



Stock Code: 4766

# NAN PAO RESINS CHEMICAL CO., LTD.

## 2018 Annual Report

**This annual report can be found on the websites below:**

**The Company's website:** <http://www.nanpao.com/>

**MOPS (Market Observation Post System):** <http://mops.twse.com.tw/>

**Published on April 30, 2019**

**Notice to readers**

*This English version handbook is a translation of the Chinese version. This translation is intended for reference only and is not an official document of the shareholders' meeting. If there is any discrepancy between the English version and Chinese version, the Chinese version shall prevail.*

**I. Names, job titles, contact numbers, and email addresses of the Company's spokesperson and deputy spokesperson**

	Spokesperson	Acting Spokesperson
Name	Lin, Kun-Chine	Kuo, Sen-Mao
Job Title	Assistant General Manager of Financial Management Division	Deputy General Manager of Adhesives and Specialties Business Division
Telephone No.	(06)795-4766	(06)795-4766
Email	<a href="mailto:IR@nanpao.com">IR@nanpao.com</a>	<a href="mailto:IR@nanpao.com">IR@nanpao.com</a>

**II. Addresses and contact no. of the Head Office and plants**

Name	Address	Telephone No.
Head Office	No. 12, Nanhaipu, Nanhai Li, Xigang Dist., Tainan City	(06)795-2801
Plant No. 1	No. 521, Zhongshan Rd., Xigang Dist., Tainan City	(06)795-6634
Plant No. 5	No. 506, Zhongshan Rd., Xigang Dist., Tainan City	(06)795-2719
Bao Li Plant	No. 508 and 510, Zhongshan Rd., Xigang Dist., Tainan City	(06)795-2719

**III. Name, address, website, and telephone number of the stock transfer agency**

Name	Transfer Agency Dept., Chinatrust Commercial Bank
Address	5F., No. 83, Chongqing S. Rd., Taipei City
Website:	<a href="http://www.ctbcbank.com/">http://www.ctbcbank.com/</a>
Telephone No.	(02)6636-5566

**IV. Contact information of CPAs for Financial Statements, including the names of CPAs, the accounting firm's name, address, website, and telephone number**

Name of the CPA	Liao, Hung-Ju, Kung, Chun-Chi
Name of the Firm	Deloitte & Touche Taiwan
Address	13F., No. 189, Sec. 1, Yongfu Rd., Zhongxi Dist., Tainan City
Website:	<a href="http://www.deloitte.com.tw/">http://www.deloitte.com.tw/</a>
Telephone No.	(06)213-9988

**V. Name of the stock exchange for traded overseas securities and method of inquiry: None.**

**VI. Company website: <http://www.nanpao.com/>**

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## Chapter I LETTER TO SHAREHOLDERS

Ladies and Gentlemen,

Looking back at 2018, Nan Pao's overall profitability was negatively affected by rising raw material prices and forex rate fluctuations; nevertheless, we continued to expand into new overseas markets as we pursue our goal of becoming a company with global scale and reach. We continue to expand our market share to support stable revenue growth. In 2018, we delivered moderate revenue growth versus 2017. The consolidated 2018 results of the parent company and its subsidiaries are reported below:

### I. 2018 Operating Results

#### 1. Overview of Business Performance

Total consolidated turnover was NT\$ 16.02 billion in 2018, an increase of 9.6% over the previous year. Total gross profit was NT\$3.81 billion, a decrease of 3.0% from the previous year. Net operating profit was NT\$ 901 million, a decrease of 24.5% from the previous year. Net income was NT\$ 717 million, a decrease of 21.8% from the previous year. Earnings Per Share after taxes was NT\$6.15.

Unit : NT\$,000 (EPS lists in dollars)

Year Item		2018		2017		Varieties	
		Amount	%	Amount	%	Amount	%
Net Operating Revenue		16,022,220	100	14,615,008	100	1,407,212	9.63
Gross Profit		3,807,414	24	3,922,991	27	(115,577)	(2.95)
Operating Profit		901,010	6	1,192,972	8	(291,962)	(24.47)
Pre-tax Income		1,035,812	7	1,160,753	8	(124,941)	(10.76)
Net Income		716,630	5	917,003	6	(200,373)	(21.85)
Net Income attributed to	Shareholders	672,775	4	881,874	6	(209,099)	(23.71)
	Not Controlling Interest	43,855	0	35,129	0	8,726	24.84
Earning Per Share(dollar)		6.15		8.22		(2.07)	(25.18)

2. Budget Implementation: The Company did not release a budget forecast. Therefore, we did not analyze budget implementation.
3. Analysis of Financial Revenue and Expenditure and Profitability

Unit : NT\$,000 ; %

Item	2018	2017
Cash inflow from operating	155,920	767,652
Cash outflow from investing	(688,274)	(1,131,784)
Cash inflow from fundraising	307,123	279,715
Return on Assets ( % )	4.67	6.55
Return on Equity ( % )	7.76	12.03
Profit before tax to capital stock (%)	85.91	106.86
Net Profit Margin ( % )	4.47	6.27

#### 4. Research and Development

The Company is active in industry-university cooperative research and invests 2%~3% of total revenue into long-term employee training and specialization, in order to drive continuous growth and to create a culture of perpetual innovation. The Company invested 2.6% of its total 2018 revenue into R&D. The R&D team specializes in the research and creation of synthetic resins, including molecular structure design, the precise control of molecular size, molecular weight distribution and bridging action design. The main focus of the R&D team is specialty chemicals, materials science and biotechnology. The Company is committed to protect and improve the health of human beings, and to provide high value-added products, services and solutions for our customers. The Company's aim is to develop a diversified range of products that leverage our core competencies to achieve a higher market share and greater competitiveness.

## II. 2019 Business Plan Outline

The company seeks to continuously grow the scope of its business in its existing territories and markets, and to leverage our collective resources to establish more manufacturing bases in new target markets. We estimate that our 2019 consolidated revenue will increase by 6% over the previous year. Our manufacturing and sales objectives are listed as follows:

1. Work harder to serve current customers and gain a higher share of their business.
2. Expand our presence in emerging markets, adding new customers and new agents.
3. Provide a multi-faceted total solution to customers – including assisting customers' search for equipment and offering them training to use new products/equipment. In this way, we hope to enhance their new product experience.
4. Continuously improve our automated manufacturing capabilities to reduce production cost, improve quality, increase our defect-free rate and raise efficiency
5. Develop products that help save energy and reduce the carbon footprint of our own production facilities, and those of our clients. We will strive to meet and exceed the requirements of increasingly strict environmental laws and regulations that are being instituted around the world.
6. Develop high-end materials, innovative production technologies and new products based on our core technical and materials science competencies.

## III. The impact of potential changes in laws and regulations and/or in the external macro environment

There are many uncertainties in the macro environment in 2019. However, we will manage our expansion into new markets with care, emphasizing our core values of "Leadership, Integrity, Teamwork and Efficiency." We will uphold best practices in corporate governance and sustainability, while maintaining our policy of "Quality First, Leadership in Technology & Best Service."

Nan Pao Resins Group develops innovative and environmentally-friendly products; and we aim to become an indispensable strategic partner to our clients in multiple industries.

We aspire to be a world-class business group, which gives back to society via a commitment to sustainability and through the cultivation of human resources.

