000 thousand in July 2015. The paid-in-capital after the capital increase was US\$85,630 thousand.
- Note 4: Ownership percentage of investment for CHP International (BVI) Corporation and Guangdong Dingfung Pulp & Paper Co., Ltd. are 20.2% and 66.3%, respectively.
- Note 5: Investment in mainland China through companies set up in another country. The direct investor is Guangdong Dingfung Pulp & Paper Co., Ltd.
2. For information on any investee company in mainland China, refer to Tables 1, 2, 5, 6 and 9.

**TABLE 9****CHUNG HWA PULP CORPORATION AND SUBSIDIARIES****INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS  
FOR THE YEAR ENDED DECEMBER 31, 2020****(In Thousands of New Taiwan Dollars)**

| No. | Investee Company                    | Counterparty                              | Relationship   | Transaction Details               |                         |                                                     |                            |
|-----|-------------------------------------|-------------------------------------------|----------------|-----------------------------------|-------------------------|-----------------------------------------------------|----------------------------|
|     |                                     |                                           |                | Financial Statement Account       | Amount                  | Payment Terms                                       | % of Total Sales or Assets |
| 1   | Chung Hwa Pulp Corporation          | Shenzhen Jinglun Paper Co., Ltd.          | Subsidiary     | Accounts receivable<br>Sales      | \$ 627,173<br>1,462,855 | 5 months after transaction month<br>By market price | 2<br>8                     |
| 2   | Zhaoqing Dingfung Forestry Ltd.     | Guangdong Dingfung Pulp & Paper Co., Ltd. | Parent company | Accounts receivable<br>Sales      | 149,861<br>219,947      | Net 120 days<br>By market price                     | -<br>1                     |
| 3   | Genovella Renewables Inc.           | Chung Hwa Pulp Corporation                | Parent company | Accounts receivable<br>Sales      | 2,142<br>19,180         | Prepaid or Net 30 days<br>By market price           | -<br>-                     |
| 4   | Syntax Communication (H.K.) Limited | Chung Hwa Pulp Corporation                | Parent company | Accounts receivable<br>Commission | 1,671<br>17,701         | Net 30 days<br>By market price                      | -<br>-                     |

Note: In preparing the consolidated financial statements, the transaction has been eliminated.

**TABLE 10****CHUNG HWA PULP CORPORATION AND SUBSIDIARIES****INFORMATION OF MAJOR SHAREHOLDERS  
DECEMBER 31, 2020**

| Name of Major Shareholder | Shares           |                             |
|---------------------------|------------------|-----------------------------|
|                           | Number of Shares | Percentage of Ownership (%) |
| YFY Inc.                  | 627,827,989      | 57.8                        |

Note: The information of major shareholders presented in this table is provided by the Taiwan Depository & Clearing Corporation based on the number of ordinary shares and preferred shares held by shareholders with ownership of 5% or greater, that have been issued without physical registration by the Company as of the last business day for the current quarter. The share capital in the consolidated financial statements may differ from the actual number of shares that have been issued without physical registration because of different preparation basis.

## **6.5 Financial Statements for the Years Ended December 31, 2020 and 2019, and Independent**

### **Auditors' Report**

#### **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and the Shareholders

Chung Hwa Pulp Corporation

#### **Opinion**

We have audited the accompanying financial statements of Chung Hwa Pulp Corporation (the "Company") which comprise the balance sheets as of December 31, 2020 and 2019, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

#### **Basis for Opinion**

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

#### **Key Audit Matter**

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the financial statements for the year ended December 31, 2020. The matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

The key audit matter identified in the financial statements for the year ended December 31, 2020 is as follows:

#### **Estimation of Expected Credit Loss of Accounts Receivable**

The accounts receivable of the Company is material in amount. In consideration of the business volume, the recoverability of accounts receivable is not only subject to each customer's financial condition but also management's estimation and judgement. Therefore, the estimation of expected credit loss recognized on accounts receivables was identified as a key audit matter.

The audit procedures that we performed in respect of the above key audit matter included the following:

1. We obtained and assessed the reasonableness of the method and the information used by management for the estimation of expected credit loss of accounts receivable.
2. We sample-tested items in the aging report on the balance sheet date and we verified and assessed the correctness of the calculation of the expected credit loss.
3. We analyzed and sample-tested the recoverability of the overdue receivables after the balance sheet date. We assessed the reasonableness of the expected credit loss recognized on the accounts receivable based on the customers' historical payment record, credit limit control and overdue receivables tracking.

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

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

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

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

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

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

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

We also provide those charged with governance with statements 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 the matter that was of most significance in the audit of the financial statements for the year ended December 31, 2020, and is therefore the key audit matter. We describe the matter 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 audits resulting in this independent auditors' report are Shu-Wan Lin and Shiow-Ming Shue.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 19, 2021

### **Notice to Readers**

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

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

# CHUNG HWA PULP CORPORATION

## BALANCE SHEETS DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

| ASSETS                                                                                          | 2020                 |            | 2019                 |            |
|-------------------------------------------------------------------------------------------------|----------------------|------------|----------------------|------------|
|                                                                                                 | Amount               | %          | Amount               | %          |
| CURRENT ASSETS                                                                                  |                      |            |                      |            |
| Cash (Notes 4 and 6)                                                                            | \$ 153,557           | 1          | \$ 144,332           | 1          |
| Financial assets at fair value through profit or loss - current (Notes 4 and 7)                 | 5,370                | -          | 10,794               | -          |
| Financial assets at fair value through other comprehensive income - current (Notes 4 and 8)     | 1,142,817            | 4          | 1,297,521            | 5          |
| Financial assets for hedging - current (Notes 4 and 9)                                          | 54                   | -          | 24                   | -          |
| Notes and accounts receivable (Notes 4 and 10)                                                  | 1,800,574            | 6          | 1,799,070            | 6          |
| Accounts receivable from related parties (Notes 4 and 24)                                       | 970,716              | 3          | 1,039,436            | 4          |
| Inventories (Notes 4 and 11)                                                                    | 3,007,231            | 10         | 3,090,420            | 11         |
| Other current assets                                                                            | <u>652,711</u>       | <u>2</u>   | <u>408,833</u>       | <u>1</u>   |
| Total current assets                                                                            | <u>7,733,030</u>     | <u>26</u>  | <u>7,790,430</u>     | <u>28</u>  |
| NON-CURRENT ASSETS                                                                              |                      |            |                      |            |
| Financial assets at fair value through profit or loss - non-current (Notes 4 and 7)             | -                    | -          | 171,035              | 1          |
| Financial assets at fair value through other comprehensive income - non-current (Notes 4 and 8) | 721,919              | 3          | 575,788              | 2          |
| Investments accounted for using the equity method (Notes 4 and 12)                              | 5,789,802            | 20         | 5,971,641            | 21         |
| Property, plant and equipment (Notes 4 and 13)                                                  | 14,244,035           | 48         | 12,420,909           | 45         |
| Right-of-use assets (Notes 4 and 14)                                                            | 30,685               | -          | 43,919               | -          |
| Investment properties (Notes 4 and 15)                                                          | 256,877              | 1          | 257,144              | 1          |
| Deferred tax assets (Notes 4 and 20)                                                            | 106,964              | -          | 106,312              | -          |
| Prepayments for equipment                                                                       | 569,336              | 2          | 516,999              | 2          |
| Net defined benefit assets (Notes 4 and 17)                                                     | 9,406                | -          | -                    | -          |
| Other non-current assets                                                                        | <u>55,772</u>        | <u>-</u>   | <u>73,060</u>        | <u>-</u>   |
| Total non-current assets                                                                        | <u>21,784,796</u>    | <u>74</u>  | <u>20,136,807</u>    | <u>72</u>  |
| TOTAL                                                                                           | <u>\$ 29,517,826</u> | <u>100</u> | <u>\$ 27,927,237</u> | <u>100</u> |
| LIABILITIES AND EQUITY                                                                          |                      |            |                      |            |
| CURRENT LIABILITIES                                                                             |                      |            |                      |            |
| Short-term borrowings (Note 16)                                                                 | \$ 1,642,777         | 6          | \$ 5,245,500         | 19         |
| Short-term bills payable (Note 16)                                                              | 6,297,360            | 21         | 2,449,479            | 9          |
| Notes and accounts payable                                                                      | 1,322,028            | 4          | 1,170,651            | 4          |
| Accounts payable to related parties (Note 24)                                                   | 368,179              | 1          | 459,648              | 1          |
| Other payables                                                                                  | 1,522,759            | 5          | 886,323              | 3          |
| Lease liabilities - current (Notes 4 and 14)                                                    | 14,836               | -          | 19,304               | -          |
| Other current liabilities                                                                       | <u>151,534</u>       | <u>1</u>   | <u>198,097</u>       | <u>1</u>   |
| Total current liabilities                                                                       | <u>11,319,473</u>    | <u>38</u>  | <u>10,429,002</u>    | <u>37</u>  |
| NON-CURRENT LIABILITIES                                                                         |                      |            |                      |            |
| Long-term borrowings (Note 16)                                                                  | 1,390,592            | 5          | 147,675              | 1          |
| Deferred tax liabilities (Notes 4 and 20)                                                       | 2,002,167            | 7          | 2,002,167            | 7          |
| Lease liabilities - non-current (Notes 4 and 14)                                                | 16,332               | -          | 24,950               | -          |
| Net defined benefit liabilities (Notes 4 and 17)                                                | -                    | -          | 202,645              | 1          |
| Other non-current liabilities                                                                   | <u>4,283</u>         | <u>-</u>   | <u>3,567</u>         | <u>-</u>   |
| Total non-current liabilities                                                                   | <u>3,413,374</u>     | <u>12</u>  | <u>2,381,004</u>     | <u>9</u>   |
| Total liabilities                                                                               | <u>14,732,847</u>    | <u>50</u>  | <u>12,810,006</u>    | <u>46</u>  |
| EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4 and 18)                                   |                      |            |                      |            |
| Share capital                                                                                   | <u>11,028,353</u>    | <u>37</u>  | <u>11,028,353</u>    | <u>40</u>  |
| Capital surplus                                                                                 | <u>29,821</u>        | <u>-</u>   | <u>29,563</u>        | <u>-</u>   |
| Retained earnings                                                                               |                      |            |                      |            |
| Legal reserve                                                                                   | 226,257              | 1          | 226,257              | 1          |
| Special reserve                                                                                 | 1,186,894            | 4          | 1,186,894            | 4          |
| Unappropriated earnings                                                                         | <u>2,033,543</u>     | <u>7</u>   | <u>2,236,125</u>     | <u>8</u>   |
| Total retained earnings                                                                         | <u>3,446,694</u>     | <u>12</u>  | <u>3,649,276</u>     | <u>13</u>  |
| Other equity                                                                                    | <u>416,837</u>       | <u>1</u>   | <u>410,039</u>       | <u>1</u>   |
| Treasury shares                                                                                 | <u>(136,726)</u>     | <u>-</u>   | <u>-</u>             | <u>-</u>   |
| Total equity                                                                                    | <u>14,784,979</u>    | <u>50</u>  | <u>15,117,231</u>    | <u>54</u>  |
| TOTAL                                                                                           | <u>\$ 29,517,826</u> | <u>100</u> | <u>\$ 27,927,237</u> | <u>100</u> |

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

# CHUNG HWA PULP CORPORATION

## STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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

|                                                                  | 2020              |            | 2019              |            |
|------------------------------------------------------------------|-------------------|------------|-------------------|------------|
|                                                                  | Amount            | %          | Amount            | %          |
| OPERATING REVENUE (Notes 4 and 24)                               |                   |            |                   |            |
| Sales                                                            | \$ 16,788,230     | 101        | \$ 18,435,504     | 101        |
| Sales returns and allowances                                     | <u>103,301</u>    | <u>1</u>   | <u>147,983</u>    | <u>1</u>   |
| Net sales                                                        | 16,684,929        | 100        | 18,287,521        | 100        |
| Other operating revenue                                          | <u>35,903</u>     | <u>-</u>   | <u>41,454</u>     | <u>-</u>   |
| Total operating revenue                                          | <u>16,720,832</u> | <u>100</u> | <u>18,328,975</u> | <u>100</u> |
| OPERATING COSTS (Notes 4, 11, 19 and 24)                         |                   |            |                   |            |
| Cost of goods sold                                               | 15,433,522        | 92         | 17,178,852        | 94         |
| Other operating cost                                             | <u>24,657</u>     | <u>-</u>   | <u>28,023</u>     | <u>-</u>   |
| Total operating costs                                            | <u>15,458,179</u> | <u>92</u>  | <u>17,206,875</u> | <u>94</u>  |
| GROSS PROFIT                                                     | <u>1,262,653</u>  | <u>8</u>   | <u>1,122,100</u>  | <u>6</u>   |
| OPERATING EXPENSES (Notes 4, 19 and 24)                          |                   |            |                   |            |
| Selling and marketing                                            | 1,155,671         | 7          | 1,094,700         | 6          |
| General and administrative                                       | 219,245           | 2          | 231,242           | 2          |
| Research and development                                         | <u>38,238</u>     | <u>-</u>   | <u>33,708</u>     | <u>-</u>   |
| Total operating expenses                                         | <u>1,413,154</u>  | <u>9</u>   | <u>1,359,650</u>  | <u>8</u>   |
| LOSS FROM OPERATIONS                                             | <u>(150,501)</u>  | <u>(1)</u> | <u>(237,550)</u>  | <u>(2)</u> |
| NON-OPERATING INCOME AND EXPENSES                                |                   |            |                   |            |
| Finance costs (Note 19)                                          | (90,795)          | -          | (85,269)          | -          |
| Share of loss of subsidiaries and associates<br>(Notes 4 and 12) | (112,855)         | (1)        | (53,980)          | -          |
| Interest income                                                  | 704               | -          | 1,128             | -          |
| Dividend income                                                  | 93,543            | 1          | 75,020            | -          |
| Other income (Note 24)                                           | 60,817            | -          | 71,133            | -          |
| Gain on disposal of property, plant and<br>equipment             | -                 | -          | 32                | -          |
| Gain on disposal of investments                                  | -                 | -          | 9                 | -          |
| Foreign exchange loss (Note 4)                                   | (5,317)           | -          | (51,247)          | -          |
| Gain on financial instruments at FVTPL                           | 6,565             | -          | 1,426             | -          |
| Other losses                                                     | <u>(3,958)</u>    | <u>-</u>   | <u>(1,563)</u>    | <u>-</u>   |
| Total non-operating income and expenses                          | <u>(51,296)</u>   | <u>-</u>   | <u>(43,311)</u>   | <u>-</u>   |
| LOSS BEFORE INCOME TAX                                           | (201,797)         | (1)        | (280,861)         | (2)        |
| INCOME TAX BENEFIT (Notes 4 and 20)                              | <u>-</u>          | <u>-</u>   | <u>(35,763)</u>   | <u>-</u>   |

(Continued)

# CHUNG HWA PULP CORPORATION

## STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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

|                                                                                                       | 2020                |            | 2019                |            |
|-------------------------------------------------------------------------------------------------------|---------------------|------------|---------------------|------------|
|                                                                                                       | Amount              | %          | Amount              | %          |
| NET LOSS FOR THE YEAR                                                                                 | <u>(201,797)</u>    | <u>(1)</u> | <u>(245,098)</u>    | <u>(2)</u> |
| OTHER COMPREHENSIVE INCOME (LOSS)                                                                     |                     |            |                     |            |
| Items that will not be reclassified subsequently to profit or loss:                                   |                     |            |                     |            |
| Remeasurement of defined benefit plans (Note 17)                                                      | (3,261)             | -          | (4,701)             | -          |
| Unrealized gain on investments in equity instruments at fair value through other comprehensive income | 34,283              | 2          | 302,015             | 2          |
| Share of the other comprehensive income of subsidiaries and associates                                | 12,050              | -          | 29,769              | -          |
| Tax effect of items that will not be reclassified (Note 20)                                           | 652                 | -          | 940                 | -          |
| Items that may be reclassified subsequently to profit or loss:                                        |                     |            |                     |            |
| Gain on hedging instruments (Note 18)                                                                 | 527                 | -          | 1,185               | -          |
| Share of the other comprehensive loss of subsidiaries and associates (Note 18)                        | <u>(38,236)</u>     | <u>-</u>   | <u>(200,692)</u>    | <u>(1)</u> |
| Other comprehensive income for the year, net of income tax                                            | <u>6,015</u>        | <u>-</u>   | <u>128,516</u>      | <u>1</u>   |
| TOTAL COMPREHENSIVE LOSS FOR THE YEAR                                                                 | <u>\$ (195,782)</u> | <u>(1)</u> | <u>\$ (116,582)</u> | <u>(1)</u> |
| LOSS PER SHARE (Note 21)                                                                              |                     |            |                     |            |
| Basic                                                                                                 | <u>\$ (0.18)</u>    |            | <u>\$ (0.22)</u>    |            |

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

(Concluded)

# CHUNG HWA PULP CORPORATION

STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

|                                                                                                          | Share Capital (Notes 4 and 18) |                      | Capital Surplus<br>(Notes 4 and 18) | Retained Earnings (Notes 4 and 18) |                     |                            |                     | Other Equity (Notes 4 and 18)                                                                        |                                                                                                               |                                         | Treasury Shares     | Equity<br>Attributable to<br>Former Owner<br>of Business<br>Combination<br>Under Common<br>Control | Total Equity         |
|----------------------------------------------------------------------------------------------------------|--------------------------------|----------------------|-------------------------------------|------------------------------------|---------------------|----------------------------|---------------------|------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|-----------------------------------------|---------------------|----------------------------------------------------------------------------------------------------|----------------------|
|                                                                                                          | Shares<br>(Thousands)          | Amount               |                                     | Legal Reserve                      | Special Reserve     | Unappropriated<br>Earnings | Total               | Exchange<br>Differences on<br>Translating the<br>Financial<br>Statements of<br>Foreign<br>Operations | Unrealized<br>(Loss) Gain on<br>Financial Assets<br>at Fair Value<br>Through Other<br>Comprehensive<br>Income | Gain (Loss) on<br>Hedging<br>Instrument |                     |                                                                                                    |                      |
| BALANCE AT JANUARY 1, 2019                                                                               | 1,102,835                      | \$ 11,028,353        | \$ 31,468                           | \$ 181,691                         | \$ 1,186,894        | \$ 2,905,386               | \$ 4,273,971        | \$ (100,013)                                                                                         | \$ 394,892                                                                                                    | \$ (6,961)                              | \$ -                | \$ 13,440                                                                                          | \$ 15,635,150        |
| Appropriation of 2018 earnings                                                                           |                                |                      |                                     |                                    |                     |                            |                     |                                                                                                      |                                                                                                               |                                         |                     |                                                                                                    |                      |
| Legal reserve                                                                                            | -                              | -                    | -                                   | 44,566                             | -                   | (44,566)                   | -                   | -                                                                                                    | -                                                                                                             | -                                       | -                   | -                                                                                                  | -                    |
| Cash dividends distributed by the Company                                                                | -                              | -                    | -                                   | -                                  | -                   | (385,992)                  | (385,992)           | -                                                                                                    | -                                                                                                             | -                                       | -                   | -                                                                                                  | (385,992)            |
| Adjustments for the changes in equity of subsidiaries and associates                                     | -                              | -                    | (1,024)                             | -                                  | -                   | -                          | -                   | -                                                                                                    | -                                                                                                             | -                                       | -                   | -                                                                                                  | (1,024)              |
| Net loss for the year ended December 31, 2019                                                            | -                              | -                    | -                                   | -                                  | -                   | (245,098)                  | (245,098)           | -                                                                                                    | -                                                                                                             | -                                       | -                   | -                                                                                                  | (245,098)            |
| Other comprehensive (loss) income for the year ended December 31, 2019                                   | -                              | -                    | -                                   | -                                  | -                   | (3,949)                    | (3,949)             | (200,692)                                                                                            | 331,972                                                                                                       | 1,185                                   | -                   | -                                                                                                  | 128,516              |
| Total comprehensive (loss) income for the year ended December 31, 2019                                   | -                              | -                    | -                                   | -                                  | -                   | (249,047)                  | (249,047)           | (200,692)                                                                                            | 331,972                                                                                                       | 1,185                                   | -                   | -                                                                                                  | (116,582)            |
| Business combination under common control                                                                | -                              | -                    | (865)                               | -                                  | -                   | -                          | -                   | -                                                                                                    | -                                                                                                             | -                                       | -                   | (13,440)                                                                                           | (14,305)             |
| Disposal of investments accounted for using the equity method                                            | -                              | -                    | (16)                                | -                                  | -                   | -                          | -                   | -                                                                                                    | -                                                                                                             | -                                       | -                   | -                                                                                                  | (16)                 |
| Disposal of investments in equity instruments designated as at FVTOCI by associates                      | -                              | -                    | -                                   | -                                  | -                   | 10,344                     | 10,344              | -                                                                                                    | (10,344)                                                                                                      | -                                       | -                   | -                                                                                                  | -                    |
| BALANCE AT DECEMBER 31, 2019                                                                             | 1,102,835                      | 11,028,353           | 29,563                              | 226,257                            | 1,186,894           | 2,236,125                  | 3,649,276           | (300,705)                                                                                            | 716,520                                                                                                       | (5,776)                                 | -                   | -                                                                                                  | 15,117,231           |
| Adjustments for the changes in equity of subsidiaries and associates                                     | -                              | -                    | (191)                               | -                                  | -                   | (2)                        | (2)                 |                                                                                                      | -                                                                                                             | -                                       | -                   | -                                                                                                  | (193)                |
| Unclaimed dividend                                                                                       | -                              | -                    | 449                                 | -                                  | -                   | -                          | -                   | -                                                                                                    | -                                                                                                             | -                                       | -                   | -                                                                                                  | 449                  |
| Net loss for the year ended December 31, 2020                                                            | -                              | -                    | -                                   | -                                  | -                   | (201,797)                  | (201,797)           | -                                                                                                    | -                                                                                                             | -                                       | -                   | -                                                                                                  | (201,797)            |
| Other comprehensive (loss) income for the year ended December 31, 2020                                   | -                              | -                    | -                                   | -                                  | -                   | (2,770)                    | (2,770)             | (38,236)                                                                                             | 46,494                                                                                                        | 527                                     | -                   | -                                                                                                  | 6,015                |
| Total comprehensive (loss) income for the year ended December 31, 2020                                   | -                              | -                    | -                                   | -                                  | -                   | (204,567)                  | (204,567)           | (38,236)                                                                                             | 46,494                                                                                                        | 527                                     | -                   | -                                                                                                  | (195,782)            |
| Disposal of investments in equity instruments designated as fair value through other comprehensive incom | -                              | -                    | -                                   | -                                  | -                   | 1,987                      | 1,987               | -                                                                                                    | (1,987)                                                                                                       | -                                       | -                   | -                                                                                                  | -                    |
| Buy back of ordinary shares                                                                              | -                              | -                    | -                                   | -                                  | -                   | -                          | -                   | -                                                                                                    | -                                                                                                             | -                                       | (136,726)           | -                                                                                                  | (136,726)            |
| BALANCE AT DECEMBER 31, 2020                                                                             | <u>1,102,835</u>               | <u>\$ 11,028,353</u> | <u>\$ 29,821</u>                    | <u>\$ 226,257</u>                  | <u>\$ 1,186,894</u> | <u>\$ 2,033,543</u>        | <u>\$ 3,446,694</u> | <u>\$ (338,941)</u>                                                                                  | <u>\$ 761,027</u>                                                                                             | <u>\$ (5,249)</u>                       | <u>\$ (136,726)</u> | <u>\$ -</u>                                                                                        | <u>\$ 14,784,979</u> |