Chairman: Wu, Cheng-Hsien

Manager: Hsu, Ming-Hsien

Accounting Manager: Lin, Kun-Chin

## Chapter II COMPANY PROFILE

**I. Date of Incorporation:** October 2, 1963.

**II. Company History**

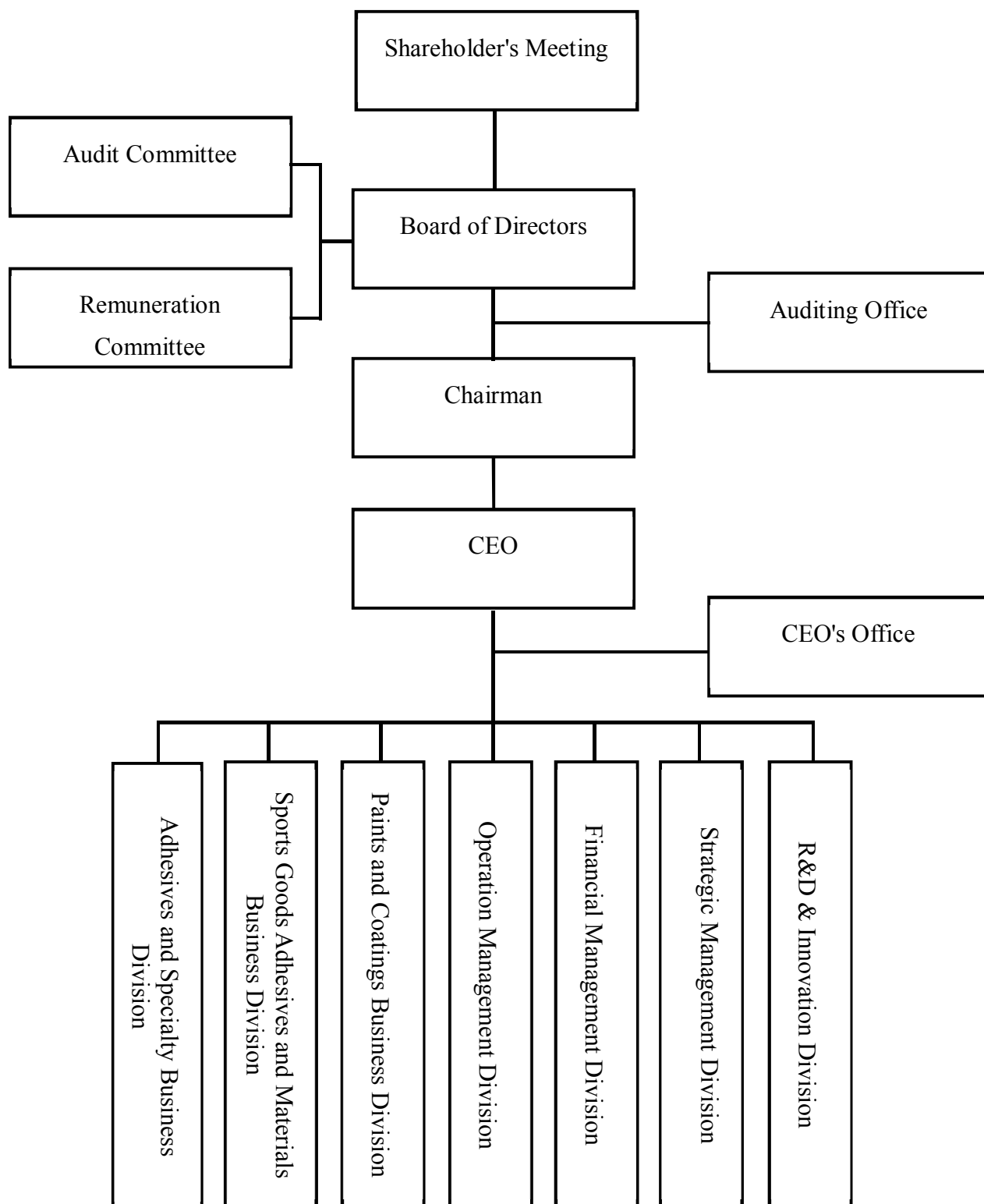
Year	Important Events
1963	The Company was established.
1964	Became the first company to produce 815 cement paint in Taiwan
1965	Produced footwear adhesives
1968	Produced graft chloroprene rubber adhesive
1971	Established the Research Center
1973	Collaborated with Hoechst Company to set up Bao Li Resins Co., Ltd., which produced water-based resins, unsaturated polyester resin, and polyurethane resin for synthetic leather
1981	Merged with Bao Li Resins Co., Ltd. and produced oil coatings and water-based coatings Produced silicone sealant as authorized by Bayer
1982	Participated in the NOVA Paint Club Produced chemical shoe puffs and counters and hot melt films
1983	Produced powder-based coating as authorized by French Ripolin Company
1984	Collaborated with Hayakawa Company in Japan to produce water-proof material and sealants
1987	Established Thai Nan Pao Resins Chemical., Ltd.
1991	Established P.T Indo Nan Pao Resins Chemical Co., Ltd. Produced polyester resin for powder-based coatings
1992	Established Eastlion Industrial Limited (Nan Pao Resins (Dong-Guan) Co., Ltd) Established Fuqing Nan Pao Resins Co., Limited. Produced reinforcing resin for water-based leather
1994	Produced water-based sealants
1995	Received SGS ISO9002 certification Produced water-based polyurethane resin for dyeing and finishing industry
1997	Established Nan Pao Resins (China) Co., Ltd. Produced footwear water-based adhesives
1998	Produced triphenyl-free adhesives Produced fireproof coatings
1999	Established Nan Pao Resins (Vietnam) Co., Ltd. Received SGS Yarsley ISO14001 certification Produced footwear water-based processing adhesives and water-based coatings for plastics
1990	Received OHSAS 18001 Occupational Safety and Health Management System certification
2003	Received SGS Yarsley ISO 9001:2000 certification Received ISO 9001:2000 certification from Bureau of Standards, Metrology and Inspection, MOEA Produced transfer powder coatings and electronic solder-resistant coatings Group spin-off: Nan Pao Technology Co., Ltd., Nan Pao International Biotech Co., Ltd., and Nan Pao Industrial Co., Ltd. were divested in order for the Group to focus on the core business in chemical engineering.
2004	Established Nan Pao Resins (Fo Shan) Co., Ltd.

Year	Important Events
2005	Nan Pao updated trademark. Business divisions were formed within the Group.
2006	Established Nan Pao Social Welfare Foundation Established Nan Pao Electronic Material Company
2007	Established Nan Pao Chemical Company Ltd. Produced reactive PU hot melt adhesive and non-chrome water-based metal anti-fingerprint surface treatment agent
2008	Received “2008 Outstanding Institution for Professional Training” from Workforce Development Agency, Ministry of Labor 815 Latex Paints received “Green Building Materials Labeling” from the Ministry of Interior Established ITLS International Development Co., Ltd.
2009	Water Based PVAc received “Green Building Materials Labeling” from the Ministry of Interior Established Nan Pao Application Material Co., Ltd.
2000	Established Foshan Nan Pao Great-Will Advanced Materials Limited Established Progroups Technology Co. Ltd. Invested in Biorich Biotechnology Co., Ltd.
2011	Established Nan Pao Resins Chemical Phils., Inc.
2012	Nan Pao 815 Friendly Home Paint received “Green Building Materials Labeling” from the Ministry of Interior Established Nan Pao Resins India Pvt., Ltd.
2013	Nan Pao Water-Based Adhesive received “Carbon Footprint Label” from the Environmental Protection Agency, the Executive Yuan. Established Nan Pao Advanced Materials Limited Established NP Australia Pty Ltd.
2014	M&A of Prince Pharmaceutical Co., Ltd. M&A of RLA Polymers Pty., Ltd.
2015	Established Nan Pao Materials Limited (Binh Duong Plant in southern Vietnam) Established Nan Pao Advanced Materials Vietnam Limited (Ninh Binh Plant in northern Vietnam)
2016	ITLS was renamed ITLS International Development Co., Ltd. Established Nantong Nan Pao Resins Chemical Co., Ltd.
2017	IPO and registration on Emerging Stocks on Taipei Exchange authorized by Taipei Exchange (GreTai Securities Market) Established Nan Pao Kunshan E-commerce Limited
2018	Established Nanpao Materials (Yunan) Co., Ltd. Obtained approval for public offering of stock to be listed on the Taiwan Stock Exchange Corporate

## Chapter III CORPORATE GOVERNANCE REPORT

### I. Organizational system

#### (I) Organizational structure



(II) Business Activities of Each Main Division

Department	Primary Functions
CEO's Office	Establishing the Company's vision and action plans and leading teams to realize short and long-term goals; complying with corporate governance, Code of Ethical Conduct, legal regulations, and environmental policies to ensure the Company's sustainable development; implementing talent development and fostering future management teams in order to realize sustainable development; carrying out resolutions from the Board of Directors
R&D & Innovation Division	Developing relevant new products, improving quality of existing products, and lowering costs in accordance with needs of the Company and various business units; exploring technologies, products, and businesses suitable for long-term development to undertake technical collaboration and evaluate the feasibility of new ideas
Strategic Management Division	Establishing the Company's development strategies; coordinating the Company's HR, IT, business investments, and CSR tasks to achieve the Company's revenue and profitability goals and ensure effective organizational operation and continued future growth
Financial Management Division	Establishing the Company's financial and accounting strategies, financial and accounting management; proposing financial and accounting plans; managing the Company's financing, tax, and capital management
Operation Management Division	Coordinating the Company's production, procurement, factory affairs, sales, and administrative tasks; assisting the operation of each business unit to achieve relevant revenue and profitability goals and ensure effective organizational operation and future continued growth
Paints and Coatings Business Division	Establishing development strategies regarding the Coating Business Head Office; coordinating all operation and management tasks for the coating business to achieve relevant revenue and profitability goals and ensure effective organizational operation and future continued growth
Sports Goods Adhesives and Materials Business Division	Establishing development strategies regarding the Footwear Business Head Office; coordinating all operation and management tasks for the footwear business to achieve relevant revenue and profitability goals and ensure effective organizational operation and future continued growth
Adhesives and Specialty Business Division	Establishing development strategies regarding the Adhesive Business Head Office; coordinating all operation and management tasks for the adhesive business to achieve relevant revenue and profitability goals and ensure effective organizational operation and future continued growth
Auditing Office	Establishing and improving the Company's internal control system, planning and performing audits on the Company's system operations, regularly submitting reports and tracking subsequent improvements.

## II. Information regarding Directors, Supervisors, President, Vice President, Associate Vice President, and Manager of each division and branch

### (I) Directors and Supervisors Business Activities of Each Main Division

#### 1. Information on Directors:

April 16, 2019

Title	Nationality or Place of Registration	Name	Gender	Elected Date	Term	First Date of meeting	Shares Held when Elected		Shares Held Currently		Shares held by spouse or minor children		Shares held in the name of other persons		Education and Work Experience	Titles also held at the Company and other companies	Any managerial officer, director, or supervisor who is a spouse or relative within the second degree of kinship		
							Number of shares	Ratio	Number of shares	Ratio	Number of shares	Ratio	Number of shares	Ratio			Title	Name	Relation
Chairman	Taiwan, R.O.C.	Wu, Cheng-Hsien	Male	2017.05.16	3 years	2014.06.27	455,456	0.44	448,308	0.37	197,014	0.16	—	—	M.S. in Applied Chemistry, National Tsing Hua University Nan Pao Resins Chemical Co., Ltd. Adhesive Business Executive General Manager and General Manager of Nan Pao Resins Chemical Co., Ltd.	Note 4	None	None	None
Director.	Taiwan, R.O.C.	Pou Chien Chemical Co., Ltd (Representative: Lu, Chin-Chu)	—	2017.05.16	3 years	2008.12.12	20,789,459	20.09	21,205,248	17.59	—	—	—	—	—	—	None	None	None
	Taiwan, R.O.C.	Chang, Chia-Li (Note 1)	Male	2017.11.01	3 years	2017.11.01	—	—	—	—	—	—	—	—	Footwear Department, South Fields College, UK Deputy General Manager of Global Supply Management Head Office, Pou Chen Group	Note 5	None	None	None
Director.	Taiwan, R.O.C.	Guang Rong Investment Ltd. (Representative: Lim Boon Seng)	—	2017.05.16	3 years	2014.06.27	8,644,248	8.35	8,868,132	7.36	—	—	—	—	—	—	None	None	None
	Taiwan, R.O.C.	Hsu, Ming-Hsien	Male	2017.05.16	3 years	2014.06.27	473,737	0.46	483,211	0.40	121,554	0.10	—	—	M.S. in Industrial Engineering, National Cheng Kung University Nan Pao Resins Chemical Co., Ltd. Vice President	Note 6	None	None	None
Director.	Taiwan, R.O.C.	Guang Rong Investment Ltd. (Representative: Lim Boon Seng)	—	2017.05.16	3 years	2014.06.27	8,644,248	8.35	8,868,132	7.36	—	—	—	—	—	—	None	None	None
	Taiwan, R.O.C.	Liu, Chi-Lin	Male	2017.05.16	3 years	2014.06.27	181,787	0.18	185,422	0.15	—	—	—	—	Bachelor of Accounting, Soochow University Nan Pao Resins Chemical Co., Ltd /General Manager DingShin S.K.P. International Management Consulting Co., Ltd. /Vice President	Note 7	None	None	None