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

# CHUNG HWA PULP CORPORATION

## STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(In Thousands of New Taiwan Dollars)

|                                                                                                      | 2020           | 2019           |
|------------------------------------------------------------------------------------------------------|----------------|----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                                          |                |                |
| Loss before income tax                                                                               | \$ (201,797)   | \$ (280,861)   |
| Adjustments for:                                                                                     |                |                |
| Depreciation and amortization expenses                                                               | 944,335        | 924,397        |
| Expected credit loss recognized on accounts receivables                                              | (2,440)        | (22,285)       |
| Gain on financial instruments at FVTPL                                                               | (6,565)        | (1,426)        |
| Finance costs                                                                                        | 90,795         | 85,269         |
| Interest income                                                                                      | (704)          | (1,128)        |
| Dividend income                                                                                      | (93,543)       | (75,020)       |
| Share of loss of subsidiaries and associates                                                         | 112,855        | 53,980         |
| Gain on disposal of property, plant and equipment                                                    | -              | (32)           |
| Net gain on disposal of investments                                                                  | -              | (9)            |
| (Reversal of write-down) write-downs of inventories                                                  | (9,921)        | 34,116         |
| Unrealized (gain) loss on foreign currency exchange                                                  | (7,217)        | 41,638         |
| Changes in operating assets and liabilities                                                          |                |                |
| Increase in financial assets mandatorily classified as at fair value through profit or loss          | 6,195          | (6,202)        |
| Notes and accounts receivable                                                                        | (515)          | (69,697)       |
| Notes and accounts receivable from related parties                                                   | 68,720         | 205,670        |
| Inventories                                                                                          | 93,110         | 510,858        |
| Other current assets                                                                                 | (249,632)      | (188,382)      |
| Net defined benefit assets                                                                           | (9,406)        | -              |
| Notes payable and accounts payable                                                                   | 155,093        | (103,101)      |
| Notes and accounts payable to related parties                                                        | (90,358)       | (114,669)      |
| Other payables                                                                                       | 138,089        | (62,997)       |
| Other current liabilities                                                                            | (46,505)       | 63,343         |
| Net defined benefit liabilities                                                                      | (205,906)      | (36,991)       |
| Cash generated from operations                                                                       | 684,683        | 956,471        |
| Interest received                                                                                    | 704            | 1,128          |
| Interest paid                                                                                        | (103,543)      | (84,529)       |
| Income tax paid                                                                                      | (732)          | (755)          |
| Net cash generated from operating activities                                                         | <u>581,112</u> | <u>872,315</u> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                                          |                |                |
| Purchase of financial assets at FVTOCI                                                               | -              | (3)            |
| Proceeds from sales of financial assets at FVTOCI                                                    | 1,800          | -              |
| Proceeds from capital reduction on financial assets at fair value through other comprehensive income | 41,057         | 17,229         |
| Proceeds from sale of financial assets at fair value through profit or loss                          | 176,829        | -              |
| Proceeds from the sale of financial instruments for hedging                                          | 497            | 4,252          |
| Proceeds from capital reduction on investments accounted for using the equity method                 | -              | 27,168         |
| Payments for property, plant and equipment                                                           | (2,222,785)    | (1,038,902)    |

(Continued)

# CHUNG HWA PULP CORPORATION

## STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(In Thousands of New Taiwan Dollars)

|                                                             | 2020               | 2019               |
|-------------------------------------------------------------|--------------------|--------------------|
| Proceeds from the disposal of property, plant and equipment | -                  | 89                 |
| Increase in other non-current assets                        | (2,080)            | (3,898)            |
| Increase in prepayments for equipment                       | (52,337)           | (144,467)          |
| Dividend received                                           | <u>136,147</u>     | <u>125,388</u>     |
| Net cash used in investing activities                       | <u>(1,920,872)</u> | <u>(1,013,144)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES                        |                    |                    |
| (Decrease) increase in short-term borrowings                | (3,592,454)        | 1,553,977          |
| Increase in short-term bills payable                        | 3,847,881          | 599,770            |
| Proceeds from long-term borrowings                          | 1,700,000          | 2,402,000          |
| Repayments of long-term borrowings                          | (450,000)          | (3,952,000)        |
| Repayment of the principal portion of lease liabilities     | (20,881)           | (20,097)           |
| Increase in other non-current liabilities                   | 716                | 335                |
| Cash dividends paid                                         | -                  | (385,992)          |
| Payments for buyback of ordinary shares                     | (136,726)          | -                  |
| Capital surplus transferred from unclaimed dividends        | <u>449</u>         | <u>-</u>           |
| Net cash generated from financing activities                | <u>1,348,985</u>   | <u>197,993</u>     |
| NET INCREASE IN CASH                                        | 9,225              | 57,164             |
| CASH AT THE BEGINNING OF THE YEAR                           | <u>144,332</u>     | <u>87,168</u>      |
| CASH AT THE END OF THE YEAR                                 | <u>\$ 153,557</u>  | <u>\$ 144,332</u>  |

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

(With Deloitte & Touche auditors' report dated March 23, 2020)

(Concluded)

# CHUNG HWA PULP CORPORATION

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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

---

#### 1. GENERAL INFORMATION

Chung Hwa Pulp Corporation (the “Company”), is principally engaged in the production and sale of pulp and paper. The Company’s shares have been listed on the Taiwan Stock Exchange.

In line with the Company’s operating strategy to carry out vertical integration, in the meetings of the board of directors on March 21, 2012 and of the shareholders on June 27, 2012, the Company decided to issue new shares in exchange for YFY Inc.’s paper and cardboard business unit’s assets, liabilities and operations. After this transaction, the Company became a subsidiary of YFY Inc.

YFY Inc. and its subsidiaries held 58.6% and 57.7% of ordinary shares of the Company, respectively, as of December 31, 2020 and 2019.

The financial statements are presented in the Company’s functional currency, the New Taiwan dollar.

#### 2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Company’s board of directors on February 26, 2021.

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

- a. Initial application of the amendments to the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC 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 IFRSs endorsed and issued into effect by the FSC did not have material impact on the Company’s accounting policies:

##### Amendment to IFRS 16 “Covid-19-Related Rent Concessions”

The Company elected to apply the practical expedient provided in the amendment to IFRS 16 with respect to rent concessions negotiated with the lessor as a direct consequence of the COVID-19. The related accounting policies are stated in Note 4. Prior to the application of the amendment, the Company shall determine whether or not the abovementioned rent concessions need to be accounted for as lease modifications.

The Company applied the amendment from January 1, 2020. Because the abovementioned rent concessions affect only in 2020, retrospective application of the amendment has no impact on the retained earnings as of January 1, 2020.

- b. The IFRSs endorsed by the Financial Supervisory Commission (FSC) for application starting from 2021

| <b>New IFRSs</b>                                                                                    | <b>Effective Date<br/>Announced by IASB</b>         |
|-----------------------------------------------------------------------------------------------------|-----------------------------------------------------|
| Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”                    | Effective immediately upon promulgation by the IASB |
| Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform - Phase 2” | January 1, 2021                                     |

As of the date the consolidated financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of other standards and interpretations will have on the Company’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

| <b>New IFRSs</b>                                                                                                         | <b>Effective Date<br/>Announced by IASB (Note 1)</b> |
|--------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------|
| “Annual Improvements to IFRS Standards 2018-2020”                                                                        | January 1, 2022 (Note 2)                             |
| Amendments to IFRS 3 “Reference to the Conceptual Framework”                                                             | January 1, 2022 (Note 3)                             |
| 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, 2023                                      |
| Amendments to IFRS 17                                                                                                    | January 1, 2023                                      |
| Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”                                            | January 1, 2023                                      |
| Amendments to IAS 1 “Disclosure of Accounting Policies”                                                                  | January 1, 2023 (Note 6)                             |
| Amendments to IAS 8 “Definition of Accounting Estimates”                                                                 | January 1, 2023 (Note 7)                             |
| Amendments to IAS 16 “Property, Plant and Equipment - Proceeds before Intended Use”                                      | January 1, 2022 (Note 4)                             |
| Amendments to IAS 37 “Onerous Contracts - Cost of Fulfilling a Contract”                                                 | January 1, 2022 (Note 5)                             |

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual reporting

periods beginning on or after their respective effective dates.

Note 2: The amendments to IFRS 9 will be applied prospectively to modifications and exchanges of financial liabilities that occur on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IAS 41 “Agriculture” will be applied prospectively to the fair value measurements on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IFRS 1 “First-time Adoptions of IFRSs” will be applied retrospectively for annual reporting periods beginning on or after January 1, 2022.

Note 3: The amendments are applicable to business combinations for which the acquisition date is on or after the beginning of the annual reporting period beginning on or after January 1, 2022.

Note 4: The amendments are applicable to property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after January 1, 2021.

Note 5: The amendments are applicable to contracts for which the entity has not yet fulfilled all its obligations on January 1, 2022.

Note 6: The amendments will be applied prospectively for annual reporting periods beginning on or after January 1, 2023.

Note 7: The amendments are applicable to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the annual reporting period beginning on or after January 1, 2023.

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

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

For the convenience of readers, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China (ROC). 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 financial statements shall prevail.

##### **a. Statement of compliance**

The financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

##### **b. Basis of preparation**

The financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

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 an 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 an 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.

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, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorized for issue; and
- 3) Liabilities for which the Company 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. Foreign currencies

In preparing the financial statements, transactions in currencies other than the Company'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.

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

For the purpose of preparing financial statements, the functional currencies of the Company and its foreign operations (including subsidiaries and associates in other countries that use currencies which are different from the currency of the Company) are translated into the presentation currency, the New Taiwan dollar, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting exchange differences, if any, are recognized in other comprehensive income and accumulated in equity.

e. Inventories

Inventories consist of raw materials, supplies, work in progress and finished goods 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.

f. Investments in subsidiaries

The Company uses the equity method to account for its investments in subsidiaries.

A subsidiary is an entity that is controlled by the Company.

Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary. The Company also recognizes the changes in the Company's share of equity of subsidiaries.

Changes in the Company's ownership interest in a subsidiary that do not result in the Company losing control of the subsidiary are equity transactions. The Company recognizes directly in equity any difference between the carrying amount of the investment and the fair value of the consideration paid or received.

When the Company's share of losses of a subsidiary exceeds its interest in that subsidiary (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Company's net investment in the subsidiary), the Company continues to recognize its share of further losses.

Any excess of acquisition cost over the Company's share of the net fair value of the identifiable assets and liabilities of a subsidiary at the acquisition date is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the acquisition cost is recognized immediately in profit or loss.

The Company assesses its investment for any impairment by comparing the estimated recoverable amount with the carrying amount based on the investee's financial statements as a whole. If the recoverable amount of the investment subsequently increases, the Company will recognize a reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized (net of amortization) had no impairment loss been recognized in prior years. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

When the Company loses control of a subsidiary, it recognizes the investment retained in the former subsidiary at its fair value at the date of loss of control. The difference between the fair value of the retained investment plus any consideration received and the carrying amount of the previous investment at the date of loss of control is recognized as a gain or loss in profit or loss. In addition, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Company had directly disposed of the related assets or liabilities.

When the Company transacts with its subsidiaries, profit and loss resulting from the transactions with the subsidiaries are recognized in the Company's financial statements only to the extent of interests in the subsidiaries that are not owned by the Company.

g. Investment in associates

The Company uses the equity method to account for its investments in subsidiaries.

A subsidiary is an entity that is controlled by the Company.

Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary. The Company also recognizes the changes in the Company's share of equity of subsidiaries.

Changes in the Company's ownership interest in a subsidiary that do not result in the Company losing control of the subsidiary are equity transactions. The Company recognizes directly in equity any difference between the carrying amount of the investment and the fair value of the consideration paid or received.

The Company assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the investee's financial statements as a whole. If the recoverable amount of the investment subsequently increases, the Company recognizes a reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized (net of amortization) had no impairment loss been recognized in prior years. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

When the Company loses control of a subsidiary, it recognizes the investment retained in the former subsidiary at its fair value at the date when control is lost. The difference between the fair value of the retained investment plus any consideration received and the carrying amount of the previous investment at the date when control is lost is recognized as a gain or loss in profit or loss. Besides this, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Company had directly disposed of the related assets or liabilities.

When the Company transacts with its subsidiaries, profits and losses resulting from the transactions with the subsidiaries are recognized in the Company's financial statements only to the extent of interests in the subsidiaries that are not owned by the Company.

h. Property, plant and equipment

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

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

Freehold land is not depreciated.

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.

i. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss.

Investment properties acquired through leases were initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made on or before the commencement date, plus initial direct costs incurred and an estimate of costs needed to restore the underlying assets, less any lease incentives received. These investment properties are subsequently measured at cost less accumulated depreciation and accumulated impairment loss and adjusted for any remeasurement of the lease liabilities.

Depreciation is recognized using the straight-line method.

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.

j. Impairment of property, plant and equipment, right-of-use assets and intangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered any impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation.

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized on the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

k. Financial instruments

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

## 1) Financial assets

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

### a) Measurement category

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost, and investments in equity instruments at FVTOCI.

#### i. Financial assets at FVTPL

Financial assets are classified as at FVTPL when such a financial asset is mandatorily classified as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividends or interest earned on such a financial asset.

#### ii. 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 are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

#### iii. Investments in equity instruments at FVTOCI

On initial recognition, the Company 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.

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

The Company always recognizes lifetime expected credit losses (ECLs) for accounts receivable. For all other financial instruments, the Company 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 Company 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.

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

c) Derecognition of financial assets

The Company 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 cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

2) Equity instruments

Equity instruments issued by the Company are classified 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 Company 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 for financial liabilities at FVTPL, all financial liabilities are measured at amortized cost using the effective interest method.

Financial liabilities are classified as at FVTPL when such financial liabilities are held for trading.

Financial liabilities held for trading are stated at fair value, and any interest paid on such financial liability is recognized in finance costs; any remeasurement gains or losses on such financial liabilities are recognized in other gains or losses.

b) Derecognition of financial liabilities

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

4) Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks, including foreign exchange forward contracts.

Derivatives are initially recognized at fair value at the date on which the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instruments is negative, the derivative is recognized as a financial liability.

l. Hedge accounting

The Company designates certain hedging instruments as cash flow hedges to partially hedge its foreign exchange rate risks associated with certain highly probable forecast purchases. The effective portion of changes in the fair value of hedging instruments is recognized in other comprehensive income. When the forecast transactions actually take place, the associated gains or losses that were recognized in other comprehensive income are removed from equity and included in the initial cost of the hedged items. The gains or losses from hedging instruments relating to the ineffective portion are recognized immediately in profit or loss.

The Company discontinues hedge accounting only when the hedging relationship ceases to meet the qualifying criteria; for instance, when the hedging instrument expires or is sold, terminated or exercised.

m. Provisions

Provisions, including those arising from the contractual obligation, are stated at the best estimate of the discounted cash flow of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

n. Revenue recognition

The Company identifies contracts with customers and recognizes revenue when performance obligations are satisfied.

Revenue from the sale of goods is recognized when the goods are delivered to the customer's specific location and the performance obligation is satisfied because it is the time when customers have obtained control of the promised goods.

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable and reduced for estimated customer returns, rebates and other similar allowances. Estimated sales returns and allowances are generally made and adjusted based on historical experience and the consideration of varying contractual terms to recognize refund liabilities.

Due to the short term nature of the receivables from sale of goods with the immaterial discounted effect, the Company measures them at the original invoice amounts without discounting.

o. Leases

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

1) The Company as lessor

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.

2) The Company as lessee

The Company 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. 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 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.

Lease liabilities are initially measured at the present value of the lease payments, which comprise fixed payments. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term or a change in future lease payments resulting from a change in an index or a rate used to determine those payments, the Company remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the balance sheets.

The Company negotiates with the lessor for rent concessions as a direct consequence of the Covid-19 to change the lease payments originally due by June 30, 2021, that results in the revised consideration for the lease. There is no substantive change to other terms and conditions. The Company elects to apply the practical expedient to all of these rent concessions and, therefore, does not assess whether the rent concessions are lease modifications. Instead, the Company recognizes the reduction in lease payment in profit or loss as a deduction of expenses of variable lease payments, in the period in which the

events or conditions that trigger the concession occur, and makes a corresponding adjustment to the lease liability.

p. Borrowing costs

Borrowing costs directly attributable to the 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.

q. 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

Payments to defined contribution retirement benefit plans are recognized as expenses when employees have rendered services entitling them to the contributions.

Defined benefit costs (including service cost, net interest and rereasurement) under defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost and past service cost) and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in the period in which they occur or when the plan amendment or curtailment occurs. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling, and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Company's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

r. Taxation

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

1) Current tax

According to the Income Tax Law in the ROC, an additional tax on unappropriated earnings is provided for in the year the shareholders approve to retain earnings.

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, to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint arrangements, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 asset 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 Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

### 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; in which case, the current and deferred taxes are also recognized in other comprehensive income.

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

In the application of the Company's accounting policies, management is required to make judgments, estimations, 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 Company considers the economic implications of the COVID-19 when making its critical accounting estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect 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 Company uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Company'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

|                                       | <b>December 31</b> |                   |
|---------------------------------------|--------------------|-------------------|
|                                       | <b>2020</b>        | <b>2019</b>       |
| Cash on hand                          | \$ 596             | \$ 639            |
| Checking accounts and demand deposits | <u>152,961</u>     | <u>143,693</u>    |
|                                       | <u>\$ 153,557</u>  | <u>\$ 144,332</u> |

The market rate intervals of cash in bank (excluding checking accounts) at the end of the reporting period were as follows:

|              | <b>December 31</b> |              |
|--------------|--------------------|--------------|
|              | <b>2020</b>        | <b>2019</b>  |
| Bank balance | 0.001%-0.20%       | 0.001%-0.38% |

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

|                                                          | <b>December 31</b> |                   |
|----------------------------------------------------------|--------------------|-------------------|
|                                                          | <b>2020</b>        | <b>2019</b>       |
| <u>Financial assets at FVTPL - current</u>               |                    |                   |
| Financial assets mandatorily classified as at FVTPL      |                    |                   |
| Derivative financial assets (not under hedge accounting) |                    |                   |
| Foreign exchange forward contracts (a)                   | <u>\$ 5,370</u>    | <u>\$ 10,794</u>  |
| <u>Financial assets at FVTPL - non-current</u>           |                    |                   |
| Non-derivative financial assets                          |                    |                   |
| Bank debentures in the ROC (b)                           | <u>\$ -</u>        | <u>\$ 171,035</u> |

- a. At the end of the reporting year, outstanding foreign exchange forward contracts not under hedge accounting were as follows:

|                          | <b>Currency</b> | <b>Maturity Date</b>  | <b>Notional Amount<br/>(In Thousands)</b> |
|--------------------------|-----------------|-----------------------|-------------------------------------------|
| <u>December 31, 2020</u> |                 |                       |                                           |
| Sell                     | USD:NTD         | 2021.01.15-2021.03.15 | USD16,400/NTD467,072                      |
| <u>December 31, 2019</u> |                 |                       |                                           |
| Sell                     | USD:NTD         | 2020.01.10-2020.02.27 | USD33,400/NTD1,001,332                    |

The Company entered into foreign exchange forward contracts to manage exposures to exchange rate fluctuations of foreign currency denominated assets and liabilities. The above foreign exchange forward contracts held by the Company did not meet hedge effectiveness, so they are not applicable for hedge accounting.

- b. In 2015, the Company bought subordinated financial bonds issued by Bank SinoPac with a coupon rate of 3.9% at par value of \$170,000 thousand. The bonds have no maturity date but may be redeemed by Bank SinoPac after 5 years from issue date. On November 6, 2020, Bank SinoPac had redeemed financial bond with a par value of \$170,000 thousand.

## 8. INVESTMENT IN EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

|                      | <b>December 31</b>  |                     |
|----------------------|---------------------|---------------------|
|                      | <b>2020</b>         | <b>2019</b>         |
| <u>Current</u>       |                     |                     |
| Domestic investments |                     |                     |
| Listed shares        | <u>\$ 1,142,817</u> | <u>\$ 1,297,521</u> |
| <u>Non-current</u>   |                     |                     |
| Domestic investments |                     |                     |
| Listed shares        | \$ 349,956          | \$ 281,803          |
| Unlisted shares      | <u>371,963</u>      | <u>293,985</u>      |
|                      | <u>\$ 721,919</u>   | <u>\$ 575,788</u>   |

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 Company's strategy of holding these investments for long-term purposes.

## 9. FINANCIAL INSTRUMENTS FOR HEDGING

|                                                          | <b>December 31</b> |              |
|----------------------------------------------------------|--------------------|--------------|
|                                                          | <b>2020</b>        | <b>2019</b>  |
| <u>Financial assets under hedge accounting - current</u> |                    |              |
| Cash flow hedges - foreign exchange forward contracts    | <u>\$ 54</u>       | <u>\$ 24</u> |

The Company's hedge strategy is to enter into foreign exchange forward contracts to avoid its foreign currency exposure to certain foreign currency receipts and payments and to manage its foreign currency exposures in relation to foreign currency forecast purchases. When forecast purchases actually take place, the carrying amounts of the non-financial hedged items will be adjusted accordingly.

The Company determined that the value of the forward exchange contracts and the value of the corresponding hedged items will systematically move in the opposite direction in response to changes in

the underlying exchange rates based on their relationship.

The source of hedge ineffectiveness in these hedging relationships is the effect of the counterparty and the Company's own credit risk on the fair value of the forward exchange contracts. No other sources of ineffectiveness are expected to emerge from these hedging relationships.

The increase (decrease) in value used for calculating hedge ineffectiveness in 2020 and 2019 were \$527 thousand and \$(2,106) thousand, respectively, the following tables summarize the information relating to the hedges of foreign currency risk.

|                          | Currency                                     | Maturity Date | Notional Amount<br>(In Thousands)                                      |                                                               |
|--------------------------|----------------------------------------------|---------------|------------------------------------------------------------------------|---------------------------------------------------------------|
| <u>December 31, 2020</u> |                                              |               |                                                                        |                                                               |
| Buy                      | EUR:NTD                                      | 2021.01.29    | EUR300/NTD10,506                                                       |                                                               |
| <u>December 31, 2019</u> |                                              |               |                                                                        |                                                               |
| Buy                      | EUR:NTD                                      | 2020.01.31    | EUR300/NTD10,077                                                       |                                                               |
| <u>December 31, 2020</u> |                                              |               |                                                                        |                                                               |
|                          | Hedged Items                                 |               | Change in<br>Value Used for<br>Calculating<br>Hedge<br>Ineffectiveness | Other Equity<br>Carrying<br>Amount in<br>Continuing<br>Hedges |
| Cash flow hedge          |                                              |               |                                                                        |                                                               |
|                          | Forecast transactions (capital expenditures) |               | \$ 527                                                                 | \$ (5,249)                                                    |
| <u>December 31, 2019</u> |                                              |               |                                                                        |                                                               |
|                          | Hedged Items                                 |               | Change in<br>Value Used for<br>Calculating<br>Hedge<br>Ineffectiveness | Other Equity<br>Carrying<br>Amount in<br>Continuing<br>Hedges |
| Cash flow hedge          |                                              |               |                                                                        |                                                               |
|                          | Forecast transactions (capital expenditures) |               | \$ (2,106)                                                             | \$ (5,776)                                                    |

For the years ended December 31, 2020 and 2019, refer to Note 18(e) for information relating to gain (loss) on changes in the fair value of hedging instruments and the original carrying amount transferred to hedged items in 2020 and 2019.

## 10. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

|                                     | <b>December 31</b>         |                            |
|-------------------------------------|----------------------------|----------------------------|
|                                     | <b>2020</b>                | <b>2019</b>                |
| Notes receivable - operating        | \$ 8,162                   | \$ 13,079                  |
| Accounts receivable - operating     | <u>1,797,603</u>           | <u>1,793,622</u>           |
| Gross carrying amount               | 1,805,765                  | 1,806,701                  |
| Less: Allowance for impairment loss | <u>(5,191)</u>             | <u>(7,631)</u>             |
|                                     | <u><b>\$ 1,800,574</b></u> | <u><b>\$ 1,799,070</b></u> |

The Company's customers are a large number of unrelated customers that did not create concentration of credit risk.

For the accounts receivable that were past due at the end of the reporting period, the Company did not recognize an allowance for impairment loss because there was no significant change in credit quality and the amounts were still considered recoverable. The Company held adequate collaterals or other credit enhancements for these receivables. In addition, the Company also did not have offset right for the receivables against the payables of the same parties.

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The expected credit losses on trade receivables are estimated using a provision matrix approach considering 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 forecast direction of economic conditions at the reporting date. As the Company'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 Company's different customer base.

The Company writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. For trade receivables that have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

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

December 31, 2020

|                               | <b>Not Past Due</b>        | <b>Less than 90 Days</b> | <b>91 Days to A Year</b> | <b>Over A Year</b> | <b>Total</b>               |
|-------------------------------|----------------------------|--------------------------|--------------------------|--------------------|----------------------------|
| Gross carrying amount         | \$ 1,637,181               | \$ 167,473               | \$ 1,111                 | \$ -               | \$ 1,805,765               |
| Loss allowance (Lifetime ECL) | <u>(494)</u>               | <u>(4,510)</u>           | <u>(187)</u>             | <u>-</u>           | <u>(5,191)</u>             |
| Amortized cost                | <u><b>\$ 1,636,687</b></u> | <u><b>\$ 162,963</b></u> | <u><b>\$ 924</b></u>     | <u><b>\$ -</b></u> | <u><b>\$ 1,800,574</b></u> |

December 31, 2019

|                               | Not Past Due        | Less than 90 Days | 91 Days to A Year | Over A Year | Total               |
|-------------------------------|---------------------|-------------------|-------------------|-------------|---------------------|
| Gross carrying amount         | \$ 1,727,611        | \$ 64,139         | \$ 14,883         | \$ 68       | \$ 1,806,701        |
| Loss allowance (Lifetime ECL) | <u>(570)</u>        | <u>(1,355)</u>    | <u>(5,638)</u>    | <u>(68)</u> | <u>(7,631)</u>      |
| Amortized cost                | <u>\$ 1,727,041</u> | <u>\$ 62,784</u>  | <u>\$ 9,245</u>   | <u>\$ -</u> | <u>\$ 1,799,070</u> |

The movement of the loss allowance of trade receivables were as follows:

|                                     | 2020            | 2019            |
|-------------------------------------|-----------------|-----------------|
| Balance at January 1                | \$ 7,631        | \$ 29,916       |
| Net remeasurement of loss allowance | <u>(2,440)</u>  | <u>(22,285)</u> |
| Balance at December 31              | <u>\$ 5,191</u> | <u>\$ 7,631</u> |

## 11. INVENTORIES

|                              | <u>December 31</u>  |                     |
|------------------------------|---------------------|---------------------|
|                              | 2020                | 2019                |
| Finished and purchased goods | \$ 1,698,466        | \$ 1,696,283        |
| Work in process              | 335,671             | 348,244             |
| Materials                    | <u>973,094</u>      | <u>1,045,893</u>    |
|                              | <u>\$ 3,007,231</u> | <u>\$ 3,090,420</u> |

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2020 and 2019 were \$15,433,522 thousand and \$17,178,852 thousand, respectively.

The cost of goods sold for the years ended December 31, 2020 and 2019 included reversal of inventory write-downs of \$9,921 thousand and inventory write-downs of \$34,116 thousand, respectively.

## 12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

|                             | <u>December 31</u>  |                     |
|-----------------------------|---------------------|---------------------|
|                             | 2020                | 2019                |
| Investments in subsidiaries | \$ 5,027,539        | \$ 5,189,467        |
| Investments in associates   | <u>762,263</u>      | <u>782,174</u>      |
|                             | <u>\$ 5,789,802</u> | <u>\$ 5,971,641</u> |

a. Investments in subsidiaries

|                                     | <b>December 31</b>  |                     |
|-------------------------------------|---------------------|---------------------|
|                                     | <b>2020</b>         | <b>2019</b>         |
| CHP International (BVI) Corporation | \$ 4,975,733        | \$ 5,136,559        |
| Hwa Fong Investment Co., Ltd.       | <u>51,806</u>       | <u>52,908</u>       |
|                                     | <u>\$ 5,027,539</u> | <u>\$ 5,189,467</u> |

The Company's proportion of ownership and voting rights of its associates as of the balance sheet date were as follows:

|                                     | <b>Proportion of Ownership and<br/>Voting Rights</b> |             |
|-------------------------------------|------------------------------------------------------|-------------|
|                                     | <b>December 31</b>                                   |             |
| <b>Name of Associate</b>            | <b>2020</b>                                          | <b>2019</b> |
| CHP International (BVI) Corporation | 100%                                                 | 100%        |
| Hwa Fong Investment Co., Ltd.       | 100%                                                 | 100%        |

The Company's share of profit (loss) and other comprehensive income (loss) from subsidiaries using the equity method was recognized based on each subsidiary's audited financial statements.

b. Investments in associates

|                                               | <b>December 31</b> |                   |
|-----------------------------------------------|--------------------|-------------------|
|                                               | <b>2020</b>        | <b>2019</b>       |
| Associates that are not individually material | <u>\$ 762,263</u>  | <u>\$ 782,174</u> |

Aggregate information of associates that are not individually material were as follows:

|                                                | <b>For the Year Ended December<br/>31</b> |                 |
|------------------------------------------------|-------------------------------------------|-----------------|
|                                                | <b>2020</b>                               | <b>2019</b>     |
| The Company's share of:                        |                                           |                 |
| (Loss) profit for the year                     | \$ 5,695                                  | \$ (3,023)      |
| Other comprehensive income (loss)              | <u>14,587</u>                             | <u>6,162</u>    |
| Total comprehensive income (loss) for the year | <u>\$ 20,282</u>                          | <u>\$ 3,137</u> |

The combined ownership held by the Company and its parent company, YFY Inc., in some associates that are not individually material was more than 20%. Thus, the Company used the equity method to account for its investments in these associates.

The Company is able to exercise significant influence over some associates that are not individually material even if it holds less than 20% of their voting rights. Thus, the Company uses the equity method to account for its investments in these associates.

### 13. PROPERTY, PLANT AND EQUIPMENT

|                                                | Freehold Land       | Buildings           | Machinery            | Electric Equipment  | Tools               | Miscellaneous Equipment | Property in Construction | Total                |
|------------------------------------------------|---------------------|---------------------|----------------------|---------------------|---------------------|-------------------------|--------------------------|----------------------|
| <u>Cost</u>                                    |                     |                     |                      |                     |                     |                         |                          |                      |
| Balance at January 1, 2019                     | \$ 6,637,258        | \$ 3,078,665        | \$ 24,765,503        | \$ 2,966,987        | \$ 1,722,566        | \$ 593,904              | \$ 920,285               | \$ 40,685,168        |
| Additions                                      | -                   | 11,996              | 53,360               | 13,774              | 28,813              | 7,880                   | 926,829                  | 1,042,652            |
| Disposals                                      | -                   | (6,235)             | (199,015)            | (56,500)            | (27,840)            | (19,255)                | -                        | (308,845)            |
| Reclassifications                              | -                   | 18,921              | 632,342              | 31,046              | 45,760              | 13,659                  | (741,728)                | -                    |
| Balance at December 31, 2019                   | <u>\$ 6,637,258</u> | <u>\$ 3,103,347</u> | <u>\$ 25,252,190</u> | <u>\$ 2,955,307</u> | <u>\$ 1,769,299</u> | <u>\$ 596,188</u>       | <u>\$ 1,105,386</u>      | <u>\$ 41,418,975</u> |
| <u>Accumulated depreciation and impairment</u> |                     |                     |                      |                     |                     |                         |                          |                      |
| Balance at January 1, 2019                     | \$ -                | \$ 2,584,461        | \$ 21,453,594        | \$ 2,429,385        | \$ 1,436,724        | \$ 525,826              | \$ -                     | \$ 28,429,990        |
| Disposals                                      | -                   | (6,235)             | (199,015)            | (56,500)            | (27,783)            | (19,255)                | -                        | (308,788)            |
| Depreciation expense                           | -                   | 73,164              | 604,814              | 75,785              | 100,949             | 22,152                  | -                        | 876,864              |
| Balance at December 31, 2019                   | <u>\$ -</u>         | <u>\$ 2,651,390</u> | <u>\$ 21,859,393</u> | <u>\$ 2,448,670</u> | <u>\$ 1,509,890</u> | <u>\$ 528,723</u>       | <u>\$ -</u>              | <u>\$ 28,998,066</u> |
| Carrying amounts at December 31, 2019          | <u>\$ 6,637,258</u> | <u>\$ 451,957</u>   | <u>\$ 3,392,797</u>  | <u>\$ 506,637</u>   | <u>\$ 259,409</u>   | <u>\$ 67,465</u>        | <u>\$ 1,105,386</u>      | <u>\$ 12,420,909</u> |
| <u>Cost</u>                                    |                     |                     |                      |                     |                     |                         |                          |                      |
| Balance at January 1, 2020                     | \$ 6,637,258        | \$ 3,103,347        | \$ 25,252,190        | \$ 2,955,307        | \$ 1,769,299        | \$ 596,188              | \$ 1,105,386             | \$ 41,418,975        |
| Additions                                      | 1,560,400           | 201,556             | 284,044              | 15,972              | 28,800              | 8,461                   | 627,563                  | 2,726,796            |
| Disposals                                      | -                   | (1,288)             | (301,470)            | (49,012)            | (135,574)           | (11,742)                | -                        | (499,086)            |
| Reclassifications                              | -                   | 32,569              | 726,506              | 134,714             | 82,112              | 51,275                  | (1,027,176)              | -                    |
| Balance at December 31, 2020                   | <u>\$ 8,197,658</u> | <u>\$ 3,336,184</u> | <u>\$ 25,961,270</u> | <u>\$ 3,056,981</u> | <u>\$ 1,744,637</u> | <u>\$ 644,182</u>       | <u>\$ 705,773</u>        | <u>\$ 43,646,685</u> |
| <u>Accumulated depreciation and impairment</u> |                     |                     |                      |                     |                     |                         |                          |                      |
| Balance at January 1, 2020                     | \$ -                | \$ 2,651,390        | \$ 21,859,393        | \$ 2,448,670        | \$ 1,509,890        | \$ 528,723              | \$ -                     | \$ 28,998,066        |
| Disposals                                      | -                   | (1,288)             | (301,470)            | (49,012)            | (135,574)           | (11,742)                | -                        | (499,086)            |
| Depreciation expense                           | -                   | 72,597              | 616,008              | 83,258              | 102,168             | 29,639                  | -                        | 903,670              |
| Balance at December 31, 2020                   | <u>\$ -</u>         | <u>\$ 2,722,699</u> | <u>\$ 22,173,931</u> | <u>\$ 2,482,916</u> | <u>\$ 1,476,484</u> | <u>\$ 546,620</u>       | <u>\$ -</u>              | <u>\$ 29,402,650</u> |
| Carrying amounts at December 31, 2020          | <u>\$ 8,197,658</u> | <u>\$ 613,485</u>   | <u>\$ 3,787,339</u>  | <u>\$ 574,065</u>   | <u>\$ 268,153</u>   | <u>\$ 97,562</u>        | <u>\$ 705,773</u>        | <u>\$ 14,244,035</u> |

The above items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful life of the asset:

|                         |             |
|-------------------------|-------------|
| Buildings               |             |
| Main buildings          | 15-35 years |
| Others                  | 3-44 years  |
| Machinery               | 3-15 years  |
| Electric equipment      | 5-15 years  |
| Tools                   | 3-5 years   |
| Miscellaneous equipment | 3-20 years  |

### 14. LEASE ARRANGEMENTS

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

|                          | <u>December 31</u> |                  |
|--------------------------|--------------------|------------------|
|                          | <u>2020</u>        | <u>2019</u>      |
| <u>Carrying amount</u>   |                    |                  |
| Land                     | \$ 4,862           | \$ 4,284         |
| Buildings                | 15,165             | 24,596           |
| Office equipment         | 7,612              | 3,254            |
| Transportation equipment | <u>3,046</u>       | <u>11,785</u>    |
|                          | <u>\$ 30,685</u>   | <u>\$ 43,919</u> |

|                                             | <b>For the Year Ended December 31</b> |                  |
|---------------------------------------------|---------------------------------------|------------------|
|                                             | <b>2020</b>                           | <b>2019</b>      |
| Additions to right-of-use assets            | <u>\$ 7,795</u>                       | <u>\$ 14,209</u> |
| Depreciation charge for right-of-use assets |                                       |                  |
| Land                                        | \$ 2,536                              | \$ 2,142         |
| Buildings                                   | 10,407                                | 11,124           |
| Office equipment                            | 6,205                                 | 5,583            |
| Transportation equipment                    | <u>1,882</u>                          | <u>1,583</u>     |
|                                             | <u>\$ 21,030</u>                      | <u>\$ 20,432</u> |

b. Lease liabilities

|                        | <b>December 31</b> |                  |
|------------------------|--------------------|------------------|
|                        | <b>2020</b>        | <b>2019</b>      |
| <u>Carrying amount</u> |                    |                  |
| Current                | <u>\$ 14,836</u>   | <u>\$ 19,304</u> |
| Non-current            | <u>\$ 16,332</u>   | <u>\$ 24,950</u> |

Range of discount rates for lease liabilities was as follows:

|                          | <b>December 31</b> |             |
|--------------------------|--------------------|-------------|
|                          | <b>2020</b>        | <b>2019</b> |
| Land                     | 1.02%-1.21%        | 1.21%       |
| Buildings                | 1.02%-1.21%        | 1.21%       |
| Office equipment         | 1.02%-1.21%        | 1.21%       |
| Transportation equipment | 1.02%-1.21%        | 1.21%       |

c. Material lease-in activities and terms

The Company leases certain equipment for the use of operating activities with lease terms of 2 to 5 years. These arrangements do not contain renewal or purchase options at the end of the lease terms.

The Company also leases land and buildings for the use of plants, offices, and warehouses with lease terms of 2 to 8 years. The Company does not have bargain purchase options to acquire the leasehold land and buildings at the end of the lease terms.

d. Other lease information

Lease arrangements under operating leases for the leasing out of investment properties are set out in Note 15.

|                                                                   | <b><u>For the Year Ended December 31</u></b> |                   |
|-------------------------------------------------------------------|----------------------------------------------|-------------------|
|                                                                   | <b>2020</b>                                  | <b>2019</b>       |
| Expenses relating to short-term leases and low-value asset leases | <u>\$ 54,850</u>                             | <u>\$ 53,735</u>  |
| Total cash outflow for leases                                     | <u>\$(81,961)</u>                            | <u>\$(78,623)</u> |

All lease commitments with lease terms commencing after the balance sheet dates are as follows:

|                   | <b><u>December 31</u></b> |                  |
|-------------------|---------------------------|------------------|
|                   | <b>2020</b>               | <b>2019</b>      |
| Lease commitments | <u>\$ 38,738</u>          | <u>\$ 39,622</u> |

## 15. INVESTMENT PROPERTIES

|                                                | <b><u>For the Year Ended December 31</u></b> |                    |
|------------------------------------------------|----------------------------------------------|--------------------|
|                                                | <b>2020</b>                                  | <b>2019</b>        |
| <u>Cost</u>                                    |                                              |                    |
| Opening balance                                | <u>\$ 272,334</u>                            | <u>\$ 272,334</u>  |
| Ending balance                                 | <u>\$ 272,334</u>                            | <u>\$ 272,334</u>  |
| <u>Accumulated depreciation and impairment</u> |                                              |                    |
| Opening balance                                | \$ (15,190)                                  | \$ (14,923)        |
| Depreciation expense                           | <u>(267)</u>                                 | <u>(267)</u>       |
| Ending balance                                 | <u>\$ (15,457)</u>                           | <u>\$ (15,190)</u> |
| Ending carrying amount                         | <u>\$ 256,877</u>                            | <u>\$ 257,144</u>  |

The investment properties held by the Company are depreciated over their estimated useful life of 55 years, using the straight-line method.

The valuation was done by the Company using market evidence of transaction prices for similar

properties. The fair value of the investment properties owned by the Company were as follows:

|            | <b>December 31</b> |                   |
|------------|--------------------|-------------------|
|            | <b>2020</b>        | <b>2019</b>       |
| Fair value | <u>\$ 347,731</u>  | <u>\$ 347,731</u> |

The investment properties were leased out as operating leases from July 1, 2020 to June 30, 2025. The lessees do not have bargain purchase options to acquire the investment properties at the expiry of the lease periods.

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

|                                           | <b>December 31</b> |                 |
|-------------------------------------------|--------------------|-----------------|
|                                           | <b>2020</b>        | <b>2019</b>     |
| Lease commitment of investment properties | <u>\$ 33,241</u>   | <u>\$ 3,540</u> |

## 16. BORROWINGS

### a. Short-term borrowings

|                        | <b>December 31</b>  |                     |
|------------------------|---------------------|---------------------|
|                        | <b>2020</b>         | <b>2019</b>         |
| Bank credit loans      | \$ 855,000          | \$ 4,917,000        |
| Letter of credit loans | <u>787,777</u>      | <u>328,500</u>      |
|                        | <u>\$ 1,642,777</u> | <u>\$ 5,245,500</u> |

As of December 31, 2020 and 2019, the interest rates of short-term borrowings were 0.52%-1.05% per annum and 0.92%-2.68% per annum, respectively.