Title	Nationality or Place of Registration	Name	Gender	Elected Date	Term	First Date of meeting	Shares Held when Elected		Shares Held Currently		Shares held by spouse or minor children		Shares held in the name of other persons		Education and Work Experience	Titles also held at the Company and other companies	Any managerial officer, director, or supervisor who is a spouse or relative within the second degree of kinship		
							Number of shares	Ratio	Number of shares	Ratio	Number of shares	Ratio	Number of shares	Ratio			Title	Name	Relation
Director.	Taiwan, R.O.C.	Guang Rong Investment Ltd. (Representative: Lim Boon Seng)	—	2017.05.16	3 years	2014.06.27	8,644,248	8.35	8,868,132	7.36	—	—	—	—	—	—	None	None	None
	Taiwan, R.O.C.	Chang, Kuo-Jung (Note 2)	Male	2018.04.12	3 years	2018.04.12	436,447	0.40	436,447	0.36	245,515	0.20	—	—	Industrial Management Department, NCKU, Executive General Manager of Sports Goods Adhesives and Materials Business Division in Nan Pao Resins Chemical Co., Ltd., Chairman of Nan Pao Resins (Dong-Guan) Co., Ltd, and Chairman of Nan Pao Resins (Fo Shan) Co., Ltd. Chairman of Nan Pao Electronic Material Company	Note 8	None	None	None
Independent Director	Taiwan, R.O.C.	Chen, Yun (Note 3)	Male	2017.12.12	3 years	2017.12.12	—	—	—	—	—	—	—	—	Ph.D. in Applied Chemistry, School of Engineering, the University of Tokyo Professor and Dean of Chemical Engineering Department at National Cheng Kung University	—	None	None	None
Independent Director	Taiwan, R.O.C.	Chiang, Yung-Cheng (Note 3)	Male	2017.12.12	3 years	2017.12.12	—	—	—	—	—	—	—	—	Department of Law, Soochow University Judge, Taiwan Kaohsiung District Court Judge, Taiwan High Court Kaohsiung Branch Court Attorney, Cheng Bang & Cheng Yang Joint Law Firm	Note 9	None	None	None
Independent Director	Taiwan, R.O.C.	Lee, Yi-Hsi (Note 3)	Male	2017.12.12	3 years	2017.12.12	—	—	—	—	—	—	—	—	Ph.D. in Department of Finance, National Sun Yat-sen University Bachelor of Operating and Management, Tunghai University Assistant Professor at Department of Financial Engineering and Actuarial Mathematics, Soochow University Assistant Professor at Finance Department, National Kaohsiung University of Science and Technology. Adjunct Assistant Professor at Department of Finance, National Sun Yat-sen University CEO, Block Chain Lab, Franklin Center at College of Commerce, Soochow University	—	None	None	None



Title	Nationality or Place of Registration	Name	Gender	Elected Date	Term	First Date Date of meeting	Shares Held when Elected		Shares Held Currently		Shares held by spouse or minor children		Shares held in the name of other persons		Education and Work Experience	Titles also held at the Company and other companies	Any managerial officer, director, or supervisor who is a spouse or relative within the second degree of kinship		
							Number of shares	Ratio	Number of shares	Ratio	Number of shares	Ratio	Number of shares	Ratio			Title	Name	Relation
															Deputy CEO, Block Chain Lab, FinTech Center at College of Commerce, National Cheng Chi University				

Note 1: The corporate director Pou Chien Chemical Co., Ltd. had reassigned the representative on November 1, 2017 (the former representative: Lu, Chin-Chu; the new representative: Chang, Chia-Li).

Note 2: The corporate director Guang Rong Investment Ltd. had reassigned the representative on April 12, 2018 (the former representative: Lee, Juh-Shyong; the new representative: Chang, Kuo-Jung).

Note 3: The Company has elected independent directors and established the Audit Committee on December 12, 2017; the supervisors have been terminated.

Note 4: Chairman of ITLS International Development Co., Ltd.; Director of Nan Pao Overseas Holdings Limited; Director of Nan Pao Group Holdings Limited; Director of Treasure Wealth (HK) Limited; Director of Greatwill Materials (HK) Limited; Director of Ongoing Profits Limited; Director of Rising Sun Associate Limited; Director of Nan Pao Resins Chemical Philippines, Inc.; Director of Goldford Investments Limited; Director of Nan Pao Resins (Holdings) Limited; Director of Eastlion Enterprises Limited; Director of Nan Pao Resins (Dong-Guan) Co. Ltd.; Director of Eastlion Industrial Limited; Director of Nan Pao Resins Development Limited; Director of Dongguan Jia Chin Electronics Co., Ltd.; Director of NP Australia Pty. Ltd.; Director of RLA Polymers Pty. Ltd.; Director of RLA Polymers (M) SDN. BHD.; Director of Nanpao Advanced Investment Co., Ltd.; Director of Nantong Nanpao Resins Materials Co., Ltd.; Director of Nanpao (Kunshan) E-Commerce Co., Ltd.; Director of Profit Land Limited; Director of Yunan Nanpao Resins Materials Co., Ltd.; Director of Nan Pao Resins (Fo Shan) Co., Ltd.; Director of All Saints Enterprises Limited; Director of Nan Pao Resins (China) Co., Ltd.; Director of Fuqing Nan Pao Investment Limited; Director of Fuqing Nan Pao Resins Co., Ltd.; Director of Thai Nan Pao Investments Limited; Director of Thai Nanpao Resins Chemical Co., Limited; Director of Phymed Bio-Tec Co., Ltd.; Director of ITLS Holding Pte. Ltd.; Director of ITLS-TWA Australia Pty. Ltd.; Director of ITLS (Malaysia) SDN. BHD.; Director of ITLS-Rich (S) Pte. Ltd.; Director of ITLS-SB SDN. BHD.; Director of Nan Pao Chemical Company Ltd.; Director of Nan Pao Application Material Co., Ltd.; Supervisor of PT. Indo Nan Pao Resins Chemical; Supervisor of PT. ITLS Indonesia

Note 5: Deputy General Manager of Global Supply Chain Management Headquarters of Pou Chen Group; Director of San Fang Chemical Industry Co., Ltd.

Note 6: Director of Greatwill Materials (HK) Limited; Director of Ongoing Profits Limited; Director of Rising Sun Associate Limited; Director of Nan Pao Resins Chemical Philippines, Inc.; Director of Goldford Investments Limited; Director of Nan Pao Resins (Holdings) Limited; Director of Eastlion Enterprises Limited; Director of Nan Pao Resins (Dong-Guan) Co., Ltd.; Director of Eastlion Industrial Limited; Director of Nan Pao Resins Development Limited; Director of Nan Pao Resins International Ltd.; Director of Nanpao Advanced Investment Co., Ltd.; Director of Nantong Nanpao Resins Materials Co., Ltd.; Director of Nanpao (Kunshan) E-Commerce Co., Ltd.; Director of Giant Profit Development Limited.; Director of All Saints Enterprises Limited; Director of Nan Pao Resins (China) Co., Ltd.; Director of Fuqing Nan Pao Investment Limited; Director of Wealth Castle Development Limited; Director of Fuqing Nan Pao Resins Co., Limited; Director of Thai Nan Pao Investments Limited; Director of Thai Nanpao Resins Chemical Co., Limited; Director of PHYMED BIO-TEC CO., LTD.; Director of ITLS International Development Co., Ltd.; Director of Nan Pao Application Material Co., Ltd.; Director of Prince Pharmaceutical Co., Ltd.; Supervisor of Foshan Nan Pao Advanced Materials Co., Ltd.; Supervisor of Dongguan Jia Chin Electronics Co., Ltd.; Supervisor of Nan Pao Resins (Fo Shan) Co., Ltd.; Supervisor of Nan Pao Electronic Material Company.

Note 7: Director of Nan Pao Resins International Limited; Director of ITLS Holding Pte. Ltd.; Director of ITLS (Malaysia) SDN. BHD.; Director of PT. ITLS Indonesia; Director of ITLS Vietnam Co., Ltd.; Director of ITLS-Rich (S) Pte. Ltd.; Director of ITLS-SB SDN. BHD.; Supervisor of Norro-Nan Pao Paints & Coatings (Vietnam) Co., Ltd.; Supervisor of PHYMED BIO-TEC CO., LTD.; Chairman of Apogee Optocom Co., Ltd.