### b. Short-term bills payable

|                                             | <b>December 31</b>  |                     |
|---------------------------------------------|---------------------|---------------------|
|                                             | <b>2020</b>         | <b>2019</b>         |
| Commercial paper                            | \$ 6,300,000        | \$ 2,450,000        |
| Less: Unamortized discount on bills payable | <u>(2,640)</u>      | <u>(521)</u>        |
|                                             | <u>\$ 6,297,360</u> | <u>\$ 2,449,479</u> |

Short-term bills payable are commercial papers due within one year. Interest rates on these bills payable were 0.78%-0.85% and 0.98%-1.17% as of December 31, 2020 and 2019, respectively.

c. Long-term borrowings

|                            | <b>December 31</b>  |                   |
|----------------------------|---------------------|-------------------|
|                            | <b>2020</b>         | <b>2019</b>       |
| Unsecured bank loans       | \$ 1,400,000        | \$ 150,000        |
| Less: Loan management fees | <u>(9,408)</u>      | <u>(2,325)</u>    |
| Long-term bank loans       | <u>\$ 1,390,592</u> | <u>\$ 147,675</u> |

|                           |                 |                                                                                                                                                     | <b>Interest</b> | <b>December 31</b>  |                   |
|---------------------------|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|---------------------|-------------------|
|                           | <b>Due Date</b> | <b>Article</b>                                                                                                                                      | <b>Rate</b>     | <b>2020</b>         | <b>2019</b>       |
| Taiwan Bank Credit loan A | 2025.03.31      | The credit can be revolved within 60 months from March 31, 2020, the first drawdown date of the loan.                                               | 1.79%           | \$ 1,400,000        | \$ -              |
| KGI Bank Credit loan      | 2021.01.04      | The credit can be revolved within 24 months from January 4, 2019, the first drawdown date of the loan. Principal was fully paid in advance in 2020. | 1.05%<br>-1.10% | <u>-</u>            | <u>150,000</u>    |
|                           |                 |                                                                                                                                                     |                 | <u>\$ 1,400,000</u> | <u>\$ 150,000</u> |

## 17. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company adopted a pension plan under the Labor Pension Act (LPA), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plans

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government of the Republic of China. Pension benefits are calculated on the basis of the length of service and average monthly salary of the six months before retirement. The Company contributes specific percentage of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (the "Bureau"); the Company has no right to influence the investment policy and strategy.

The amounts included in the balance sheets in respect of the Company's defined benefit plan were as follows:

|                                             | <b>December 31</b> |                   |
|---------------------------------------------|--------------------|-------------------|
|                                             | <b>2020</b>        | <b>2019</b>       |
| Present value of defined benefit obligation | \$ 513,617         | \$ 542,868        |
| Fair value of plan assets                   | <u>(523,023)</u>   | <u>(340,223)</u>  |
| Net defined benefit (assets) liability      | <u>\$ (9,406)</u>  | <u>\$ 202,645</u> |

Movements in net defined benefit liability were as follows:

|                                                                       | <b>Present Value<br/>of the Defined<br/>Benefit<br/>Obligation</b> | <b>Fair Value of<br/>the Plan<br/>Assets</b> | <b>Net Defined<br/>Benefit<br/>Liability<br/>(Assets)</b> |
|-----------------------------------------------------------------------|--------------------------------------------------------------------|----------------------------------------------|-----------------------------------------------------------|
| Balance at January 1, 2019                                            | <u>\$ 602,251</u>                                                  | <u>\$(367,316)</u>                           | <u>\$ 234,935</u>                                         |
| Service cost                                                          |                                                                    |                                              |                                                           |
| Current service cost                                                  | 17,257                                                             | -                                            | 17,257                                                    |
| Net interest expense (income)                                         | <u>8,563</u>                                                       | <u>(5,392)</u>                               | <u>3,171</u>                                              |
| Recognized in profit or loss                                          | <u>25,820</u>                                                      | <u>(5,392)</u>                               | <u>20,428</u>                                             |
| Remeasurement                                                         |                                                                    |                                              |                                                           |
| Return on plan assets (excluding<br>amounts included in net interest) | -                                                                  | (12,270)                                     | (12,270)                                                  |
| Actuarial loss - experience adjustments                               | 341                                                                | -                                            | 341                                                       |
| Actuarial loss - changes in financial<br>assumptions                  | <u>16,630</u>                                                      | <u>-</u>                                     | <u>16,630</u>                                             |
| Recognized in other comprehensive<br>income                           | <u>16,971</u>                                                      | <u>(12,270)</u>                              | <u>4,701</u>                                              |
| Contributions from the employer                                       | \$ -                                                               | \$ (57,419)                                  | \$ (57,419)                                               |
| Benefits paid                                                         | <u>(102,174)</u>                                                   | <u>102,174</u>                               | <u>-</u>                                                  |
| Balance at December 31, 2019                                          | <u>\$ 542,868</u>                                                  | <u>\$(340,223)</u>                           | <u>\$ 202,645</u>                                         |
| Balance at January 1, 2020                                            | <u>\$ 542,868</u>                                                  | <u>\$(340,223)</u>                           | <u>\$ 202,645</u>                                         |
| Service cost                                                          |                                                                    |                                              |                                                           |
| Current service cost                                                  | 15,135                                                             | -                                            | 15,135                                                    |
| Net interest expense (income)                                         | <u>5,181</u>                                                       | <u>(4,403)</u>                               | <u>778</u>                                                |
| Recognized in profit or loss                                          | <u>20,316</u>                                                      | <u>(4,403)</u>                               | <u>15,913</u>                                             |
| Remeasurement                                                         |                                                                    |                                              |                                                           |
| Return on plan assets (excluding                                      | -                                                                  | (11,321)                                     | (11,321)                                                  |

|                                                   |                   |                    |                   |
|---------------------------------------------------|-------------------|--------------------|-------------------|
| amounts included in net interest)                 |                   |                    |                   |
| Actuarial gain - experience adjustments           | (1,039)           | -                  | (1,039)           |
| Actuarial loss - changes in financial assumptions | <u>15,621</u>     | <u>-</u>           | <u>15,621</u>     |
| Recognized in other comprehensive income          | <u>14,582</u>     | <u>(11,321)</u>    | <u>3,261</u>      |
| Contributions from the employer                   | -                 | (229,698)          | (229,698)         |
| Benefits paid                                     | (62,622)          | 62,622             | -                 |
| Accounts paid                                     | <u>(1,527)</u>    | <u>-</u>           | <u>(1,527)</u>    |
| Balance at December 31, 2020                      | <u>\$ 513,617</u> | <u>\$(523,023)</u> | <u>\$ (9,406)</u> |
|                                                   |                   |                    | (Concluded)       |

Through the defined benefit plans under the Labor Standards Law, the Company is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government and corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

|                                                        | <b>December 31</b> |             |
|--------------------------------------------------------|--------------------|-------------|
|                                                        | <b>2020</b>        | <b>2019</b> |
| Discount rates                                         | 0.50%              | 1.00%       |
| Expected rates of salary increase - less than 16 years | 1.50%              | 1.50%       |
| Expected rates of salary increase - more than 16 years | 1.00%              | 1.00%       |

If possible reasonable changes in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

|                                   | <b>December 31</b> |                   |
|-----------------------------------|--------------------|-------------------|
|                                   | <b>2020</b>        | <b>2019</b>       |
| Discount rates                    |                    |                   |
| 0.125% increase                   | <u>\$ (3,987)</u>  | <u>\$ (4,246)</u> |
| 0.125% decrease                   | <u>\$ 4,042</u>    | <u>\$ 4,306</u>   |
| Expected rates of salary increase |                    |                   |
| 0.125% increase                   | <u>\$ 4,018</u>    | <u>\$ 4,301</u>   |
| 0.125% decrease                   | <u>\$ (5,973)</u>  | <u>\$ (4,252)</u> |

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

|                                                           | <b>December 31</b> |                   |
|-----------------------------------------------------------|--------------------|-------------------|
|                                                           | <b>2020</b>        | <b>2019</b>       |
| The expected contributions to the plans for the next year | <u>\$ 374,514</u>  | <u>\$ 229,698</u> |
| The average duration of the defined benefit obligation    | 6.3 years          | 6.4 years         |

## 18. EQUITY

### a. Ordinary shares

|                                                       | <b>December 31</b>   |                      |
|-------------------------------------------------------|----------------------|----------------------|
|                                                       | <b>2020</b>          | <b>2019</b>          |
| Number of shares authorized (in thousands)            | <u>1,300,000</u>     | <u>1,300,000</u>     |
| Shares authorized                                     | <u>\$ 13,000,000</u> | <u>\$ 13,000,000</u> |
| Number of shares issued and fully paid (in thousands) | <u>1,102,835</u>     | <u>1,102,835</u>     |
| Shares issued                                         | <u>\$ 11,028,353</u> | <u>\$ 11,028,353</u> |

Fully paid ordinary shares, which have a par value of \$10, carry one vote per share and a right to dividends.

b. Capital surplus

|                                                                                                                                  | <b>December 31</b> |                  |
|----------------------------------------------------------------------------------------------------------------------------------|--------------------|------------------|
|                                                                                                                                  | <b>2020</b>        | <b>2019</b>      |
| May be used to offset a deficit, distributed as cash dividends,<br><u>or transferred to share capital*</u>                       |                    |                  |
| Arising from treasury share transactions                                                                                         | \$ 20,817          | \$ 20,817        |
| The difference between consideration paid and the carrying<br>amount of the subsidiary's net assets during actual<br>acquisition | 484                | 484              |
| <u>May be used to offset a deficit only</u>                                                                                      |                    |                  |
| Arising from share of changes in capital surplus of<br>subsidiaries and associates                                               | 8,071              | 8,262            |
| Capital surplus transferred from unclaimed dividends                                                                             | <u>449</u>         | <u>-</u>         |
|                                                                                                                                  | <u>\$ 29,821</u>   | <u>\$ 29,563</u> |

\* 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 paid-in capital).

c. Retained earnings and dividends policy

Under the dividends policy as set forth in the Articles, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, and setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for distribution of dividends and bonus to shareholders. For the policies on the distribution of compensation of employees and remuneration of directors and supervisors after the amendment, refer to compensation of employees and remuneration of directors and supervisors in Note 19 (c).

In making its dividends policy, the Company takes into account future capital expenditures and working capital requirements. Based on this policy, dividends should be distributed as follows:

- 1) At least 20% as cash dividends; and
- 2) Remainder, as share dividends. If there is a requirement for capital expenditure, the Company may distribute only share dividends.

An 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.

Under Order No. 1010012865 and Order No. 1010047490 and Order No. 1030006415 issued by the FSC and in the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", the Company should appropriate to or reverse from a special

reserve. Any special reserve appropriated may be reversed to the extent that the net debit balance reverses and thereafter distributed.

The offsetting of deficit for 2019 had been approved in the shareholders' meeting on June 30, 2020, which resolved not to distribute dividend. The appropriations of earnings for 2018 which were approved in the shareholders' meetings on June 21, 2019 were as follows:

|                                 | <b>Appropriation<br/>of Earnings<br/>For the Year<br/>Ended<br/>December 31,<br/>2018</b> |
|---------------------------------|-------------------------------------------------------------------------------------------|
| Legal reserve                   | \$ 44,566                                                                                 |
| Cash dividends                  | <u>385,992</u>                                                                            |
| Cash dividends per share (NT\$) | <u>\$ 0.35</u>                                                                            |

d. Special reserves

|                  | <b>For the Year Ended December<br/>31</b> |                     |
|------------------|-------------------------------------------|---------------------|
|                  | <b>2020</b>                               | <b>2019</b>         |
| Special reserves | <u>\$ 1,186,894</u>                       | <u>\$ 1,186,894</u> |

The Company appropriated a special reserve in an amount equal to the unrealized revaluation increment, which was already transferred to retained earnings.

e. Other equity items

|                                                                                                                      | <b>Exchange<br/>Differences<br/>on<br/>Translation<br/>of the<br/>Financial<br/>Statements of<br/>Foreign<br/>Operations</b> | <b>Unrealized<br/>Gain (Loss)<br/>on Financial<br/>Assets at<br/>FVTOCI</b> | <b>Gain (Loss)<br/>on Hedging<br/>Instruments</b> | <b>Total</b>      |
|----------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|---------------------------------------------------|-------------------|
| <u>2020</u>                                                                                                          |                                                                                                                              |                                                                             |                                                   |                   |
| Balance at January 1                                                                                                 | \$(300,705)                                                                                                                  | \$ 716,520                                                                  | \$ (5,776)                                        | \$ 410,039        |
| Unrealized gain on financial<br>assets at FVTOCI                                                                     | -                                                                                                                            | 34,283                                                                      | -                                                 | 34,283            |
| Gain (loss) arising on<br>changes in the fair value of<br>hedging instruments                                        | -                                                                                                                            | -                                                                           | 527                                               | 527               |
| Share of other<br>comprehensive loss of<br>associates                                                                | (38,236)                                                                                                                     | 12,211                                                                      | -                                                 | (26,025)          |
| Cumulative unrealized gain<br>(loss) of equity<br>instruments transferred to<br>retained earnings due to<br>disposal | <u>-</u>                                                                                                                     | <u>(1,987)</u>                                                              | <u>-</u>                                          | <u>(1,987)</u>    |
| Balance at December 31                                                                                               | <u>\$(338,941)</u>                                                                                                           | <u>\$ 761,027</u>                                                           | <u>\$ (5,249)</u>                                 | <u>\$ 416,837</u> |
|                                                                                                                      |                                                                                                                              |                                                                             |                                                   | (Continued)       |

|                                                                                                                      | Exchange<br>Differences on<br>Translation of<br>the Financial<br>Statements of<br>Foreign<br>Operations | Unrealized<br>Gain (Loss) on<br>Financial<br>Assets at<br>FVTOCI | Gain (Loss) on<br>Hedging<br>Instruments | Total                            |
|----------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|------------------------------------------------------------------|------------------------------------------|----------------------------------|
| <u>2019</u>                                                                                                          |                                                                                                         |                                                                  |                                          |                                  |
| Balance at January 1                                                                                                 | \$(100,013)                                                                                             | \$ 394,892                                                       | \$ (6,961)                               | \$ 287,918                       |
| Unrealized gain on financial<br>assets at FVTOCI                                                                     | -                                                                                                       | 302,015                                                          | -                                        | 302,015                          |
| Loss arising on changes in<br>the fair value of hedging<br>instrument                                                | -                                                                                                       | -                                                                | (2,106)                                  | (2,106)                          |
| The amount transferred to<br>initial carrying amount of<br>hedged items                                              | -                                                                                                       | -                                                                | 3,291                                    | 3,291                            |
| Share of other<br>comprehensive loss of<br>associates                                                                | (200,692)                                                                                               | 29,957                                                           | -                                        | (170,735)                        |
| Cumulative unrealized gain<br>(loss) of equity<br>instruments transferred to<br>retained earnings due to<br>disposal | <u>-</u>                                                                                                | <u>(10,344)</u>                                                  | <u>-</u>                                 | <u>(10,344)</u>                  |
| Balance at December 31                                                                                               | <u>\$(300,705)</u>                                                                                      | <u>\$ 716,520</u>                                                | <u>\$ (5,776)</u>                        | <u>\$ 410,039</u><br>(Concluded) |

- f. As of December 31, 2020, the Company had bought back 15,944 thousand treasury shares for transferring to employees with an average buy-back price of \$8.58 per share. The acquisition was approved by the board of directors on May 14, 2020 and fully executed on July 14, 2020. 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.

## 19. NET LOSS FROM CONTINUING OPERATIONS

- a. Finance costs

|                                                         | <u>For the Year Ended December 31</u> |                  |
|---------------------------------------------------------|---------------------------------------|------------------|
|                                                         | <u>2020</u>                           | <u>2019</u>      |
| Interest on bank loans                                  | \$ 91,962                             | \$ 87,002        |
| Less: Amounts included in the cost of qualifying assets | <u>(1,167)</u>                        | <u>(1,733)</u>   |
|                                                         | <u>\$ 90,795</u>                      | <u>\$ 85,269</u> |

Information about capitalized interest was as follows:

|                                                     |  | <b>For the Year Ended December 31</b> |                     |
|-----------------------------------------------------|--|---------------------------------------|---------------------|
|                                                     |  | <b>2020</b>                           | <b>2019</b>         |
| Capitalization rate                                 |  | 0.83%-1.14%                           | 0.99%-1.24%         |
| b. Depreciation and amortization                    |  |                                       |                     |
|                                                     |  | <b>For the Year Ended December 31</b> |                     |
|                                                     |  | <b>2020</b>                           | <b>2019</b>         |
| An analysis of depreciation by function             |  |                                       |                     |
| Operating costs                                     |  | \$ 916,939                            | \$ 889,855          |
| Operating expenses                                  |  | <u>8,028</u>                          | <u>7,708</u>        |
|                                                     |  | <u>\$ 924,967</u>                     | <u>\$ 897,563</u>   |
| An analysis of amortization by function             |  |                                       |                     |
| Operating costs                                     |  | \$ 164                                | \$ 163              |
| Operating expenses                                  |  | <u>19,204</u>                         | <u>26,671</u>       |
|                                                     |  | <u>\$ 19,368</u>                      | <u>\$ 26,834</u>    |
| c. Employee benefit expense                         |  |                                       |                     |
|                                                     |  | <b>For the Year Ended December 31</b> |                     |
|                                                     |  | <b>2020</b>                           | <b>2019</b>         |
| Post-employment benefits                            |  |                                       |                     |
| Defined contribution plans                          |  | \$ 57,096                             | \$ 55,098           |
| Defined benefit plans                               |  | <u>15,913</u>                         | <u>20,428</u>       |
|                                                     |  | 73,009                                | 75,526              |
| Other employee benefits                             |  | <u>1,679,557</u>                      | <u>1,617,181</u>    |
| Total employee benefit expense                      |  | <u>\$ 1,752,566</u>                   | <u>\$ 1,692,707</u> |
| An analysis of employee benefit expense by function |  |                                       |                     |
| Operating costs                                     |  | \$ 1,595,377                          | \$ 1,542,579        |
| Operating expenses                                  |  | <u>157,189</u>                        | <u>150,128</u>      |
|                                                     |  | <u>\$ 1,752,566</u>                   | <u>\$ 1,692,707</u> |

As of December 31, 2020 and 2019, the Company had 1,949 and 1,983 employees, respectively, and 4 board of directors who were also classified as employees for both years. The calculation basis is consistent with the employee benefits.

According to the Articles of Incorporation of the Company, the Company accrued compensation of employees and remuneration of directors and supervisors at the rates of no less than 1% and no higher than 2%, respectively, of net profit before income tax, compensation of employees, and remuneration of directors and supervisors. For the year ended 2020 and 2019, due to operation loss, the Company did not estimate the compensation of employees and the remuneration of directors and supervisors.

If there will be a change in the amounts after the annual consolidated financial statements are authorized for issue, the differences will be recorded as a change in the accounting estimate in the following year.

The appropriations of compensation of employees and remuneration of directors and supervisors for 2018 that were resolved by the board of directors on March 21, 2019 are as shown below:

|                                           | <b>For the Year<br/>Ended<br/>December 31,<br/>2018</b> |
|-------------------------------------------|---------------------------------------------------------|
|                                           | <b>Cash</b>                                             |
| Compensation of employees                 | \$ 5,500                                                |
| Remuneration of directors and supervisors | 7,000                                                   |

There was no difference between the actual amounts of the compensation and remuneration proposed in 2018, and the amounts recognized in the financial statements for the years ended December 31, 2018.

Information on the compensation of employees and remuneration of directors and supervisors resolved by the Company's board of directors is available at the Market Observation Post System website of the Taiwan Stock Exchange.

## 20. INCOME TAXES RELATING TO CONTINUING OPERATIONS

### a. Income tax recognized in profit or loss

The major components of income tax benefit were as follows:

|                                                 | <b>For the Year Ended December 31<br/>2020</b> | <b>2019</b>       |
|-------------------------------------------------|------------------------------------------------|-------------------|
| Deferred tax                                    |                                                |                   |
| In respect of the current year                  | \$ (182)                                       | \$(36,827)        |
| Adjustments for prior years                     | <u>182</u>                                     | <u>1,064</u>      |
| Income tax benefit recognized in profit or loss | <u>\$ -</u>                                    | <u>\$(35,763)</u> |

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

|                                                           | <b>For the Year Ended December 31</b> |                    |
|-----------------------------------------------------------|---------------------------------------|--------------------|
|                                                           | <b>2020</b>                           | <b>2019</b>        |
| Loss before tax from continuing operations                | <u>\$(201,797)</u>                    | <u>\$(280,861)</u> |
| Income tax benefit calculated at the statutory rate       | \$ (40,359)                           | \$ (56,172)        |
| Tax-exempt income                                         | (22,066)                              | (6,165)            |
| Unrecognized loss carryforwards and temporary differences | 38,907                                | 24,760             |
| Non-deductible expenses in determining taxable income     | 23,336                                | 750                |
| Adjustments for prior years                               | <u>182</u>                            | <u>1,064</u>       |
| Income tax benefit recognized in profit or loss           | <u>\$ -</u>                           | <u>\$ (35,763)</u> |

b. Income tax recognized in other comprehensive income

|                                       | <b>For the Year Ended December 31</b> |               |
|---------------------------------------|---------------------------------------|---------------|
|                                       | <b>2020</b>                           | <b>2019</b>   |
| <u>Deferred tax</u>                   |                                       |               |
| Remeasurement on defined benefit plan | <u>\$ 652</u>                         | <u>\$ 940</u> |

c. Deferred tax assets and liabilities

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

For the year ended December 31, 2020

|                            | <b>Opening<br/>Balance</b> | <b>Recognized<br/>in Profit or<br/>Loss</b> | <b>Recognized<br/>in Other<br/>Com-<br/>prehensive<br/>Income</b> | <b>Closing<br/>Balance</b> |
|----------------------------|----------------------------|---------------------------------------------|-------------------------------------------------------------------|----------------------------|
| <u>Deferred tax assets</u> |                            |                                             |                                                                   |                            |
| Temporary differences      |                            |                                             |                                                                   |                            |
| Defined benefit obligation | \$ 40,529                  | \$ -                                        | \$ 652                                                            | \$ 41,181                  |
| Loss carryforwards         | 36,072                     | -                                           | -                                                                 | 36,072                     |
| Others                     | <u>29,711</u>              | <u>-</u>                                    | <u>-</u>                                                          | <u>29,711</u>              |
|                            | <u>\$ 106,312</u>          | <u>\$ -</u>                                 | <u>\$ 652</u>                                                     | <u>\$ 106,964</u>          |

Deferred tax liabilities

Temporary differences

|                          |                     |             |             |                     |
|--------------------------|---------------------|-------------|-------------|---------------------|
| Land value increment tax | \$ 1,924,940        | \$ -        | \$ -        | \$ 1,924,940        |
| Others                   | <u>77,227</u>       | <u>-</u>    | <u>-</u>    | <u>77,227</u>       |
|                          | <u>\$ 2,002,167</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,002,167</u> |

For the year ended December 31, 2019

|                            | <b>Opening<br/>Balance</b> | <b>Recognized<br/>in Profit or<br/>Loss</b> | <b>Recognized<br/>in Other<br/>Com-<br/>prehensive<br/>Income</b> | <b>Closing<br/>Balance</b> |
|----------------------------|----------------------------|---------------------------------------------|-------------------------------------------------------------------|----------------------------|
| <u>Deferred tax assets</u> |                            |                                             |                                                                   |                            |
| Temporary differences      |                            |                                             |                                                                   |                            |
| Defined benefit obligation | \$ 46,987                  | \$ (7,398)                                  | \$ 940                                                            | \$ 40,529                  |
| Loss carryforwards         | 9,896                      | 26,176                                      | -                                                                 | 36,072                     |
| Others                     | <u>16,019</u>              | <u>13,692</u>                               | <u>-</u>                                                          | <u>29,711</u>              |
|                            | <u>\$ 72,902</u>           | <u>\$ 32,470</u>                            | <u>\$ 940</u>                                                     | <u>\$ 106,312</u>          |

Deferred tax liabilities

Temporary differences

|                          |                     |                   |             |                     |
|--------------------------|---------------------|-------------------|-------------|---------------------|
| Land value increment tax | \$ 1,924,940        | \$ -              | \$ -        | \$ 1,924,940        |
| Others                   | <u>80,520</u>       | <u>\$ (3,293)</u> | <u>-</u>    | <u>77,227</u>       |
|                          | <u>\$ 2,005,460</u> | <u>\$ (3,293)</u> | <u>\$ -</u> | <u>\$ 2,002,167</u> |

- d. Unused loss carryforward for which no deferred tax assets have been recognized in the balance sheets

|                                  | <b>December 31</b> |             |
|----------------------------------|--------------------|-------------|
|                                  | <b>2020</b>        | <b>2019</b> |
| Loss carryforwards               |                    |             |
| Expire in 2030                   | <u>\$ 402,046</u>  | <u>\$ -</u> |
| Deductible temporary differences | <u>\$ 225,461</u>  | <u>\$ -</u> |

- e. Loss carryforwards as of December 31, 2019 comprised:

| <b>Unused<br/>Amount</b> | <b>Expiry Year</b> |
|--------------------------|--------------------|
| \$ 44,158                | 2024               |
| 135,296                  | 2029               |
| <u>402,046</u>           | 2030               |
| <br><u>\$ 581,500</u>    |                    |

- f. The aggregate amount of temporary differences associated with investments for which deferred tax liabilities have not been recognized.

As of December 31, 2020 and 2019, the taxable temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognized were \$580,951 thousand and \$636,479 thousand, respectively.

- g. Income tax assessments

|             | <b><u>Latest<br/>Approved<br/>Year</u></b> |
|-------------|--------------------------------------------|
| The Company | 2018                                       |

## 21. LOSS PER SHARE

|                      | <b><u>For the Year Ended December 31</u></b> |                  |
|----------------------|----------------------------------------------|------------------|
|                      | <b>2020</b>                                  | <b>2019</b>      |
| Basic loss per share | <u>\$ (0.18)</u>                             | <u>\$ (0.22)</u> |

The loss weighted average number of ordinary shares outstanding in the computation of loss per share from continuing operations were as follows:

### **Net Loss for the Year**

|                                                         | <b><u>For the Year Ended December 31</u></b> |                    |
|---------------------------------------------------------|----------------------------------------------|--------------------|
|                                                         | <b>2020</b>                                  | <b>2019</b>        |
| Loss for the year attributable to owners of the Company | <u>\$(201,797)</u>                           | <u>\$(245,098)</u> |

Weighted average number of ordinary shares outstanding (in thousands of shares):

**For the Year Ended December 31**

**2020**

**2019**

Weighted average number of ordinary shares used in the  
computation of basic loss per share

1,094,406

1,102,835

If the Company offered to settle compensation or bonuses paid to employees in cash or shares, the Company assumes 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, as 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.

## 22. CAPITAL MANAGEMENT

The capital structure of the Company consists of debt and equity of the Company (comprising issued capital, reserves, retained earnings and other equity).

Key management personnel of the Company 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. In order to balance the overall capital structure, the Company may adjust the amount of new debt issued or existing debt redeemed.

## 23. FINANCIAL INSTRUMENTS

### a. Fair value of financial instruments

#### 1) Fair value of financial instruments not carried at fair value

The management of the Company considers that the carrying amounts of financial assets and financial liabilities recognized in the financial statements to approximate their fair values.

#### 2) Fair value of financial instruments measured at fair value on a recurring basis

December 31, 2020

|                               | Level 1 | Level 2  | Level 3 | Total    |
|-------------------------------|---------|----------|---------|----------|
| Financial assets at FVTPL     |         |          |         |          |
| Derivative financial assets - |         |          |         |          |
| foreign exchange forward      |         |          |         |          |
| contracts (not under          |         |          |         |          |
| hedge accounting)             | \$ -    | \$ 5,370 | \$ -    | \$ 5,370 |

|                                                                        | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b>    | <b>Total</b>        |
|------------------------------------------------------------------------|----------------|----------------|-------------------|---------------------|
| Financial assets at FVTOCI                                             |                |                |                   |                     |
| Securities listed in the ROC                                           | \$ 1,492,773   | \$ -           | \$ -              | \$ 1,492,773        |
| Domestic unlisted shares                                               | <u>-</u>       | <u>-</u>       | <u>371,963</u>    | <u>371,963</u>      |
|                                                                        | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ 371,963</u> | <u>\$ 1,864,736</u> |
| Hedging financial assets                                               |                |                |                   |                     |
| Derivative financial assets -<br>foreign exchange forward<br>contracts | <u>\$ -</u>    | <u>\$ 54</u>   | <u>\$ -</u>       | <u>\$ 54</u>        |

December 31, 2019

|                                                                                                        | <b>Level 1</b>      | <b>Level 2</b>    | <b>Level 3</b>    | <b>Total</b>        |
|--------------------------------------------------------------------------------------------------------|---------------------|-------------------|-------------------|---------------------|
| Financial assets at FVTPL                                                                              |                     |                   |                   |                     |
| Derivative financial assets -<br>foreign exchange forward<br>contracts (not under<br>hedge accounting) | \$ -                | \$ 10,794         | \$ -              | \$ 10,794           |
| Bank debentures in the<br>ROC                                                                          | <u>-</u>            | <u>171,035</u>    | <u>-</u>          | <u>171,035</u>      |
|                                                                                                        | <u>\$ -</u>         | <u>\$ 181,829</u> | <u>\$ -</u>       | <u>\$ 181,829</u>   |
| Financial assets at FVTOCI                                                                             |                     |                   |                   |                     |
| Securities listed in the ROC                                                                           | \$ 1,579,324        | \$ -              | \$ -              | \$ 1,579,324        |
| Domestic unlisted shares                                                                               | <u>-</u>            | <u>-</u>          | <u>293,985</u>    | <u>293,985</u>      |
|                                                                                                        | <u>\$ 1,579,324</u> | <u>\$ -</u>       | <u>\$ 293,985</u> | <u>\$ 1,873,309</u> |
| Hedging financial assets                                                                               |                     |                   |                   |                     |
| Derivative financial assets -<br>foreign exchange forward<br>contracts                                 | <u>\$ -</u>         | <u>\$ 24</u>      | <u>\$ -</u>       | <u>\$ 24</u>        |

There were no transfers between Levels 1 and 2 for the years ended December 31, 2020 and 2019.

3) Reconciliation of Level 3 fair value measurements of financial assets

| <b>Financial Assets</b>                  | <b>Financial Assets<br/>of Equity<br/>Securities at<br/>FVTOCI</b> |
|------------------------------------------|--------------------------------------------------------------------|
| Balance at January 1, 2020               | \$ 293,985                                                         |
| Proceeds from capital reduction          | (41,057)                                                           |
| Recognized in other comprehensive income | 120,835                                                            |
| Settlements                              | <u>(1,800)</u>                                                     |
| Balance at December 31, 2020             | <u>\$ 371,963</u>                                                  |

| <b>Financial Assets</b>                  | <b>Financial Assets<br/>of Equity<br/>Securities at<br/>FVTOCI</b> |
|------------------------------------------|--------------------------------------------------------------------|
| Balance at January 1, 2019               | \$ 300,123                                                         |
| Purchases                                | 3                                                                  |
| Proceeds from capital reduction          | (17,229)                                                           |
| Recognized in other comprehensive income | <u>11,088</u>                                                      |
| Balance at December 31, 2019             | <u>\$ 293,985</u>                                                  |

4) Valuation techniques and inputs applied for Level 2 fair value measurement

| <b>Financial Instruments</b>                           | <b>Valuation Techniques and Inputs</b>                                                                                                                                                                                                                                                                      |
|--------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Derivatives - foreign<br>exchange forward<br>contracts | Discounted cash flow:<br><br>a) The average exchange rate (i.e., difference between the highest and the lowest exchange rates) of the counterparties' financial institutions in the accordance with the Reuters quoting system, or<br><br>b) The daily spot exchange rate quoted by financial institutions. |
| Bank debentures in the ROC                             | Discounted cash flow.                                                                                                                                                                                                                                                                                       |

Future cash flows are discounted at a rate that reflects current borrowing interest rates of the debenture issuers at the end of the reporting period.

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

The fair values of unlisted equity securities - ROC were determined using the assets approach. The total value of individual assets and individual liabilities reflects the overall value of the investment. The significant unobservable inputs used are listed in the table below. A decrease in discount for lack of marketability used in isolation would result in increases in fair value.

|                                    | <b>December 31</b> |             |
|------------------------------------|--------------------|-------------|
|                                    | <b>2020</b>        | <b>2019</b> |
| Discount for lack of marketability | 15%                | 15%         |

If the inputs to the valuation model were changed to reflect reasonably possible alternative assumptions while all the other variables were held constant, the fair value of the shares would have increased (decreased) as follows:

|                                    | <b>December 31</b>       |                          |
|------------------------------------|--------------------------|--------------------------|
|                                    | <b>2020</b>              | <b>2019</b>              |
| Discount for lack of marketability |                          |                          |
| 2.5% increase                      | <u><u>\$(11,218)</u></u> | <u><u>\$ (8,647)</u></u> |
| 2.5% decrease                      | <u><u>\$ 11,218</u></u>  | <u><u>\$ 8,647</u></u>   |

b. Categories of financial instruments

|                                             | <b>December 31</b> |             |
|---------------------------------------------|--------------------|-------------|
|                                             | <b>2020</b>        | <b>2019</b> |
| <u>Financial assets</u>                     |                    |             |
| Financial assets at FVTPL                   |                    |             |
| Mandatorily classified as at FVTPL          | \$ 5,370           | \$ 181,829  |
| Financial assets for hedging                | 54                 | 24          |
| Financial assets at amortized cost (1)      | 2,964,138          | 3,044,776   |
| Financial assets at FVTOCI                  | 1,864,736          | 1,873,309   |
| <u>Financial liabilities</u>                |                    |             |
| Financial liabilities at amortized cost (2) | 12,547,978         | 10,362,843  |

1) The balances include financial assets measured at amortized cost, which comprise cash, notes and accounts receivable, notes and accounts receivable from related parties, other receivables

(accounted as other current assets), and refundable deposits (accounted as other non-current assets).

- 2) The balances include financial liabilities measured at amortized cost, which comprise short-term borrowings, short-term bills payable, notes and accounts payable, notes and accounts payable to related parties, other payables, long-term borrowings, and deposits received (accounted as other non-current liabilities).

c. Financial risk management objectives and policies

The Company's main target in financial risk management is to manage the market risk related to operating activities (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk. To reduce the potential and detrimental influence of the fluctuations in market on the Company's financial performance, the Company is devoted to identify, estimate and hedge the uncertainties of the market.

The Company sought to minimize the effects of these risks by using both derivative and non-derivative financial instruments to avoid risk exposures. The use of financial instruments is governed by the Company's policies approved by the board of directors, which provides written principles on foreign exchange risk, interest rate risk, credit risk, derivative and non-derivative financial instruments, and investment of excess liquidity. Compliance with policies and exposure limits is being reviewed by the internal auditors on a regular basis. The Company did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

1) Market risk

a) Foreign currency risk

The Company had foreign currency sales and purchases, which exposed the Company to foreign currency risk. The Company used foreign exchange forward contracts to eliminate currency exposure. These foreign exchange forward contracts could reduce the influence of the exchange rate fluctuations on the Company's income.

Sensitivity analysis

For the position of financial assets and liabilities that had significant influence on the Company, the risk was measured by considering the net position of foreign currency forward contracts that was in effect.

The Company was mainly exposed to the USD and RMB.

The following table details the Company's sensitivity to a 5% increase in the functional currency against the relevant foreign currencies. For a 5% weakening of the New Taiwan dollar against the relevant currency, there would be an equal and opposite impact on pre-tax profit and the balances below would be negative.

|                                            | <b><u>For the Year Ended December 31</u></b> |             |
|--------------------------------------------|----------------------------------------------|-------------|
|                                            | <b>2020</b>                                  | <b>2019</b> |
| Influence to profit or loss at 5% variance |                                              |             |
| USD                                        | \$ 56,153                                    | \$ 100,207  |
| RMB                                        | 33,366                                       | 35,603      |

b) Interest rate risk

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

|                               | <b><u>For the Year Ended December 31</u></b> |             |
|-------------------------------|----------------------------------------------|-------------|
|                               | <b>2020</b>                                  | <b>2019</b> |
| Fair value interest rate risk |                                              |             |
| Financial assets              | \$ -                                         | \$ 171,035  |
| Financial liabilities         | 7,687,952                                    | 2,597,154   |
| Cash flow interest rate risk  |                                              |             |
| Financial assets              | 152,961                                      | 143,693     |
| Financial liabilities         | 1,642,777                                    | 5,245,500   |

Due to the close and long-term relationship with banks, the Company obtained better and flexible interest rates from banks. The impact of changing in interest rates is not significant to the Company.

Sensitivity analysis

For the Company's floating interest rate financial liabilities, if interest rates had been 0.1% higher/lower and all other variables were held constant, the Company's pre-tax profit for the years ended December 31, 2020 and 2019 would have decreased/increased as follows:

|                   | <b><u>For the Year Ended December 31</u></b> |             |
|-------------------|----------------------------------------------|-------------|
|                   | <b>2020</b>                                  | <b>2019</b> |
| Decrease/increase | \$ 1,490                                     | \$ 5,102    |

c) Other price risk

The Company was exposed to equity price risk through its investments in listed equity securities. To prevent significant price risk, the Company has built an immediate control system.

Sensitivity analysis

The sensitivity analyses below were determined based on the exposure to equity price risks at the end of the reporting period.

If equity prices had been 5% higher/lower, the Company's comprehensive income for the years ended December 31, 2020 and 2019 would have increased/decreased as follows:

|                            | <b><u>For the Year Ended December 31</u></b> |             |
|----------------------------|----------------------------------------------|-------------|
|                            | <b>2020</b>                                  | <b>2019</b> |
| Other comprehensive income |                                              |             |
| Increase/decrease          | \$ 93,237                                    | \$ 93,665   |

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting

in financial loss to the Company. At the end of the reporting period, the Company's maximum exposure to credit risk which will cause a financial loss to the Company due to the failure of counterparty to discharge its obligation is at the level of the carrying amounts of the respective recognized financial assets which comprise receivables from operating activities and financial assets from investing activities as stated in the balance sheets.

The Company's transactions are done with a large number of unrelated customers and various industries. The Company continuously evaluates the financial conditions of those customers.

To maintain the quality of the accounts receivable, the Company has developed a credit risk management procedure to reduce the credit risk from specific customer. The credit evaluation of individual customer includes considering factors that will affect its payment ability such as financial condition, past transaction records and current economic conditions. Credit risk of bank deposits, fixed-income investments and other financial instruments with banks is evaluated and monitored by the Company's financial department. Since the counterparties are creditworthy banks and financial institutions with good credit rating, there was no significant credit risk.

### 3) Liquidity risk

The objective of liquidity risk management is to maintain adequate cash and cash equivalents with high liquidity and sufficient bank facilities required by business operation and to ensure the Company has sufficient financial flexibility.

As of December 31, 2020 and 2019, the Company's unused financing facilities were \$7,288,161 thousand and \$8,339,131 thousand, respectively.

## 24. TRANSACTIONS WITH RELATED PARTIES

### a. Related party name and category

| Related Party Name                                          | Related Party Category    |
|-------------------------------------------------------------|---------------------------|
| YFY Inc.                                                    | Parent company            |
| Genovella Renewables Inc.                                   | Subsidiary                |
| Shenzhen Jinglun Paper Co., Ltd.                            | Subsidiary                |
| YFY Consumer Products Co., Ltd.                             | Fellow subsidiary         |
| YFY Packaging Inc.                                          | Fellow subsidiary         |
| YFY International Ltd.                                      | Fellow subsidiary         |
| Yuen Foong Yu Paper MFG (Yangzhou) Co., Ltd.                | Fellow subsidiary         |
| YFY Development Corp. (formerly as YFY Capital Co., Ltd.)   | Fellow subsidiary         |
| Union Paper Corp.                                           | Fellow subsidiary         |
| Shin Foong Specialty & Applied Materials Co., Ltd.          | Fellow subsidiary         |
| China Color Printing Co., Ltd.                              | Fellow subsidiary         |
| Cupid InfoTech Co., Ltd.                                    | Fellow subsidiary         |
| Ever Growing Agriculture Biotech Co., Ltd.                  | Fellow subsidiary         |
| YFY Jupiter Ltd.                                            | Fellow subsidiary         |
| YFY Japan Co., Ltd.                                         | Fellow subsidiary         |
| Sustainable Carbohydrate Innovation Co., Ltd.               | Fellow subsidiary         |
| MOBIUS105 LIMITED                                           | Fellow subsidiary         |
| Arizon RFID Technology (Hong Kong) Co., Ltd., Taiwan Branch | Fellow subsidiary         |
| YFY Holding Management Co., Ltd.                            | Fellow subsidiary         |
| Yuen Foong Shop Co., Ltd.                                   | Fellow subsidiary         |
| YFY Biotechnology Co., Ltd.                                 | Parent's associate        |
| E Ink Holdings Inc.                                         | Parent's associate        |
| Shin-Yi Foundation                                          | Substantial related party |
| Beautone Co., Ltd.                                          | Substantial related party |
| Shin-Yi Enterprise Co., Ltd.                                | Substantial related party |
| Yuen Foong Paper Co., Ltd.                                  | Substantial related party |
| SinoPac Leasing Co., Ltd.                                   | Substantial related party |
| SinoPac Securities Co., Ltd.                                | Substantial related party |

b. Sales of goods

| Related Party Type          | For the Year Ended December 31 |                     |
|-----------------------------|--------------------------------|---------------------|
|                             | 2020                           | 2019                |
| Fellow subsidiaries         | \$ 2,165,903                   | \$ 2,679,892        |
| Subsidiaries                | 1,462,995                      | 1,106,237           |
| Substantial related parties | 238,561                        | 305,268             |
| Parent company              | 41                             | 41                  |
| Parent's associates         | <u>2</u>                       | <u>76</u>           |
|                             | <u>\$ 3,867,502</u>            | <u>\$ 4,091,514</u> |

For sales of goods to related parties, the prices and terms of receivables approximate to those with non-related parties.

c. Purchases of goods

| Related Party Type          | For the Year Ended December 31 |                     |
|-----------------------------|--------------------------------|---------------------|
|                             | 2020                           | 2019                |
| Fellow subsidiaries         | \$ 1,703,912                   | \$ 2,259,010        |
| Subsidiaries                | 2,746                          | 186                 |
| Substantial related parties | 1,925                          | 2,263               |
| Parent's associates         | <u>349</u>                     | <u>599</u>          |
|                             | <u>\$ 1,708,932</u>            | <u>\$ 2,262,058</u> |

For purchases of goods from related parties, the prices and terms of payables approximate to those with non-related parties.

d. Receivables from related parties

| Related Party Type               | December 31       |                     |
|----------------------------------|-------------------|---------------------|
|                                  | 2020              | 2019                |
| Subsidiaries                     |                   |                     |
| Shenzhen Jinglun Paper Co., Ltd. | \$ 627,173        | \$ 727,224          |
| Others                           | <u>500</u>        | <u>368</u>          |
|                                  | <u>627,673</u>    | <u>727,592</u>      |
| Fellow subsidiaries              |                   |                     |
| Yuen Foong Shop Co., Ltd.        | 125,921           | 49,565              |
| Others                           | <u>167,884</u>    | <u>201,981</u>      |
|                                  | <u>293,805</u>    | <u>251,546</u>      |
| Substantial related parties      | 49,234            | 60,256              |
| Parent company                   | 3                 | 3                   |
| Parent's associates              | <u>1</u>          | <u>39</u>           |
|                                  | <u>\$ 970,716</u> | <u>\$ 1,039,436</u> |

The outstanding accounts receivable from related parties are unsecured. No bad debt was recognized for the years ended December 31, 2020 and 2019 for allowance of impaired accounts receivable

from related parties.