Note 8: Chairman of Nan Pao Electronic Material Company; Director of Greatwill Materials (HK) Limited; Director of Goldford Investments Limited; Director of Nan Pao Resins (Holdings) Limited; Director of Eastlion Enterprises Limited; Director of Eastlion Industrial Limited; Director of Nan Pao Resins Development Limited; Director of Nan Pao

Resins International Limited; Director of Profit Land Limited; Director of Giant Profit Development Limited; Director of Great Mount Enterprises Limited; Director of Fuqing Nan Pao Investment Limited; Director of Wealth Castle Development Limited.  
 Note 9: Corporate Director Representative of Nan-Ho Industrial Co., Ltd.; Independent Director of Long Da Construction & Development Corporation.

Table 1: Major corporate shareholders

April 16, 2019

Name of corporate shareholders	Major corporate shareholders	Shareholding percentage
Pou Chien Chemical Co., Ltd.	Pao Chien Chemical Engineering Holdings	100%
Guang Rong Investment Ltd.	Samoan Guang Rong Investment Ltd.	100%

Table 2: Major shareholders of the major corporate shareholders

April 16, 2019

Name of corporate shareholders	Major corporate shareholders	Shareholding percentage
Pao Chien Chemical Engineering Holdings	Key International Co., Ltd.	100%
Samoan Guang Rong Investment Ltd.	Worthy Virtue Electronic Industrial Co., Ltd.	100%

2. Professional knowledge and status of independence of directors:

April 16, 2019

<div>Condition</div> <div>Name</div>	Has more than 5 years of work experience and the following professional qualifications			Compliant to the requirements of independence (Note)										Currently serving as an independent director of other public companies
	Currently serving as an instructor or higher post in a private or public college or university in the field of business, law, finance, accounting, or other fields related to the Company's businesses	Currently serving as a judge, prosecutor, lawyer, accountant, or other professional or technician related to the Company's businesses that must undergo national examinations and obtain a specialized license.	Having work experience in business administration, legal affairs, finance, accounting, or any other businesses related to the Company's businesses	1	2	3	4	5	6	7	8	9	10	
Wu, Cheng-Hsien			✓			✓	✓	✓	✓	✓	✓	✓	✓	0
Chang, Chia-Li, Representative of Pou Chien Chemical Co., Ltd.			✓			✓	✓			✓	✓	✓		0
Hsu, Ming-Hsien, Representative of Guang Rong Investment Ltd.			✓			✓	✓	✓	✓	✓	✓	✓		0
Liu, Chi-Lin, Representative of Guang Rong Investment Ltd.			✓			✓	✓	✓	✓	✓	✓	✓		0
Chang, Kuo-Jung, Representative of Guang Rong Investment Ltd.			✓			✓	✓	✓	✓	✓	✓	✓		0
Chen, Yun	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Chiang, Yung-Cheng		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Lee, Yi-Hsi	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0

Note: For any director or supervisor who fulfills the relevant condition(s) for two fiscal years before being elected to the office or during the term of office, please provide the sign in the field next to the corresponding conditions.✓

- (1) Not employed by the Company or an affiliated business.
- (2) Not a director or supervisor of companies affiliated to the Company (not limited to independent directors appointed by the Company, its mother Company, or its subsidiaries in accordance with this Act or local regulations).
- (3) Not a natural person shareholder who holds more than 1% of issued shares or ranked top 10 in terms of the total quantity of shares held, including the shares held in the name of the person's spouse, minor children, or others.
- (4) Not a spouse or a second-degree or third-degree blood-relation to the individuals listed in conditions 1 to 3.
- (5) Not a director, supervisor, or employee of a corporate shareholder that directly holds more than 5% of the total number of issued shares of the Company or ranked top 5 in terms of quantity of shares

held.

- (6) Not a director (member of the governing board), supervisor (member of the supervising board), managerial officer, or shareholder holding more than 5% of shares of a specified company or institution that has a financial or business relationship with the Company.
- (7) Not a professional, sole proprietor, partner, or a company that offers business administration, legal, financing, accounting, or consulting services for the Company; not an owner, partner, director, supervisor, managerial officer, or spouse of any of the above-mentioned roles at a company that offers these services for the Company. However, members of the Remuneration Committee which has been established and exercised under Article 7 “the Establishment and Exercising of Rights for the Remuneration Committee in a Company Listed or Traded on the Stock Exchange” is not limited by this clause.
- (8) Not a spouse of, or has second-degree family relationships with the other directors.
- (9) Not have conditions stated in Article 30 of the Company Act.
- (10) Not nominated as a government, corporate entity, or its representative, as stated in Article 27 of the Company Act.

## (II) Information on the Management Team

April 16, 2019

Title	Nationality	Name	Gender	Appointed on	Shares held		Shares held by spouse or minor children		Shares held in the name of other persons		Education and Work Experience	Positions currently held in other companies	Managerial officers who have spousal or second-degree family relationships within the Company		
					Number of shares	Ratio	Number of shares	Ratio	Number of shares	Ratio			Job Title	Name	Relations
CEO	Taiwan R.O.C.	Hsu, Ming-Hsien	Male	2016.12.15	483,211	0.40	121,554	0.10	—	—	M.S. in Industrial Engineering, National Cheng Kung University; Deputy General Manager of Nan Pao Resins Chemical Co., Ltd.	Note 1	None	None	None
Executive General Manager of Sports Goods Adhesives and Materials Business Division	Taiwan R.O.C	Tsai, Chao-Chian	Male	2017.01.01	159,293	0.13	—	—	—	—	Department of Chemistry, Soochow University; Executive General Manager of Adhesive Business Division, Nan Pao Chemical Co., Ltd.	Note 2	None	None	None
Executive General Manager of Paints and Coatings Business Division	Taiwan R.O.C	Tsai, Yi-Fa	Male	2014.04.01	51,464	0.04	—	—	—	—	Department of Chemical Engineering, Kun Shan University; Deputy General Manager of Paints and Coatings Business Division, Nan Pao Resins Chemical Co., Ltd.	Note 3	None	None	None
Executive General Manager of Adhesives and Specialty Business Division	Taiwan R.O.C	Hsu, Chi-Yuan	Male	2017.01.01	50,930	0.04	—	—	—	—	Bachelor of Chemistry, National Chung Hsing University; Deputy General Manager of Adhesive Business, Nan Pao Resins (Vietnam) Co., Ltd.	Note 4	None	None	None
General Manager of Operation Management Division	Taiwan R.O.C	Hung, Chung-Yuan	Male	2017.01.01	481,388	0.40	—	—	—	—	Department of Applied Mathematics, National Chung Hsing University; Associate Manager, HR Department and Executive General Manager of Sports Goods Adhesives and Materials Business Division in Nan Pao Resins Chemical Co., Ltd., Assistant Manager of Nan Pao Vietnam; General Manager of Nan Pao Resins (Dong-Guan); General Manager of Nan Pao Resins (Foshan) Co., Ltd.	Note 5	None	None	None
General Manager of Financial Management Division (Finance Manager)	Taiwan R.O.C	Liu, Chi-Lin	Male	2015.04.01	185,422	0.15	—	—	—	—	Department of Accounting, Soochow University; General Manager of Nan Pao Resins Chemical Co., Ltd. and Deputy General Manager of DingShin S.K.P. International Management Consulting Co., Ltd.	Note 6	None	None	None
Deputy General Manager of R&D & Innovation Division (R&D Manager)	Taiwan, R.O.C.	Lee, Juh-Shyong (Note10)	Male	2005.10.01	97,533	0.08	—	—	—	—	Ph.D. in Applied Chemistry, National Chiao Tung University; School of Chemistry, National Taiwan University; Department of Chemistry, Chinese Culture University; R&D Assistant Manager of Wan Chia Paint Co., Ltd.; Full-time Researcher and Supervisor of Industrial Technology Research Institute (ITRI)	None	None	None	None