e. Payables to related parties

| Related Party Type                                 | December 31       |                   |
|----------------------------------------------------|-------------------|-------------------|
|                                                    | 2020              | 2019              |
| Fellow subsidiaries                                |                   |                   |
| YFY Packaging Inc.                                 | \$ 215,407        | \$ 260,528        |
| Shin Foong Specialty & Applied Materials Co., Ltd. | 78,534            | 97,603            |
| YFY Development Corp.                              | 35,341            | 59,291            |
| Others                                             | <u>34,097</u>     | <u>36,663</u>     |
|                                                    | <u>363,379</u>    | <u>454,085</u>    |
| Subsidiaries                                       | 3,813             | 3,784             |
| Substantial related parties                        | 987               | 1,491             |
| Parent company                                     | -                 | 259               |
| Parent's associates                                | <u>-</u>          | <u>29</u>         |
|                                                    | <u>\$ 368,179</u> | <u>\$ 459,648</u> |

The outstanding accounts payable to related parties are unsecured.

f. Acquisition of investment properties

| Related Party Type  | For the Year Ended December 31 |             |
|---------------------|--------------------------------|-------------|
|                     | 2020                           | 2019        |
| Fellow subsidiaries | <u>\$ 65</u>                   | <u>\$ -</u> |

g. Lease arrangements

| Related Party Type       | December 31      |                  |
|--------------------------|------------------|------------------|
|                          | 2020             | 2019             |
| <u>Lease liabilities</u> |                  |                  |
| Parent company           | <u>\$ 14,455</u> | <u>\$ 19,016</u> |

| Related Party Type          | For the Year Ended December 31 |                  |
|-----------------------------|--------------------------------|------------------|
|                             | 2020                           | 2019             |
| <u>Interest expense</u>     |                                |                  |
| Parent company              | <u>\$ 205</u>                  | <u>\$ 260</u>    |
| <u>Lease expense</u>        |                                |                  |
| Parent company              | \$ 10,885                      | \$ 10,885        |
| Substantial related parties | <u>7,036</u>                   | <u>7,049</u>     |
|                             | <u>\$ 17,921</u>               | <u>\$ 17,934</u> |

h. Other transactions with related parties

| Related Party Type  | <b>Rental Income</b>                  |                 |
|---------------------|---------------------------------------|-----------------|
|                     | <b>(Accounted as Other Income)</b>    |                 |
|                     | <b>For the Year Ended December 31</b> |                 |
|                     | <b>2020</b>                           | <b>2019</b>     |
| Fellow subsidiaries | \$ 1,429                              | \$ 1,429        |
| Parent company      | <u>114</u>                            | <u>114</u>      |
|                     | <u>\$ 1,543</u>                       | <u>\$ 1,543</u> |

| Related Party Type  | <b>Other Operating Expenses</b>       |                  |
|---------------------|---------------------------------------|------------------|
|                     | <b>For the Year Ended December 31</b> |                  |
|                     | <b>2020</b>                           | <b>2019</b>      |
| Fellow subsidiaries | <u>\$ 44,873</u>                      | <u>\$ 42,117</u> |

| Related Party Type  | <b>Management Fee (Accounted as Operating Expenses)</b> |                  |
|---------------------|---------------------------------------------------------|------------------|
|                     | <b>For the Year Ended December 31</b>                   |                  |
|                     | <b>2020</b>                                             | <b>2019</b>      |
| Fellow subsidiaries | <u>\$ 89,678</u>                                        | <u>\$ 84,932</u> |

The amount of management fee was depended on the agreements, rental income and expenses which were received or paid monthly.

i. Compensation of key management personnel

|                       | <b>For the Year Ended December 31</b> |                  |
|-----------------------|---------------------------------------|------------------|
|                       | <b>2020</b>                           | <b>2019</b>      |
| Salaries and benefits | \$ 25,269                             | \$ 22,140        |
| Executive fees        | <u>3,051</u>                          | <u>2,900</u>     |
|                       | <u>\$ 28,320</u>                      | <u>\$ 25,040</u> |

The remuneration of directors and key executives was determined by the remuneration committee based on the performance of individuals and market trends.

## 25. SIGNIFICANT COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2020 and 2019, unused letters of credit for purchases of raw materials and machinery and equipment amounted to approximately \$267,462 thousand and \$113,669 thousand, respectively.

## 26. OTHER ITEMS

Due to the impact of the COVID-19 pandemic in 2020, some of the Company's subsidiaries, clients and suppliers located in severely affected areas are under quarantine and travel restriction policies. The Company evaluated that there were no material impact on the its business operations and financial conditions. Hence there are no issues arising from its ability to continue as a going concern, asset impairment and financial risk.

## 27. EXCHANGE RATE OF FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following is information on the foreign currencies other than the functional currencies of the Company and the related exchange rates between the foreign currencies and respective functional currencies. The significant assets and liabilities denominated in foreign currencies were as follows:

|                                                      | December 31, 2020                        |                  |                       |
|------------------------------------------------------|------------------------------------------|------------------|-----------------------|
|                                                      | Foreign<br>Currency<br>(In<br>Thousands) | Exchange<br>Rate | New Taiwan<br>Dollars |
| <u>Financial assets</u>                              |                                          |                  |                       |
| Monetary items                                       |                                          |                  |                       |
| USD                                                  | \$ 69,599                                | 28.48            | \$ 1,982,179          |
| RMB                                                  | 152,880                                  | 4.365            | 667,321               |
| Investments accounted for using the equity<br>method |                                          |                  |                       |
| USD                                                  | 174,710                                  | 28.48            | 4,975,733             |
| Non-monetary items                                   |                                          |                  |                       |
| Derivative instruments                               |                                          |                  |                       |
| USD                                                  | 16,400                                   | 28.48            | 467,072               |
| EUR                                                  | 300                                      | 35.02            | 10,506                |
| <u>Financial liabilities</u>                         |                                          |                  |                       |
| Monetary items                                       |                                          |                  |                       |
| USD                                                  | 46,565                                   | 28.48            | 1,326,183             |

|                                                      | December 31, 2019                        |                  |                       |
|------------------------------------------------------|------------------------------------------|------------------|-----------------------|
|                                                      | Foreign<br>Currency<br>(In<br>Thousands) | Exchange<br>Rate | New Taiwan<br>Dollars |
| <u>Financial assets</u>                              |                                          |                  |                       |
| Monetary items                                       |                                          |                  |                       |
| USD                                                  | \$ 44,815                                | 29.98            | \$ 1,343,554          |
| RMB                                                  | 165,709                                  | 4.297            | 712,052               |
| Investments accounted for using the equity<br>method |                                          |                  |                       |
| USD                                                  | 171,333                                  | 29.98            | 5,136,558             |
| Non-monetary items                                   |                                          |                  |                       |
| Derivative instruments                               |                                          |                  |                       |
| USD                                                  | 33,400                                   | 29.98            | 1,001,332             |
| <u>Financial liabilities</u>                         |                                          |                  |                       |
| Monetary items                                       |                                          |                  |                       |
| USD                                                  | 11,366                                   | 29.98            | 340,753               |
| Non-monetary items                                   |                                          |                  |                       |
| Derivative instruments                               |                                          |                  |                       |
| EUR                                                  | 300                                      | 33.59            | 10,077                |

## 28. SEPARATELY DISCLOSED ITEMS

### a. Information about significant transactions and investees:

- 1) Financing provided to others (None)
- 2) Endorsements/guarantees provided (Table 1)
- 3) Marketable securities held (Table 2)
- 4) Marketable securities acquired and disposed at costs or prices 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 (Table 3)
- 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 (Table 5)
  - 9) Trading in derivative instruments (Notes 7 and 9)
  - 10) Information of investee (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:
    - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period (None)
    - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period (Table 4)
    - c) The amount of property transactions and the amount of the resultant gains or losses (None)
    - d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes (Table 1)
    - e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds (None)

- f) Other transactions that have a material effect on the profit or loss for the year or on the financial position, such as the rendering or receipt of services. (None)
- c. Information of major shareholders: List all shareholders with ownership of 5% or greater, showing the name of the shares owned, and percentage of ownership of each shareholder (Table 8)

TABLE 1

CHUNG HWA PULP CORPORATION

ENDORSEMENTS/GUARANTEES PROVIDED  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| No.<br>(Note 1) | Endorser/Guarantor         | Endorsee/Guarantee                        |                          | Limit on<br>Endorsement/<br>Guarantee Given<br>on Behalf of Each<br>Party (Note 3) | Maximum<br>Amount<br>Endorsed/<br>Guaranteed<br>During the Period<br>(Foreign<br>Currencies in<br>Thousands)<br>(Note 4) | Outstanding<br>Endorsement/<br>Guarantee at the<br>End of the Period<br>(Foreign<br>Currencies in<br>Thousands)<br>(Note 5) | Actual Borrowing<br>Amount<br>(Note 6) | Amount<br>Endorsed/<br>Guaranteed by<br>Collateral | Ratio of<br>Accumulated<br>Endorsement/<br>Guarantee to Net<br>Equity in Latest<br>Financial<br>Statements<br>(%) | Aggregate<br>Endorsement/<br>Guarantee Limit<br>(Note 3) | Endorsement/<br>Guarantee Given<br>by Parent on<br>Behalf of<br>Subsidiaries<br>(Note 7) | Endorsement/<br>Guarantee Given<br>by Subsidiaries on<br>Behalf of Parent<br>(Note 7) | Endorsement/<br>Guarantee Given<br>on Behalf of<br>Companies in<br>Mainland China<br>(Note 7) |
|-----------------|----------------------------|-------------------------------------------|--------------------------|------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|----------------------------------------|----------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|
|                 |                            | Name                                      | Relationship<br>(Note 2) |                                                                                    |                                                                                                                          |                                                                                                                             |                                        |                                                    |                                                                                                                   |                                                          |                                                                                          |                                                                                       |                                                                                               |
| 0               | Chung Hwa Pulp Corporation | Hwa Fong Investment Ind. Co., Ltd.        | b.                       | \$ 22,675,847                                                                      | \$ 130,000<br>(US\$ 4,565)                                                                                               | \$ 130,000<br>(US\$ 4,565)                                                                                                  | \$ -                                   | \$ -                                               | 0.88                                                                                                              | \$ 30,234,462                                            | Note 8                                                                                   | N                                                                                     | N                                                                                             |
|                 |                            | CHP International (BVI) Corporation       | b.                       | 22,675,847                                                                         | 710,875<br>(US\$ 24,960)                                                                                                 | 526,880<br>(US\$ 18,500)                                                                                                    | 96,832                                 | -                                                  | 3.56                                                                                                              | 30,234,462                                               | Note 8                                                                                   | N                                                                                     | N                                                                                             |
|                 |                            | Guangdong Dingfung Pulp & Paper Co., Ltd. | b.                       | 22,675,847                                                                         | 175,330<br>(RMB 40,169)                                                                                                  | 174,593<br>(RMB 40,000)                                                                                                     | -                                      | -                                                  | 1.18                                                                                                              | 30,234,462                                               | Note 8                                                                                   | N                                                                                     | Note 8                                                                                        |

Note 1: The number column is illustrated as follows:

a. The company is numbered 0.

b. The subsidiaries of the company are sequentially numbered from 1 based on their investment structure.

Note 2: The 7 different relationships between endorsee and guarantee are as follows:

a. The companies with which it has business relations.

b. Subsidiaries in which it holds more than 50% of its total outstanding ordinary shares.

c. Companies in which it holds more than 50% of its total outstanding ordinary shares.

d. Companies in which it holds more than 90% of its total outstanding ordinary shares.

e. Companies in same type of business and providing mutual endorsements/guarantees in favor of each other in accordance with the contractual obligations in order to fulfill the needs of the construction project.

f. Shareholders making endorsements/guarantees for their mutually invested companies in proportion to their shareholding percentages.

g. Companies in the same industry provide among themselves joint and several security for a performance guarantee of a sales contract for pre-construction homes pursuant to the Consumer Protection Act for each other.

Note 3: Limit on endorsement/guarantee given on behalf of Chung Hwa Pulp Corporation to a single entity is 150% of the net equity of the prior year. Limit on endorsement/guarantee is 200% of the net equity of the prior year.

Note 4: The balance is the maximum amount endorsed/guaranteed to others during the period.

Note 5: The balance is the amount approved by the board of directors. If the chairman is authorized by the board of directors to make the endorsement/guarantee decisions based on the guidelines for lending of capital, endorsements and guarantees by Public Companies Art. 12.8, the balance is the amount approved by the chairman.

Note 6: The balance is the actual borrowing amount determined by the endorsee/guarantee within the limit.

Note 7: Endorsement/guarantee given by parent on behalf of subsidiaries, endorsement/guarantee given by subsidiaries on behalf of parent, and endorsement/guarantee given on behalf of companies in mainland China should be Y.

Note 8: The endorsee and guarantee jointly issued promissory notes in consideration of the line of credit of financial institutions.

TABLE 2

CHUNG HWA PULP CORPORATION

MARKETABLE SECURITIES HELD  
DECEMBER 31, 2020  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| Holding Company Name       | Type and Name of Marketable Securities  | Relationship with the Holding Company                            | Financial Statement Account                                                     | December 31, 2020 |                 |                             |                     |
|----------------------------|-----------------------------------------|------------------------------------------------------------------|---------------------------------------------------------------------------------|-------------------|-----------------|-----------------------------|---------------------|
|                            |                                         |                                                                  |                                                                                 | Number of Shares  | Carrying Amount | Percentage of Ownership (%) | Fair Value (Note 1) |
| Chung Hwa Pulp Corporation | Ordinary shares                         |                                                                  |                                                                                 |                   |                 |                             |                     |
|                            | SinoPac Holdings Co., Ltd.              | -                                                                | Financial assets at fair value through other comprehensive income - current     | 99,809,327        | \$ 1,142,817    | 0.90                        | \$ 1,142,817        |
|                            | NTU Innovation & Incubation Co., Ltd.   | The investor is the member of the investee’s board of directors. | Financial assets at fair value through profit or loss - non-current             | 800,000           | -               | 6.30                        | -                   |
|                            | Groundhog Technologies Inc.             | -                                                                | Financial assets at fair value through profit or loss - non-current             | 275,000           | -               | 1.00                        | -                   |
|                            | KHL IB Venture Capital Co., Ltd.        | -                                                                | Financial assets at fair value through other comprehensive income - non-current | 15,055,884        | 371,960         | 14.88                       | 371,960             |
|                            | Direct Insight Inc.                     | -                                                                | Financial assets at fair value through other comprehensive income - non-current | 265,000           | 3               | 1.00                        | 3                   |
|                            | TaiGen Biopharmaceuticals Holdings Ltd. | -                                                                | Financial assets at fair value through other comprehensive income - non-current | 15,315,356        | 349,956         | 2.10                        | 349,956             |

Note 1: The securities mentioned in the table above are those classified as financial instruments under IFRS 9, including shares, bonds, beneficiary certificates, and all other securities derived from those items.

Note 2: Refer to Table 6 and Table 7 for information on investments in subsidiaries and associates.

TABLE 3

CHUNG HWA PULP CORPORATION

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(In Thousands of New Taiwan Dollars)

| Buyer                      | Property                      | Event Date | Transaction Amount | Payment Status                                                                                        | Counterparty                                    | Relationship      | Information on Previous Title Transfer If Counterparty Is A Related Party |              |                  |        | Pricing Reference | Purpose of Acquisition                        | Other Terms |
|----------------------------|-------------------------------|------------|--------------------|-------------------------------------------------------------------------------------------------------|-------------------------------------------------|-------------------|---------------------------------------------------------------------------|--------------|------------------|--------|-------------------|-----------------------------------------------|-------------|
|                            |                               |            |                    |                                                                                                       |                                                 |                   | Property Owner                                                            | Relationship | Transaction Date | Amount |                   |                                               |             |
| Chung Hwa Pulp Corporation | Land, buildings and equipment | 2020/10/23 | \$ 2,000,000       | Based on the terms in the contract, as at the end of the reporting period, the group paid \$1,400,000 | Alpha Beta Global Tapes And Adhesives Co., Ltd. | Non-related party | -                                                                         | -            | -                | \$ -   | Market price      | Build a non-plastic material development base | -           |

**TABLE 4****CHUNG HWA PULP CORPORATION**

**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(In Thousands of New Taiwan Dollars)**

| Buyer/Seller                  | Related Party                                           | Relationship<br>(Note) | Transaction Details |              |               |                                      | Abnormal Transaction |                  | Notes/Accounts<br>Receivable (Payable) |               | Unrealized<br>Gain (Loss) |
|-------------------------------|---------------------------------------------------------|------------------------|---------------------|--------------|---------------|--------------------------------------|----------------------|------------------|----------------------------------------|---------------|---------------------------|
|                               |                                                         |                        | Purchase/<br>Sale   | Amount       | % of<br>Total | Payment Terms                        | Unit Price           | Payment<br>Terms | Ending<br>Balance                      | % of<br>Total |                           |
| Chung Hwa Pulp<br>Corporation | YFY Development (Note 2)                                | a.                     | Sale                | \$ (800,236) | (5)           | 0.5 month after transaction<br>month | \$ -                 | -                | \$ 60,340                              | 2             | \$ -                      |
|                               | Shenzhen Jinglun Paper Co., Ltd.                        | b.                     | Sale                | (1,462,855)  | (9)           | 5 months after transaction<br>month  | -                    | -                | 627,173                                | 23            | 1,412                     |
|                               | YFY Consumer Products Co., Ltd.                         | a.                     | Sale                | (409,135)    | (2)           | 2 months after transaction<br>month  | -                    | -                | 125,921                                | 5             | -                         |
|                               | YFY Packaging Inc.                                      | a.                     | Sale                | (184,907)    | (1)           | 3 months after transaction<br>month  | -                    | -                | 44,418                                 | 2             | -                         |
|                               | YFY Packaging Inc.                                      | a.                     | Purchase            | 1,106,192    | 7             | 2 months after transaction<br>month  | -                    | -                | (215,407)                              | (13)          | -                         |
|                               | Union Paper Corp.                                       | a.                     | Sale                | (694,398)    | (4)           | 1 month after transaction month      | -                    | -                | 50,667                                 | 2             | -                         |
|                               | Union Paper Corp.                                       | a.                     | Purchase            | 162,050      | 1             | 1 month after transaction month      | -                    | -                | (18,979)                               | (1)           | -                         |
|                               | Beautone Co., Ltd.                                      | c.                     | Sale                | (198,821)    | (1)           | 1 month after transaction month      | -                    | -                | 37,946                                 | 1             | -                         |
|                               | YFY Japan Co., Ltd.                                     | a.                     | Purchase            | 232,652      | 2             | In agreed terms                      | -                    | -                | -                                      | -             | -                         |
|                               | Shin Foong Specialty and Applied<br>Materials Co., Ltd. | a.                     | Purchase            | 192,954      | 1             | 4 months after transaction<br>month  | -                    | -                | (78,534)                               | (5)           | -                         |

Note 1: a. Fellow subsidiaries.  
b. Parent company and subsidiary.  
c. Substantial related-party.

Note 2: Formerly as YFY Capital Co., Ltd.

**TABLE 5**

**CHUNG HWA PULP CORPORATION**

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL**  
**DECEMBER 31, 2020**  
**(In Thousands of New Taiwan Dollars)**

| Company Name               | Related Party                                                                 | Relationship                                         | Ending Balance        | Turnover Rate | Overdue |               | Amounts Received in Subsequent Period | Allowance for Impairment Loss |
|----------------------------|-------------------------------------------------------------------------------|------------------------------------------------------|-----------------------|---------------|---------|---------------|---------------------------------------|-------------------------------|
|                            |                                                                               |                                                      |                       |               | Amount  | Actions Taken |                                       |                               |
| Chung Hwa Pulp Corporation | Yuen Foong Yu Consumer Products Co., Ltd.<br>Shenzhen Jinglun Paper Co., Ltd. | Fellow subsidiaries<br>Parent company and subsidiary | \$ 125,921<br>627,173 | 4.66<br>2.16  | \$ -    | -             | \$ 72,867<br>148,831                  | \$ -                          |
|                            |                                                                               |                                                      |                       |               | -       | -             |                                       |                               |

**TABLE 6****CHUNG HWA PULP CORPORATION****INFORMATION ON INVESTEEES****FOR THE YEAR ENDED DECEMBER 31, 2020****(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Investor Company           | Investee Company                    | Location              | Main Businesses and Products                                                           | Investment Amount |                   | As of December 31, 2020 |       |                 | Net (Loss) Income of the Investee | Share of (Loss) Profits | Note |
|----------------------------|-------------------------------------|-----------------------|----------------------------------------------------------------------------------------|-------------------|-------------------|-------------------------|-------|-----------------|-----------------------------------|-------------------------|------|
|                            |                                     |                       |                                                                                        | December 31, 2020 | December 31, 2019 | Number of Shares        | %     | Carrying Amount |                                   |                         |      |
| Chung Hwa Pulp Corporation | CHP International (BVI) Corporation | British Virgin Island | Investment and holding.                                                                | \$ 1,747,085      | \$ 1,747,085      | 61,039,956              | 100.0 | \$ 4,975,733    | \$ (122,856)                      | \$ (123,756)            | a.   |
|                            | E Ink Holdings Inc.                 | Hsinchu, Taiwan       | To research, develop, produce and sale of thin-film transistor liquid crystal display. | 329,000           | 329,000           | 20,000,000              | 1.8   | 443,635         | 3,602,589                         | 63,315                  | b.   |
|                            | Effion Eneritech Co., Ltd.          | Taipei, Taiwan        | To operate cogeneration and provide power technology.                                  | 343,000           | 343,000           | 34,300,000              | 49.0  | 225,552         | (121,033)                         | (59,306)                | b.   |
|                            | Taiwan Global BioFund Co., Ltd.     | Taipei, Taiwan        | Biotechnology and biopharmaceutical business investment.                               | 32,832            | 32,832            | 3,283,200               | 4.4   | 93,076          | 37,945                            | 1,686                   | b.   |
|                            | Hwa Fong Investment Co., Ltd.       | Taipei, Taiwan        | Investment and holding.                                                                | 36,000            | 36,000            | 3,600,000               | 100.0 | 51,806          | 5,206                             | 5,206                   | a.   |

Note: a. Subsidiaries.

b. Investments accounted for using the equity method.

TABLE 7

CHUNG HWA PULP CORPORATION

INFORMATION ON INVESTMENTS IN MAINLAND CHINA  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| Investee Company                                      | Main Businesses and Products                                                                                                                                                                                                                                                                                                | Paid-in Capital<br>(Foreign Currencies<br>in Thousands)<br>(Note 1) | Method of Investment                                                      | Accumulated<br>Outward<br>Remittance for<br>Investment from<br>Taiwan as of<br>January 1, 2020<br>(Foreign Currencies<br>in Thousands)<br>(Note 1) | Remittance of Funds |        | Accumulated<br>Outward<br>Remittance for<br>Investment from<br>Taiwan as of<br>December 31, 2019<br>(Foreign Currencies<br>in Thousands)<br>(Note 1) | Net Income (Loss) of<br>the Investee | % Ownership of<br>Direct or Indirect<br>Investment | Investment<br>Gain (Loss)   | Carrying<br>Amount as of<br>December 31, 2020 | Accumulated<br>Repatriation of<br>Investment Income<br>as of December 31,<br>2020 |
|-------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------|---------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|--------|------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|----------------------------------------------------|-----------------------------|-----------------------------------------------|-----------------------------------------------------------------------------------|
|                                                       |                                                                                                                                                                                                                                                                                                                             |                                                                     |                                                                           |                                                                                                                                                    | Outward             | Inward |                                                                                                                                                      |                                      |                                                    |                             |                                               |                                                                                   |
| Guangdong Dingfung Pulp & Paper Co., Ltd.             | Pulp and paper production, trading and forestry business                                                                                                                                                                                                                                                                    | \$ 2,438,742<br>(US\$ 85,630)<br>(Note 3)                           | Investment in mainland China through companies set up in another country. | \$ 375,936<br>(US\$ 13,200)                                                                                                                        | \$ -                | \$ -   | \$ 375,936<br>(US\$ 13,200)                                                                                                                          | \$ (284,085)<br>(Note 2,b.)          | 60.0                                               | \$ (170,451)<br>(Note 2,b.) | \$ 2,713,276                                  | \$ -                                                                              |
| Shenzhen Jinglun Paper Co., Ltd.                      | Sale of paper merchandise and import/export business                                                                                                                                                                                                                                                                        | 13,967<br>(RMB 3,200)                                               | (Note 5)                                                                  | (Note 5)                                                                                                                                           | -                   | -      | (Note 5)                                                                                                                                             | 23,885<br>(Note 2,b.)                | 100.0                                              | 23,885<br>(Note 2,b.)       | 143,347                                       | -                                                                                 |
| Zhaoqing Dingfung Forestry Ltd.                       | Export factoring, domestic factoring, business factoring and related consulting services, develop credit risk management platform                                                                                                                                                                                           | 623,142<br>(US\$ 21,880)                                            | Investment in mainland China through companies set up in another country. | 126,109<br>(US\$ 4,428)                                                                                                                            | -                   | -      | 126,109<br>(US\$ 4,428)                                                                                                                              | 22,526<br>(Note 2,b.)                | 86.5<br>(Note 4)                                   | 19,487<br>(Note 2,b.)       | 2,512,980                                     | -                                                                                 |
| Zhaoqing Xinchuan Green Technology Co., Ltd. (Note 4) | Environmental equipment technology research and development; construction of wastewater, flue gas, noise and solid waste treatment; pure water treatment construction; environmental technology consulting; sale of environmental protection equipment and chemical raw material; import and export of cargo and technology | 8,730<br>(RMB 2,000)                                                | (Note 5)                                                                  | (Note 5)                                                                                                                                           | -                   | -      | (Note 5)                                                                                                                                             | 44<br>(Note 2,b.)                    | 100.0                                              | 44<br>(Note 2,b.)           | 9,456                                         | -                                                                                 |

| Accumulated Investment in Mainland China as of<br>December 31, 2020 | Investment Amounts Authorized by<br>Investment Commission, MOEA | Upper Limit on Investment |
|---------------------------------------------------------------------|-----------------------------------------------------------------|---------------------------|
| \$502,045<br>(Note 1)                                               | \$1,213,419<br>(Note 1)                                         | \$8,870,987               |

Note 1: The exchange rates are US\$1=NT\$28.48 or RMB1=NT\$4.364818 as of December 31, 2020.

Note 2: The recognition basis for investment gain (loss) are as follows:

a. Financial statements audited by an international CPA firm with the cooperation of the ROC CPA firm.

b. Financial statements audited by the ROC CPA firm.

c. Others.

Note 3: Guangdong Dingfung Pulp & Paper Co., Ltd. increased its capital by retained earnings in an amount of US\$41,630 thousand from 2004 to 2007, and increased its capital by retained earnings from 2007 and 2008 in an amount of US\$22,000 thousand in July 2015. The paid-in-capital after the capital increase was US\$85,630 thousand.

Note 4: Ownership percentage of investment for CHP International (BVI) Corporation and Guangdong Dingfung Pulp & Paper Co., Ltd. are 20.2% and 66.3%, respectively.

Note 5: Investment in mainland China through companies set up in another country. The direct investor is Guangdong Dingfung Pulp & Paper Co., Ltd.

2. For information on any investee company in mainland China, refer to Tables 1, 4 and 5.

**TABLE 8****CHUNG HWA PULP CORPORATION AND SUBSIDIARIES****INFORMATION OF MAJOR SHAREHOLDERS****DECEMBER 31, 2020**

---

| Name of Major Shareholder | Shares           |                             |
|---------------------------|------------------|-----------------------------|
|                           | Number of Shares | Percentage of Ownership (%) |
| YFY Inc.                  | 627,827,989      | 57.8                        |

Note: The information of major shareholders presented in this table is provided by the Taiwan Depository & Clearing Corporation based on the number of ordinary shares and preferred shares held by shareholders with ownership of 5% or greater, that have been issued without physical registration by the Company as of the last business day for the current quarter. The share capital in the consolidated financial statements may differ from the actual number of shares that have been issued without physical registration because of different preparation basis.

**6.6 Any financial difficulty and the impact on the Company's finance in last year and up to the print date of this annual report:**

None

## Review of Financial Conditions, Financial Performance, and Risk Management

### 7.1 Balance Sheet Analysis

Unit: NT\$ thousands

| Item \ Year                       | 2020              | 2019              | Difference       |            |
|-----------------------------------|-------------------|-------------------|------------------|------------|
|                                   |                   |                   | Amount           | %          |
| Current Assets                    | 12,893,835        | 13,098,672        | (204,837)        | (2)        |
| Property, plant and equipment     | 16,557,872        | 14,654,819        | 1,903,053        | 13         |
| Other Assets                      | 3,128,526         | 3,344,926         | (126,400)        | (4)        |
| <b>Total Assets</b>               | <b>32,670,233</b> | <b>31,098,417</b> | <b>1,571,816</b> | <b>5</b>   |
| Current Liabilities               | 12,035,465        | 11,116,249        | 919,216          | 8          |
| Non-current Liabilities           | 3,649,014         | 2,587,144         | 1,061,870        | 41         |
| <b>Total Liabilities</b>          | <b>15,684,479</b> | <b>13,703,393</b> | <b>1,981,086</b> | <b>15</b>  |
| Capital stock                     | 11,028,353        | 11,028,353        | -                | -          |
| Capital surplus                   | 29,821            | 29,563            | 258              | 1          |
| Retained Earnings                 | 3,446,694         | 3,649,276         | (202,582)        | (6)        |
| Other Equity                      | 416,837           | 410,039           | 6,798            | 2          |
| Treasury stock                    | (136,726)         | -                 | (136,726)        | -          |
| Non-controlling interests         | 2,200,775         | 2,277,793         | (77,018)         | (3)        |
| <b>Total Stockholders' Equity</b> | <b>16,985,754</b> | <b>17,395,024</b> | <b>(409,270)</b> | <b>(2)</b> |

Analysis of changes in financial ratios:

- (1) Property, plant, and equipment: Mainly due to the purchase of the Taoyuan Guanyin Mill.
- (2) Non-current liabilities: Mainly due to the purchase of the Taoyuan Guanyin Mill, where part of the payment was covered by long-term loans .
- (3) Total liabilities: Mainly due to the increase in loans for purchasing the Taoyuan Guanyin Mill.

## 7.2 Statements of Comprehensive Income Analysis

### A. Statements of Comprehensive Income Analysis of Operation Results

Unit: NT\$ thousands

| Item \ Year                    | 2020       | 2019       | Difference  |       |
|--------------------------------|------------|------------|-------------|-------|
|                                |            |            | Amount      | %     |
| Net Sales                      | 18,616,694 | 20,689,397 | (2,072,703) | (10)  |
| Cost of Sales                  | 17,375,251 | 19,470,286 | (2,095,035) | (11)  |
| Changes in Biological Assets   | 333        | (6,089)    | 6,422       | (105) |
| Gross Profit                   | 1,241,776  | 1,213,022  | 28,754      | 2     |
| Operating Expenses             | 1,631,953  | 1,596,799  | 35,154      | 2     |
| Operating Income               | (390,177)  | (383,777)  | (6,400)     | 2     |
| Non-operating Gains and Losses | 86,693     | 21,365     | 65,328      | 306   |
| Income (Loss) before Tax       | (303,484)  | (362,412)  | 58,928      | (16)  |
| Tax Expense (Benefit)          | 8,908      | (60,328)   | 69,236      | (115) |
| Net income (Loss)              | (312,392)  | (302,084)  | (10,308)    | 3     |

Analysis of changes in financial ratios:

- (1) Gains or losses sustained by changes in fair value minus the cost to sell a biological asset:  
Mainly due to the increase in fair value minus the cost to sell a biological asset.
- (2) Non-operating income and expenditure: Mainly due to foreign exchange gains arising from foreign exchange risk hedging.
- (3) Income tax expense: Mainly due to the profit before tax of some subsidiaries.

### B. Expected sales Volume in 2021

It is expected that in 2021, due to plastic restriction policies around the world, sales in the food-safe paper market will increase, coupled with the release of pulp plastic products and the sales growth of existing paper and cardboard products, overall revenue is projected to grow by 10-15%.

### **7.3 Cash Flow Analysis**

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

Unit: NT\$ thousands

| Cash and Cash Equivalents, Beginning of Year | Net Cash Flow from Operating Activities | Cash Outflow | Cash Surplus (Deficit) | Leverage of Cash Deficit |                 |
|----------------------------------------------|-----------------------------------------|--------------|------------------------|--------------------------|-----------------|
|                                              |                                         |              |                        | Investment Plans         | Financing Plans |
| 478,725                                      | 268,561                                 | (360,682)    | 386,604                | -                        | -               |

#### **A. Cash Flow Analysis for 2020**

1. Operating Activities: The Company's net cash flow from operating activities decreased compared with the previous period, mainly due to the impact of the pandemic and low international pulp prices, changes in consumption habits, reduced product sales, and lower recovery of payments.
2. Investment Activities: The Company's net cash flow from investment activities increased compared with the previous period, mainly due to the purchase of the Taoyuan Guanyin Mill.
3. Financing Activities: The Company's net cash flow from financing activities increased compared with the previous period, mainly due to the purchase of the Taoyuan Guanyin Mill, which was partially financed.

#### **B. Remedy for Cash Deficit and Liquidity Analysis: None**

#### **C. Cash Flow Analysis for the Coming Year:**

1. Business Activities: Continue to strengthen inventory management, actively destock inventory, and strengthen the recovery of accounts receivables to maintain stable operating cash flow under normal operations.
2. Investment Activities: Mainly for replacing and repairing equipment with constancy mechanisms.
3. Financing Activities: Appropriate financing or repayments will be arranged based on the overall operating and investment activities.

### **7.4 Major Capital Expenditures and Impact on Financial Operations in last year**

The Company's major capital expenditures in the most recent year include: replacing old equipment with new ones and improving efficiency, and modifying equipment for new product development, briefly described as follows:

Jiutang Mill paper machine modification: Equipment modification to decrease production costs is expected to increase product competitiveness in the business.

Hualien Mill and Dingfeng Mill equipment upgrades: Equipment upgrades to improve production efficiency and reduce production waste to comply with relevant laws and regulations.

Purchased the Taoyuan Guanyin Mill: Develop non-plastic products and become the development base for non-plastic materials.

Working capitals for the abovementioned capital expenditures are sourced from the Company's funds, bank loans, and more. This year's interest expenditures were more than last year and it would have positively contributed to operations in 2021.

## **7.5 Reinvestment Policy, Reasons for Profit or Loss, Improvement Plans, and Investment Plans for Next Year**

- A. The Company's reinvestments are in line with the Company's long-term development strategy, focusing on areas such as afforestation and pulp and paper to achieve the consistent production of forests, pulp, and paper. The investee companies suffered losses in 2020, mainly due to the continued decline in international pulp prices and the pandemic, which changed consumer consumption habits.
- B. With the gradual popularization of COVID-19 vaccine in 2021, the pandemic might be controlled and global economic growth is expected. In addition to prioritizing epidemic prevention and ensuring smooth production operations, the Company will continue to pay attention to changes in the international situation and the pandemic, make every effort to prepare raw material production and enhance product competitiveness, look for opportunities to adjust production line planning, continue to expand existing product application markets, and strengthen services. By focusing on a circular economy as the development core and with the development of policies that limit plastic usage around the world, the Company will continue to develop plastic-free products and it would boost 2021 earnings

## **7.6 Risk Analysis and Assessment (in the most recent year and up to the print date of this annual report)**

### **7.6.1 Impact of Changes in Interest Rates, Exchange Rates, and Inflation on the Company's Profitability and Response Measures:**

**Interest Rate:** US economic activities were hit hard by COVID-19, which also caused a severe recession in the global economy. The Federal Reserve dropped interest rates to zero in March 2020 and launched unlimited quantitative easing, resulting in substantially reduced US dollar interest rates. Europe and Japan continued their negative interest rate policies and enhanced monetary easing to boost the economies at the same time, thereby causing funds to flood the world's financial markets. In 2020, Taiwan has benefited from properly controlling the epidemic, the effect of transferring orders continued, and technology stocks performed well, making Taiwan one of the few economies that maintained growth. Thus, the central bank only cut interest rates by 0.25% in March, and kept interest rates unchanged for the following three consecutive quarters. The NTD market interest rate is also stable overall.

**Response Measures:** As the level of uncertainty around the COVID-19 pandemic remains high, the prospects for global economic recovery is affected. This also prevents the Fed

from making quantitative tightening or interest rate hike announcements lightly. It is projected that in 2021, the world will still be in a relatively loose monetary environment. The Central Bank of the Republic of China (Taiwan) will also maintain a moderately loose monetary policy to facilitate Taiwan's economic growth and ease the pressure of large inflows of hot money into the market. The Company will evaluate the liability positions and financing policies regularly and flexibly to effectively reduce the Company's interest expenditures.

**Exchange Rate:** COVID-19 hit the US economy hard in 2020. This led to the Federal Reserve's re-launch of zero interest rates and large-scale quantitative easing, which caused the USD exchange rate to drop. As the China's economy and trade performance took the lead in recovering from the pandemic in the second half of the year and rebounded strongly, the fundamentals of the US and China's economic and monetary policies clearly diverged. The RMB has turned from its depreciation and rose to approximately 6.5 in the second half of the year. Due to the weak USD and the outstanding performance of Taiwan's economy and trade, the dividend yield rate of stocks is relatively high. This led to the continuous inflow of funds from overseas and a sharp appreciation of NTD in 2020. The Company's main exchange rate risk positions include USD and RMB receivables. In 2020, the Company adopted the net position management of natural hedging and dynamically adjusted positions according to market trends and controlled hedging costs to reduce the fluctuations in overall currency exchange gain or loss.

**Response Measures:** Looking ahead to 2021, the development of the COVID-19 pandemic is still full of uncertainties, global economic forecasts are susceptible to the high risk of changes, and related foreign currency exchange rate fluctuations are full of variables. The Company will take into account exchange rate risks and hedging costs, and make appropriate financial and hedging strategies to reduce the negative impact of exchange rate fluctuations on the Company's overall operations.

**Inflation:** COVID-19 was raging around the world in 2020, causing international crude oil prices to plunge below NT\$20 at one point. Coupling that with the appreciation of NTD against USD, pressure of inflation in Taiwan was reduced in 2020. The consumer price index was even negative for several months. However, due to the substantial growth in domestic demand that has driven economic performance, there is no deflation in Taiwan, and commodity price trends are still stable overall. In 2020, the overall CPI was -0.23%, the lowest in five years and showing negative growth, and core CPI (excluding the CPI of energy and fruits and vegetables) was 0.36%, suggesting commodity prices remain stable.

**Response Measures:** Looking ahead to 2021, the central bank estimated the economic growth rate to increase to 3.68%. The initial estimates of the annual growth rate of CPI and core CPI in 2020 are 0.92% and 0.71%, respectively, and the outlook for inflation is moderate. Up to the printing date of this annual report, inflation does not exert a material impact on the Company. However, China is continuing to increase the extent of its environmental supervision, while the US-China trade war and relocation of supply chains have exposed raw material prices to risks of fluctuation. Also, the overall economic impact caused by the development of the COVID-19 pandemic after vaccines have been administered remains to be assessed. The Company will still pay close attention to changes in raw material prices as well as the risks derived from the US-China trade war and COVID-19.

**7.6.2 Policies on High Risk or High Leverage Investments, Lending to Others, Making Endorsements or Guarantees, and Trading Derivatives, Reasons for Profit or Loss, and Response Measures:**

The Company has not invested in high risk and high leverage instruments. For example, the utilization of short-term idle funds focuses on trading of notes or bonds under repurchase agreements and subscriptions of money market funds.

The Company adheres to its Procedures for Extending Loans to Others and Procedures for Endorsements and Guarantees when lending funds to others and providing endorsements and guarantees. Principally, funds or endorsement/guarantees are extended between affiliated parent companies and subsidiaries for financial and business purposes.

The Company engages in derivative transactions in accordance with its Procedure for Processing Derivative Transactions so as to clearly define the purposes of each transaction, which must be primarily hedging. The derivatives operated in 2020 are primarily aimed at avoiding USD and RMB exchange rate risks. The hedging ratio is adjusted with due consideration given to the hedge cost and exchange rate risk of derivatives to mitigate the effects of USD and RMB exchange rate fluctuations.

**7.6.3 Future R&D Plans and Expected R&D investment:**

**A. Future R&D Plans:**

The development of non-plastic products, including food-safe paper and pulp plastic products.

**B. Expected R&D investment:**

Expected R&D expenditure for 2021 is approximately NT\$100 million to 120 million.

**7.6.4 Major Changes in Government Policies and Laws at Home and Broad,**

### **Impact on the Company's Finance and Business, and Response Measures:**

For the purpose of managing legal risks as a whole, the Company hired external legal consultants to assist the Company in managing legal risks due to regulation changes in addition to signing a legal service contract with the legal department of Yuen Foong Yu Investment Holding Co., Ltd.

The Company's response measures for any potential impact of important policy and legislative changes in Taiwan and overseas on the Company's financial or sales performance will be devised by the legal department together with the responsible departments. In case of any noncompliance with the law in the Company's internal guidelines and operating procedures, the responsible departments will make the necessary changes to effectively manage and reduce the Company's legal risk.

In response to the promulgation of the amendments of the Labor Standards Act, the Company has also modified related internal regulations and the Work Rules, as well as convened labor-management meetings each quarter to discuss various response measures. Work hours and work schedule for each company (plant) were adjusted accordingly, and employee annual leaves and holiday pay for unused annual leaves were given to employees according to regulations.

According to IFRS 16.46A, in response to relevant rent concessions, if during the lease period or revised lease payments causes future lease payments to change, then the company shall re-measure and adjust the right-of-use assets, and the remaining balance from the remeasurement shall be recognized as a profit or loss.

### **7.6.5 Impact of Recent Technological and Market Changes on the Company's Finance and Business, and Response Measures:**

With the rapid development of technology, technological innovation has become an indispensable plan for operations, and it is also an important niche for corporate competition. The Company is committed to industrial innovation and will evaluate the impact on the Company's finances and business to adopt good response measures to pursue sustainable operation.

### **7.6.6 Impact of Corporate Image Change on Risk Management and Response Measures:**

There are various risks in the operation of enterprises, including aspects such as industrial safety, finance, products, marketing, and cybersecurity. Especially with today's widespread mass media and social networks, the occurrence of a risky event and the deliberate dissemination of false information will often evolve into an irreparable crisis. The Company believes that corporate image is more than just a facade, and to fundamentally adjust the

Company's structure, we must start from the inside and enhance our corporate image at a steady pace.

CHP was established over 50 years ago in 1968. The Company has always adhered to the professional concept of corporate governance and conducts talent training, participates in social and community public welfare activities, and gives back to local neighborhoods. The management team has always adhered to the mission of sustainable development by using employees, community, and the environment as its three major concerns. With an active and robust approach in taking actions, we aim to externally transform our corporate image by taking not only actions but also maintaining constant communication.

In terms of employees and community involvement, we share the goals and vision of the Company to raise employee's awareness towards environmental protection and eco-friendly subjects, and encourage employees to participate in environmental, cultural, and charitable activities. With respect to supply chain management, we aim to incorporate environmental protection, labor safety, and other standards into the work process, regulations, and agreements.

In the protection of employee rights, we continue to improve personnel health and provide a safe work environment. We have raised the threshold of CHP's safety and health, social responsibility, and sustainable development fields. Through internal communication, we internalized the Company's philosophy, brand value, and major concerns in the minds of employees, and raised the standards in various fields such as safety and health, social responsibility, and sustainable development. From employees to leaders, we clearly understand the attitude and response to facing related issues, so that we can radically reduce the probability of occurrence of various crises such as industrial safety and environmental protection in enterprise operations, and at the same time promote the corporate image with specific results.

For CHP, corporate image change and corporate crisis management are important topics with mutual objectives and consistent goals, as well as major management policies that we will keep improving from now to the future to respond to social needs and world trends.