Title	Nationality	Name	Gender	Appointed on	Shares held		Shares held by spouse or minor children		Shares held in the name of other persons		Education and Work Experience	Positions currently held in other companies	Managerial officers who have spousal or second-degree family relationships within the Company		
					Number of shares	Ratio	Number of shares	Ratio	Number of shares	Ratio			Job Title	Name	Relations
R&D Deputy General Manager of R&D & Innovation Division	Taiwan, R.O.C.	Shen, Yong-Ching	Male	2016.04.01	25,500	0.02	—	—	—	—	Ph.D. in Applied Chemistry from National Chiao Tung University; Department of Chemistry, National Chung Hsing University; M.S. in Chemistry of National Tsing Hua University; Deputy Researcher, Full-time Researcher, Supervisor, Deputy Head of Industrial Technology Research Institute (ITRI); Visiting Scholar in Sheffield University	None	None	None	None
R&D Deputy General Manager of R&D & Innovation Division	Taiwan, R.O.C.	Wang, Ping	Male	2008.09.15	20,651	0.02	—	—	—	—	Ph.D. in Chemistry from the University of Massachusetts; School of Chemistry, National Tsing Hua University; R&D Chemist, HB Fuller Company. Tech Services Manager in Greater China Region in 3M Company; Research Specialist, Senior Chemist/Innovation Taiwan; Chemist in Taiwan Cement, Ltd.	None	None	None	None
Deputy General Manager of Sports Goods Adhesives and Materials Business Division	Taiwan, R.O.C.	Kong, Wen- Hsien	Male	2018.11.08	94,900	0.08	—	—	—	—	Bachelor in Operational Management, Tunghai University General Manager of Thai Nan Pao Ltd.	None	None	None	None
Deputy General Manager in Adhesives and Specialty Business Division	Taiwan, R.O.C.	Kuo, Sen-Mao	Male	2017.01.01	80,616	0.07	—	—	—	—	Chemical Engineering Dept., National Cheng Kung University; Assistant Manager in Adhesives and Specialty Business Division, Nan Pao Resins Chemical Co., Ltd.	Note 7	None	None	None
Vice General Manager of Paints and Coatings Business Division	Taiwan, R.O.C.	Chen, Zhi-Wei	Male	2019.01.25	—	—	—	—	—	—	Bachelor in Chemical Engineering, Feng Chia University Commerce General Manager, Brunner Mond Taiwan., Ltd Commerce General Manager, AkzoNobel Taiwan., Ltd	None	None	None	None
Assistant Manager in Sports Goods Adhesives and Materials Business Division	Taiwan, R.O.C.	Fang, Yi-Jen	Male	2016.04.01	11,809	0.01	—	—	—	—	Chemical Engineering Dept., Southern Taiwan University of Science and Technology, Technical Service Manager in Sports Goods Adhesives and Materials Business Division, Nan Pao Resins Chemical Co., Ltd.	None	None	None	None
R&D Assistant Manager in Sports Goods Adhesives and Materials Business Division	Taiwan, R.O.C.	Hung, Sen-Pei	Male	2010.10.01	51,564	0.04	—	—	—	—	M.S. in Chemical Engineering, Chung Yuan Christian University, R&D Manager in Sports Goods Adhesives and Materials Business Division, Nan Pao Resins Chemical Co., Ltd.	None	None	None	None

Title	Nationality	Name	Gender	Appointed on	Shares held		Shares held by spouse or minor children		Shares held in the name of other persons		Education and Work Experience	Positions currently held in other companies	Managerial officers who have spousal or second-degree family relationships within the Company		
					Number of shares	Ratio	Number of shares	Ratio	Number of shares	Ratio			Job Title	Name	Relations
Assistant Manager in Financial Management Division (Accounting Manager)	Taiwan, R.O.C.	Lin, Kun-Chin	Male	2016.05.03	6,120	0.01	—	—	—	—	Dept. of Accounting, Soochow University; Team Leader in Ernst & Young Taiwan; Manager and Spokesperson in Administration Dept., Mildex Optical Inc.; CFO in Tai Shih Fu Enterprise Co., Ltd.; CFO in Meei Hwa Tai Co.	Note 8	None	None	None
Assistant Manager in HR Dept. of Strategic Development Division	Taiwan, R.O.C.	Lee, Hui-Fen	Female	2016.04.01	56,883	0.05	—	—	—	—	EMBA, Preston University; HR Manager at Flextronics International (Taiwan) Ltd.; Recruitment Manager at Vishay General Semiconductor Taiwan Ltd.	Note 9	None	None	None
Assistant Manager in Strategic Development Division	Taiwan, R.O.C.	Luo, Yuan-Yang	Male	2018.04.12	14,280	0.01	—	—	—	—	Dept. of Mathematics, Chung Yuan Christian University Factory Leader, Picvue Electronics, Ltd. Executive Assistant to the General Manager, Joyin Co., Ltd. General Manager, Wonderful Optonics Co., Ltd. Executive Assistant to the General Manager, Jin Yong Han Technology Co., Ltd.	None	None	None	None
Q&A Assistant General Manager of R&D & Innovation Division	Taiwan, R.O.C	Lin, Zhi-Cheng	Male	2018.11.08	8,000	0.01	—	—	—	—	MA, Chemical Engineering at National Cheng Kong University BA, Chemical Department at Chun -Yuan University GM at Chia-Wang Technology Ltd Manufacturing Special Assistant and QC Director , AOI(Ning-Bo) ,Ltd Manufacturing deputy director and assistant General Manager, AOI(Shiang-Mao)	None	None	None	None
Polyester polyol Technology Assistant General Manager of R&D & Innovation Division	Taiwan, R.O.C	Chen, Yan-Cheng	Male	2018.11.08	5,000	0.00	—	—	—	—	BA, Chemical Department at Chun -Yuan University MA, Chemical Department at Chun -Yuan University R&D Manager at Eternal Materials Co., Ltd	None	None	None	None
Deputy Manager of the Auditing Office (Audit Manager)	Taiwan, R.O.C.	Tu, Chi-Feng	Male	2016.03.21	12	0.00	—	—	—	—	Dept. of Accounting, Shih Chien University, Institute of Human Resource Management, NSYSU; Divisional Head, Administrative Dept., Juoku Technology Ltd., Associate Audit Manager, Nan Pao Resins Chemical Co., Ltd.	None	None	None	None

Note 1: Director of Greatwill Materials (HK) Limited; Director of Ongoing Profits Limited; Director of Rising Sun Associate Limited; Director of Nan Pao Resins Chemical Philippines, Inc.; Director of Goldford Investments Limited; Director of Nan Pao Resins (Holdings) Limited; Director of Eastlion Enterprises Limited; Director of Nan Pao Resins (Dong-Guan) Co., Ltd.; Director of Eastlion Industrial Limited; Director of Nan Pao Resins Development Limited; Director of Nan Pao Resins International Ltd.; Director of Nanpao Advanced Investment Co., Ltd.; Director of Nantong Nanpao Resins Materials Co., Ltd.; Director of Nanpao (Kunshan) E-Commerce Co., Ltd.; Director of Giant Profit Development Limited.; Director of All Saints Enterprises Limited; Director of Nan Pao Resins (China) Co., Ltd.; Director of Fuqing Nan Pao Investment Limited; Director of Wealth Castle Development

Limited; Director of Fuqing Nan Pao Resins Co., Limited; Thai Nan Pao Investments Limited; Director of Thai Nanpao Resins Chemical Co., Limited; Director of PHYMED BIO-TEC CO., LTD.; Director of ITLS International Development Co., Ltd.; Director of Nan Pao Application Material Co., Ltd.; Director of Prince Pharmaceutical Co., Ltd.; Supervisor of Foshan Nan Pao Advanced Materials Co., Ltd.; Supervisor of Dongguan Jia Chin Electronics Co., Ltd.; Supervisor of Nan Pao Resins (Fo Shan) Co., Ltd.; Supervisor of Nan Pao Electronic Material Company.