#### **7.6.7 The Expected Benefits and Possible Risks of Mergers and Acquisitions as well as the Responding Measures:**

With the approval of the Board of Directors, the Company invested NT\$2 billion in the purchase of the Taoyuan Guanyin Mill this year. The plan is to make the mill into a development base for non-plastic materials. We expect the plant to optimize the Company's product portfolio, integrate upstream, midstream, and downstream demands, and provide customers with an integrated, one-stop service for downstream product manufacturing. The main risks are the transition period of the handover of the plant, the connection between the

existing personnel, systems and equipment, and customers, and the subsequent results of implementing the plan. The Company established a task force immediately after approval by the Board of Directors to reduce the risks that may arise.

#### **7.6.8 Expected Benefits of Plant Expansion, Potential Risks, and Response**

##### **Measures:**

The Company only has plans for improving or renovating production equipment. We have no plans for plant expansion, so there are no related risks and response measures.

#### **7.6.9 Risks in Concentrated Procurement or Sales and Response Measures:**

- (1). Procurements: The main raw material procurement strategy for the Company's products is to comprehensively consider factors such as supplier quality, price, delivery time, and whether there will be a global shortage of raw materials in the future to select suitable suppliers and flexibly adjust the preparation period. Moreover, the Company maintains more than two suppliers for the main raw materials and has good long-term relationship with them. There is currently no risk of centralized purchasing.
- (2). Sales: The Company has not yet had a significant degree of centralization, and each customer has accounted for less than 10% of the sales in the past three years. The company maintains a long-term cooperative relationship with existing customers. On the one hand, we strive to develop new customers to expand and diversify our business sources, so there should be no risk of sales centralization.

#### **7.6.10 Impact of mass transfer of equity by or change of directors, supervisors, or shareholders holding more than 10% equity of the Company, associated risks and response measures:**

The composition of directors or shareholders holding more than 10% of the Company's shares and the shareholding ratio are stable. As of the print date of this annual report, there are not large transfers. Equity transfer or conversion is considered a normal financial transaction for shareholders, which does not have a significant impact on the Company. The Company's directors and major shareholders always maintain open channels of communication.

#### **7.6.11 The Impact and Risk of a Change in Company Ownership, and Response**

##### **Measures:**

The Company is not exposed to risks of control transfer.

#### **7.6.12 Litigation or Non-litigation Events:**

The Company was not involved in any litigations. Non-litigious events of the Company are mainly appeals against environmental sanctions. All appeals prior to 2020 have been concluded.

There is one appeal in 2020. The Company is still evaluating whether or not to appeal to a higher court.

#### **7.6.13 Other significant risks and response measures:**

##### **(1) The impact of major security events and countermeasures.**

There were no major cyberattacks or events from 2020 to the publication date of this annual report. We were not involved in any legal cases or investigated for related incidents. Through the dedicated information security management platform and team, the Company's information security management allows the Company and its subsidiaries to adopt optimal approaches to utilize resources, centralize management in an appropriate and timely manner, and upgrade existing information security network equipment and mechanisms, so that the information is kept secure in line with current trends.

##### **Information security policies and specific management plans**

The Company's information security policy is focused on the use of technology and information governance. By using a human-machine interface, software, and hardware configurations and systems of inspection and balance, we construct a network of information security management and subsequently implement various aspects of the policy through firewall setup, information server room management, user information management, and plant information security management. The Company conducts yearly discussions with IT technicians from each plant to talk about information security problems, trends, and reinforcement measures. Education and training programs are organized to increase employees' awareness towards the environmental maintenance of information security and risks.

The professional IT management and service platform is responsible for the governance, planning, supervision, and policy implementation relating to the information security of the Company and its subsidiaries. The platform simultaneously evaluates and selects potential risks and proposes corresponding plans as needed. An external consultant is hired when necessary in hopes of keeping in pace with current trends and facilitating immediate response to various IT demands. Reporting of information security risk management is conducted periodically, and information security policies and plans of action are inspected every six months. In addition, information security protection mechanism review and counseling is occasionally conducted at production sites to develop a total information security protection capability and educate employees on the importance of information security.

Complete information security auditing system: Auditing departments of the Company and its subsidiaries regularly conduct auditing of information security tasks to ensure the

completeness of information security systems and the effective implementation of relevant policies. Relevant audit results are periodically reported to the senior managers as required by law.

The Company not only endeavors to comply with government policies and in-house regulations regarding information security. The Company also fulfills responsibilities to complete routine tasks related to information security management so as to minimize the IT-related operational risks of the Company and its subsidiaries.

**(2) Other major risks:**

In addition to implementing management guidelines for internal management accordance with the law, the Company also devises rules to be followed by relevant units. Operational risks are distributed and managed by various departments according to their functions, and the audit department regularly and project-examines the implementation and compliance of the regulations, systems, and procedures of each department.

**(3) Other market risk:**

Before the administration of the COVID-19 vaccines is popularized, the Company will give priority to epidemic prevention to ensure that all production lines can run smoothly. We will also continue to develop various types of non-plastic products that can be directly recycled to contribute to the environment..

**(4)The organizational structure for risk management countermeasures:**

| Unit                                       | Operation (function)                                                                                                     | Corresponding Risks                                                                          |
|--------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|
| Cellulosic Materials Division              | Production of household paper, paper stationery products, special purpose paper, paperboard, pulp, and chemical products | Production, labor safety, labor management, markets, and law                                 |
| Specialty Materials Division               | R&D and production of non-plastic products                                                                               | Production, labor safety, labor management, markets, and law                                 |
| Human Resource and Administrative Division | Human resources management, human resources and organizational development                                               | Laws, policies, and organizations                                                            |
| Financial and Accounting Department        | Investment analysis, financial management, and fund utilization management, and accounting administration                | Interest rate, exchange rate, inflation, investment, acquisition, laws, equity, and policies |
| Auditing Office                            | Internal control plans and systems auditing and research                                                                 | Laws and policies                                                                            |

### **7.7 Other Important Matters**

None

## Special Disclosure

### 8.1 Summary of Affiliated Companies

#### 8.1.1 Relationship Report

(1). Relationship between subordinate company and control company

| Control Company | Control Name     | Holding or Pledged of Shares |            |         | Served Position |            |
|-----------------|------------------|------------------------------|------------|---------|-----------------|------------|
|                 |                  | Shares                       | Percentage | Pledged | Title           | Name       |
| YFY INC.        | Obtained more    | 627,827,989                  | 57.8       | -       | Chairman        | Kirk Hwang |
|                 | than half of     |                              |            |         | Director        | S. C. Ho   |
|                 | Directors' seats |                              |            |         | Director        | Felix Ho   |

(2). Transactions

A. Sales and purchase

a. Percentage of (sales) purchase and sales amount in total purchase (sales) amount

| Import/Sale | Amount(NT Thousand) | Ratio of Import(Sale) | Gross Margin(NT Thousand) |
|-------------|---------------------|-----------------------|---------------------------|
| Sale        | 41                  | -                     | 3                         |

b. Transaction terms and comparison with general transaction terms: equivalent

c. Accounts receivable (payable), balance of bills receivable (payable) and the ratio of each item at the end of the period:

| Notes and accounts receivable/payable | Ending balance | Percentages of the Ending balance |
|---------------------------------------|----------------|-----------------------------------|
| Notes and accounts receivable         | 3              | -                                 |
| Notes and accounts payable            | -              | -                                 |

d. When accounts receivable were overdue during the year, the amount, handling method and provision for bad debts: None.

e. Advanced receipts (prepayments): None.

B. Property transaction: None

C. Bank accommodation: None

D. Asset leasing:

Unit: NT\$ thousands

| Transaction type | Nature of lease  | Rental decisions                     | Collection (payment) method | Comparison with general rental levels | Total current rent | Other agreed items |
|------------------|------------------|--------------------------------------|-----------------------------|---------------------------------------|--------------------|--------------------|
| Lessee           | Operating leases | Reference to general local standards | Monthly payment             | Equivalent                            | 10,885             | None               |

E. Other important transactions: None.

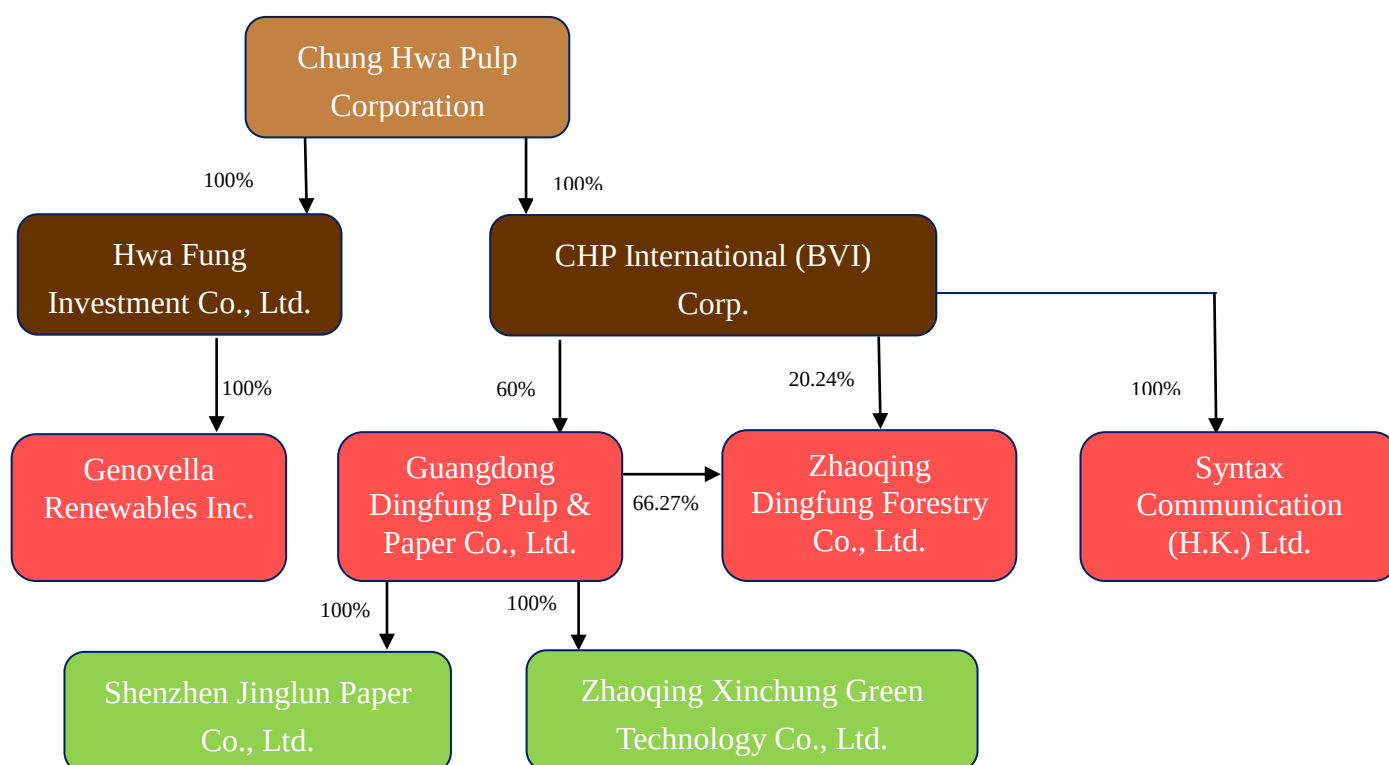
(3). Endorsements/Guarantees: None.

(4). Other matters that have a significant impact on the financial and business activities: None.

### 8.1.2 Relationship business merger business report

#### A. Affiliates' Highlights

##### (1). Affiliates' Structure



##### (2). Affiliates' profile

| Name                                      | Date of Incorporation | Address                                                                                                 | Paid-in Capital (Thousand) | Main Business                                                                                                             |
|-------------------------------------------|-----------------------|---------------------------------------------------------------------------------------------------------|----------------------------|---------------------------------------------------------------------------------------------------------------------------|
| CHP International (BVI) Corp.             | 3/15/1990             | Citco Building, P.O. BOX 662, Road Town, Tortola, British Virgin Islands                                | US\$ 61,040                | Investment and holding                                                                                                    |
| Hwa Fung Investment Co., Ltd              | 2/4/1994              | 12F, 51, Sec. 2, Chung Ching S. Rd., Taipei, Taiwan                                                     | NT\$ 36,000                | Investment and holding                                                                                                    |
| Genovella Renewables Inc.                 | 8/30/2010             | No.100, Guanghua St., Ji'an Township, Hualien County, Taiwan                                            | NT\$ 5,000                 | To produce fertilizer                                                                                                     |
| Guangdong Dingfung Pulp & Paper Co., Ltd. | 8/18/2000             | Shouyue, Nanjie, Guangning County, Zhaoqing City, Guangdong Province, PROC                              | US\$ 85,630                | Pulp and paper production, trading and forestry business                                                                  |
| Zhaoqing Dingfung Forestry Co., Ltd.      | 4/1/2006              | Shouyue, Nanjie, Guangning County, Zhaoqing City, Guangdong Province, PROC                              | US\$ 21,880                | Seedling cultivation and sales, reforestation, sales-cum-forest logging and other forestry, processing and transportation |
| Shenzhen Jinglun Paper Co., Ltd.          | 6/24/2008             | Room 1705, Tongxin Building 17F, No. 5020, Binhe Avenue, Futian Dist. Shenzhen City, Guangdong Province | CNY 3,200                  | Paper trading, cargo and technic Import and export business                                                               |

| Name                                         | Date of Incorporation | Address                                                                        | Paid-in Capital (Thousand) | Main Business                                                                                                                                                                                                                                                                                                               |
|----------------------------------------------|-----------------------|--------------------------------------------------------------------------------|----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Syntax Communication (H.K.) Ltd.             | 5/31/1985             | 2F, No. 22-28, Shatin Industrial Building, Wo Shui Rd., Fo Tan, Shatin, NT, HK | HKD\$ 34,088               | Trading, printing and sales of all types of paper products; paper-related businesses.                                                                                                                                                                                                                                       |
| Zhaoqing Xinchuan Green Technology Co., Ltd. | 9/19/2019             | Shouyue, Nanjie, Guangning County, Zhaoqing City, Guangdong Province, PROC     | CNY 2,000                  | Environmental equipment technology research and development; construction of wastewater, flue gas, noise and solid waste treatment; pure water treatment construction; environmental technology consulting; sale of environmental protection equipment and chemical raw material; import and export of cargo and technology |

(3). Industry covered by the overall Affiliates

- Production and Sales of Pulp and Paper Product.
- Production and Sales of Afforestation, Nursery and Forestry
- Investment Business
- Steam and Electricity Symbiosis Industry
- Manufacturing and Retailing of Fertilizer
- Retail and wholesale of chemical raw materials
- Manufacturing, Retail and wholesale of refractory material
- Environment equipment technology research and development, waste treatment and treatment engineering

(4). Directors, Supervisors and GM of all Affiliates

Unit: Share; %

| Company Name                              | Title                                          | Name of Representative                                                                                                                                 | Shareholding |       |
|-------------------------------------------|------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-------|
|                                           |                                                |                                                                                                                                                        | Shares       | %     |
| CHP International (BVI) Corp.             | Director<br>Director                           | Kirk Hwang: Representative of CHP<br>Guu-Fong Lin: Representative of CHP                                                                               | 61,039,956   | 100.0 |
| Hwa Fong Investment Co., Ltd              | Chairman<br>Director<br>Director<br>Supervisor | Guu-Fong Lin: Representative of CHP<br>Chih-Cheng Huang: Representative of CHP<br>K. T. Yin: Representative of CHP<br>David Lin: Representative of CHP | 3,600,000    | 100.0 |
| Genovella Renewables Inc.                 | Director                                       | Shih-Hsiung Wu: Representative of Hwa Fong Investment Co., Ltd.                                                                                        | -            | 100.0 |
| Guangdong Dingfung Pulp & Paper Co., Ltd. | Chairman                                       | Guu-Fong Lin: Representative of CHP International (BVI) Corp.                                                                                          | -            | 60.0  |
|                                           | Director                                       | Chih-Cheng Huang: Representative of CHP International (BVI) Corp.                                                                                      | -            |       |
|                                           | Director                                       | Kirk Hwang: Representative of YFY International BVI Corp.                                                                                              | -            | 40.0  |

| Company Name                                 | Title                | Name of Representative                                                        | Shareholding |       |
|----------------------------------------------|----------------------|-------------------------------------------------------------------------------|--------------|-------|
|                                              |                      |                                                                               | Shares       | %     |
|                                              | Supervisor           | K. T. Yin: Representative of YFY International BVI Corp.                      |              |       |
|                                              | President            | Frank Chin                                                                    |              |       |
| Zhaoqing Dingfung Forestry Co., Ltd.         | Chairman & President | Guu-Fong Lin: Representative of Guangdong Dingfung Pulp & Paper Co., Ltd.     | -            | 66.27 |
|                                              | Director             | Kirk Hwang: Representative of CHP International (BVI) Corp.                   | -            | 20.24 |
|                                              | Director             | Chih-Cheng Huang: Representative of YFY International BVI Corp.               | -            | 13.49 |
|                                              | Supervisor           | K. T. Yin: Representative of YFY International BVI Corp.                      |              |       |
| Shenzhen Jinglun Paper Co., Ltd              | Chairman             | Chih-Cheng Huang: Representative of Guangdong Dingfung Pulp & Paper Co., Ltd. |              |       |
|                                              | Director             | Ray Chen: Representative of Guangdong Dingfung Pulp & Paper Co., Ltd.         |              |       |
|                                              | Director             | Owen Kwong: Representative of Guangdong Dingfung Pulp & Paper Co., Ltd.       | -            | 100.0 |
|                                              | Supervisor           | Shun-Xiang Zhan: Representative of Guangdong Dingfung Pulp & Paper Co., Ltd.  |              |       |
|                                              | President            | Owen Kwong                                                                    |              |       |
| Syntax Communication (H.K.) Ltd.             | Director             | Chih-Cheng Huang: Representative of CHP International (BVI) Corp..            |              |       |
|                                              | Director             | Owen Kwong: Representative of CHP International (BVI) Corp.                   | -            | 100.0 |
|                                              | Director             | David Lim: Representative of CHP International (BVI) Corp.                    |              |       |
|                                              | President            | Owen Kwong                                                                    |              |       |
| Zhaoqing Xinchuan Green Technology Co., Ltd. | Chairman             | Guu-Fong Lin: Representative of Guangdong Dingfung Pulp & Paper Co., Ltd.     |              |       |
|                                              | Director             | Frank Chin: Representative of Guangdong Dingfung Pulp & Paper Co., Ltd.       |              |       |
|                                              | Director             | Tsung-Yun Lin: Representative of Guangdong Dingfung Pulp & Paper Co., Ltd.    | -            | 100.0 |
|                                              | Supervisor           | Claire Hou: Representative of Guangdong Dingfung Pulp & Paper Co., Ltd.       |              |       |

## B. Affiliates' operating highlights

Unit: Thousand

| Company Name                              | Currency | Paid-in Capital | Total Assets | Total Liabilities | Net Worth | Operating Revenue | Operating Income | Net Income | EPS    |
|-------------------------------------------|----------|-----------------|--------------|-------------------|-----------|-------------------|------------------|------------|--------|
| CHP International (BVI) Corp.             | USD      | 61,040          | 174,769      | 109               | 174,660   | -                 | (70)             | (4,158)    | (0.07) |
| Hwa Fong Investment Co., Ltd              | NTD      | 36,000          | 51,979       | 175               | 51,804    | -                 | (168)            | 5,205      | 1.45   |
| Genovella Renewables Inc.                 | NTD      | 5,000           | 23,211       | 9,053             | 14,158    | 30,634            | 6,055            | 4,729      | -      |
| Guangdong Dingfung Pulp & Paper Co., Ltd. | CNY      | 648,482         | 1,402,519    | 366,479           | 1,036,040 | 408,582           | (70,989)         | (66,333)   | -      |

| Company Name                                 | Currency | Paid-in Capital | Total Assets | Total Liabilities | Net Worth | Operating Revenue | Operating Income | Net Income | EPS     |
|----------------------------------------------|----------|-----------------|--------------|-------------------|-----------|-------------------|------------------|------------|---------|
| Zhaoqing Dingfung Forestry Co., Ltd.         | CNY      | 178,162         | 882,215      | 216,688           | 665,527   | 56,502            | 4,439            | 5,260,     | -       |
| Shenzhen Jinglun Paper Co., Ltd              | CNY      | 3,200           | 203,561      | 170,719           | 32,842    | 367,704           | 7,695            | 5,577      | -       |
| Syntax Communication (H.K.) Ltd.             | CNY      | 34,088          | 4,042        | 758               | 3,284     | 4,647             | (470)            | (296)      | (0.008) |
| Zhaoqing Xinchuan Green Technology Co., Ltd. | CNY      | 2,000           | 2,313        | 147               | 2,166     | 145               | 11               | 10         | -       |

### 8.1.3 Consolidated of financial statements of affiliated:

#### DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The companies required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended December 31, 2020 are all the same as the companies required to be included in the consolidated financial statements of parent company and its subsidiaries as provided in International Financial Reporting Standard 10 “Consolidated Financial Statements”. Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent company and its subsidiaries. Hence, we have not prepared a separate set of consolidated financial statements of affiliates for the year ended December 31, 2020.

Very truly yours,

CHUNG HWA PULP CORPORATION

By:

---

March 19, 2021

### **8.2 Private Placement Securities in the Last Fiscal Year and Up to the Publishing**

#### **Date of this Annual Report**

None

**8.3 The Shares in the Company Held or Disposed of by Subsidiaries in the last  
Fiscal Year and Up to the Publishing Date of this Annual Report**

None

**8.4 Other Information Which Should be Disclosed**

None

**8.5 Other Supplementary Information**

Matters according to the Article 36.3.2 of the Securities and Exchange Act of Taiwan in the most recent year and up to the date of printing of this Annual Report which have significant impact to Shareholders' Equity or stock price: None