Note 2: Director of Thai Nan Pao Investments Limited; Director of ITLS International Development Co., Ltd.; Director of Nan Pao Chemical Company Ltd.; Director of Nan Pao Advanced Materials Co., LTD.; Supervisor of PT. Indo Nan Pao Resins Chemical.

Note 3: Director of Norro-Nan Pao Paints & Coatings (Vietnam) Co., Ltd.; Director of Nan Pao Electronic Material Company; Director of Biorich Biotechnology Co., Ltd.; Supervisor of Nanpao Advanced Investment Co., Ltd.; Supervisor of Nantong Nanpao Resins Materials Co., Ltd.; Supervisor of Nanpao (Kunshan) E-Commerce Co., Ltd.; Supervisor of Nan Pao Resins (China) Co., Ltd.; Supervisor of Fuqing Nan Pao Resins Co., Limited; Supervisor of Nan Pao Chemical Company Ltd.; Supervisor of Nan Pao Application Material Co., Ltd.

Note 4: Director of Nan Pao Resins Chemical Philippines, Inc.; Director of Nan Pao Resins India Pvt. Ltd.

Note 5: Supervisor of Nan Pao Resins (Dong-Guan) Co., Ltd.

Note 6: Director of Nan Pao Resins International Limited; Director of ITLS Holding Pte. Ltd.; Director of ITLS (Malaysia) SDN. BHD.; Director of PT. ITLS Indonesia; Director of ITLS Vietnam Co., Ltd.; Director of ITLS-Rich (S) Pte. Ltd.; Director of ITLS-SB SDN. BHD.; Supervisor of Norro-Nan Pao Paints & Coatings (Vietnam) Co., Ltd.; Supervisor of PHYMED BIO-TEC CO., LTD.; Chairman of APOGEE Optocom Co., Ltd.

Note 7: Director of Nan Pao Resins Chemical Philippines, Inc.; Director of NP Australia Pty. Ltd.; Director of RLA Polymers Pty. Ltd.; Director of RLA Polymers (M) SDN. BHD.; Director of ITLS-TWA Australia Pty. Ltd.; Director of Nan Pao Resins India Pvt. Ltd.

Note 8: Supervisor of Prince Pharmaceutical Co., Ltd.; Supervisor of Chun Chuang Industrial Co., Ltd.

Note 9: Director of Nan Pao Chemical Company Ltd.; Supervisor of Prince Pharmaceutical Co., Ltd.; Director of APOGEE Optocom Co., Ltd.

Note 10: Lee, Juh-Shyong retired on April 30th, 2019, Shen, Yong-Ching took over the head of R&D



### III. Compensations to Directors, Supervisors, General Managers and Deputy General Managers

#### (I) Compensations to Directors and Supervisors in the Most Recent Year (2018)

##### 1. Compensations paid to Directors (range of remuneration with name disclosure)

Unit: NT\$1,000

Job Title	Name	Director's remuneration								Percentage of the total sums of A, B, C, and D on the net profit		Employee remuneration for other activities								Percentage of the total sums of A, B, C, D, E, F, and G on the net profit		Whether or not the person receives remuneration from other non-subsidiary companies that the Company has invested in
		Remuneration (A)		Retirement Pension (B)		Director's remuneration (C)		Expenses on professional service (D)				Salaries, bonuses, and special expenses (E)		Retirement pension (F)		Employee benefits (G)						
		The Company	All companies listed in the financial report	The Company	All companies listed in the financial report	The Company	All companies listed in the financial report	The Company	All companies listed in the financial report	The Company	All companies listed in the financial report	The Company	All companies listed in the financial report	The Company		All companies listed in the financial report		The Company	All companies listed in the financial report			
Chairman	Wu, Cheng-Hsien	540	540	-	-	13,322	13,322	-	-	2.06%	2.06%	10,903	10,903	533	533	896	-	896	-	3.89%	3.89%	None
Director	Paochien Company Limited																					
	Representative: (Note 1) Lu, Chin-Chu (Relieved of duty) Chang, Chia-Li																					
Director	Guang Rong Investment Ltd.																					
	Representative: Hsu, Ming-Hsien																					
	Representative: Liu, Chi-Lin																					
	Representative: (Note 2) Lee, Juh-Shyong (Relieved of duty) Chang, Kuo-Jung																					
Independent Director	Chen, Yun (Note 3)																					
Independent Director	Chiang, Yung-Cheng (Note 3)																					
Independent Director	Lee, Yi-Hsi (Note 3)																					
*In addition to the information disclosed in the table above, director of the Company (CCSB) who provides services to any of the companies included in the consolidated financial statements and receives compensations for such services (e.g. providing consultation services in a non-employee capacity): None																						

Note 1: Corporate director Pou Chien Chemical Co., Ltd. had reassigned the representative on November 1, 2017 (the former representative: Lu, Chin-Chu; the new representative: Chang, Chia-Li).

Note 2: The corporate director Guang Rong Investment Ltd. had reassigned the representative on April 12, 2018 (the former representative: Lee, Juh-Shyong; the new representative: Chang, Kuo-Jung).

Note 3: The Company has elected independent directors and established the Audit Committee on December 12, 2017; the supervisors have been terminated.

Table of remuneration ranges

Remuneration range for each director in the Company	Name of director			
	Sum of the first 4 items (A+B+C+D)		Sum of the first 7 items (A+B+C+D+E+F+G)	
	The Company	All companies in the financial report H	The Company	All companies in the financial reports I
Less than NT\$ 2,000,000	Wu, Cheng-Hsien, Chen, Yun, Chiang, Yung-Cheng, Lee, Yi-Hsi,	Wu, Cheng-Hsien, Chen, Yun, Chiang, Yung-Cheng, Lee, Yi-Hsi,	Chen, Yun, Chiang, Yung-Cheng, Lee, Yi-Hsi,	Chen, Yun, Chiang, Yung-Cheng, Lee, Yi-Hsi,
Between 2,000,000 NT\$ (inclusive) to 5,000,000 NT\$ (exclusive)	Paochien Company Limited	Paochien Company Limited	Wu, Cheng-Hsien, Hsu, Ming-Hsien, Liu, Chi-Lin, Chang, Kuo-Jung, Lee, Juh-Shyong (relieved of duty), Paochien Company Limited	Wu, Cheng-Hsien, Hsu, Ming-Hsien, Liu, Chi-Lin, Lee, Chang, Kuo-Jung, Lee, Juh-Shyong (relieved of duty), Paochien Company Limited
Between 5,000,000 NT\$ (inclusive) to 10,000,000 NT\$ (exclusive)				
Between 10,000,000 NT\$ (inclusive) to 15,000,000 NT\$ (exclusive)	Guang Rong Investment Ltd.	Guang Rong Investment Ltd.	Guang Rong Investment Ltd.	Guang Rong Investment Ltd.
Between 15,000,000 NT\$ (inclusive) to 30,000,000 NT\$ (exclusive)	-	-	-	-
Between 30,000,000 NT\$ (inclusive) to 50,000,000 NT\$ (exclusive)	-	-	-	-
Between 50,000,000 NT\$ (inclusive) to 100,000,000 NT\$ (exclusive)	-	-	-	-
More than NT\$ 100,000,000	-	-	-	-
Total	6 persons	6 persons	10 persons	10 persons

## 2. Remuneration of Supervisors

The Company had established an Audit Committee to replace the role of supervisors on December 12, 2017, and currently has no supervisors in place.

## (II) Remunerations of General Managers and Deputy General Managers in the Most Recent Year (2018) (range of remuneration with name disclosure)

Unit: NT\$1,000

Title	Name	Salary (A)		Retirement pension (B)		Bonuses and Allowances ( C )		Employee's remuneration (D)				Proportion of NIAT after summing up the four items of A, B, C, and D		Whether or not the person receives remuneration from other non-subsidiary companies that the company has invested in
		The Company	All companies listed in the financial report	The Company	All companies listed in the financial report	The Company	All companies listed in the financial report	The Company		All companies listed in the financial report		The Company	All companies listed in the financial report	
								Cash	Shares	Cash	Shares			
CEO	Hsu, Ming-Hsien	14,391	14,391	1,147	1,147	8,159	8,159	1,680	-	1,680	-	3.77%	3.77%	None
Sports Goods Adhesives and Materials Business Division Executive General Manager	Tsai, Chao-Chian													
Paints and Coatings Business Division Executive General Manager	Tsai, Yi-Fa													
Adhesives and Specialty Business Division Executive General Manager	Hsu, Chi-Yuan													
Operation Management Division General Manager	Hung, Chung-Yuan													
Financial Management Division General Manager	Liu, Chi-Lin													
R&D & Innovation Division R&D Manager	Lee, Juh-Shyong (Note)													
Deputy General Manager in Adhesives Division II in Adhesives and Specialty Business Division	Chang, Chi-Yao (Note)													
R&D Deputy General Manager in Innovative Development Dept. of R&D & Innovation Division	Shen, Yong-Ching													
R&D Deputy General Manager in Hot Melt Adhesive R&D Dept. of R&D & Innovation Division	Wang, Ping													
Deputy General Manager of Sports Goods Adhesives and Materials Business Division	Kong, Wen-Hsien													
Deputy General Manager in Adhesives and Specialty Business Division	Kuo, Sen-Mao													

Note : Lee, Juh-Shyong retired on Apr.30<sup>th</sup> ; Chang, Chi-Yao retired on Mar. 18<sup>th</sup>.

Table of remuneration ranges

Levels of compensation paid to each individual general manager and deputy general manager of the Company	Name of the General Manager and Deputy General Manager	
	The Company	All companies listed in the financial report
Less than NT\$ 2,000,000	Kuo, Sen-Mao / Kong, Wen-Hsien	Kuo, Sen-Mao / Kong, Wen-Hsien
Between 2,000,000 NT\$ (inclusive) to 5,000,000 NT\$ (excl.)	Hsu, Ming-Hsien / Tsai, Chao-Chian / Tsai, Yi-Fa / Hsu, Chi-Yuan / Hung, Chung-Yuan / Liu, Chi-Lin / Lee, Juh-Shyong / Chang, Chi-Yao / Shen, Yong-Ching / Wang, Pin	Hsu, Ming-Hsien / Tsai, Chao-Chian / Tsai, Yi-Fa / Hsu, Chi-Yuan / Hung, Chung-Yuan / Liu, Chi-Lin / Lee, Juh-Shyong / Chang, Chi-Yao / Shen, Yong-Ching / Wang, Pin
Between 5,000,000 NT\$ (inclusive) to 10,000,000 NT\$ (excl.)	None	None
Between 10,000,000 NT\$ (inclusive) to 15,000,000 NT\$ (excl.)	None	None
Between 15,000,000 NT\$ (inclusive) to 30,000,000 NT\$ (excl.)	None	None
Between 30,000,000 NT\$ (inclusive) to 50,000,000 NT\$ (excl.)	None	None
Between 50,000,000 NT\$ (inclusive) to 100,000,000 NT\$ (excl.)	None	None
More than NT\$ 100,000,000	None	None
Total	12 persons	12 persons

(III) Names of managerial officers who distribute employee remuneration and the distribution condition in the most recent year (2018)

December 31, 2018

	Title	Name	Shares	Cash amount	Total	Percentage of total compensations to net income
Managerial officers	CEO	Hsu, Ming-Hsien	-	3,515	3,515	0.52%
	Executive General Manager of Sports Goods Adhesives and Materials Business Division	Tsai, Chao-Chian				
	Executive General Manager of Paints and Coatings Business Division	Tsai, Yi-Fa				
	Executive General Manager of Adhesives and Specialty Business Division	Hsu, Chi-Yuan				
	General Manager of Operation Management Division	Hung, Chung-Yuan				
	General Manager of Financial Management Division	Liu, Chi-Lin				
	R&D Manager of R&D & Innovation Division	Lee, Juh-Shyong (Note 1)				
	Deputy General Manager of Adhesives and Specialty Business Division II	Chang, Chi-Yao (Note 1)				
	R&D Deputy General Manager of Innovative Development Dept. of R&D & Innovation Division	Shen, Yong-Ching				
	R&D Deputy General Manager of R&D & Innovation Division	Wang, Ping				
	Deputy General Manager of Sports Goods Adhesives and Materials Business Division	Kong, Wen-Hsien				
	Deputy General Manager of Adhesives and Specialty Business Division	Kuo, Sen-Mao				
	Assistant Manager of Sports Goods Adhesives and Materials Business Division	Fang, Yi-Jen				
	R&D Technical Assistant Manager of Sports Goods Adhesives and Materials Business Division	Hung, Sen-Pei				
	Assistant Manager of Financial Management Division	Lin, Kun-Chin				
	Assistant Manager of HR Dept. of Strategic Development Division	Lee, Hui-Fen				
	Assistant Manager in Strategic Development Division	Luo, Yuan-Yang				
	Q&A Assistant General Manager of R&D & Innovation Division	Lin, Zhi-Cheng				
	Polyester polyol Technology Assistant General Manager of R&D & Innovation Division	Chen, Yan-Cheng				

Note 1: Lee, Juh-Shyong retired on Apr.30<sup>th</sup> ; Chang, Chi-Yao retired on Mar. 18<sup>th</sup>.

Note 2: As of the date of publication of this Report, the list of employee remuneration distribution has not been resolved; hence, this year's distribution is calculated based on the ratio of last year's actual distribution.

(IV) Analysis of the total compensation as a percentage of net income after taxes stated in the parent company only or individual financial statements, paid by the Company and by all companies listed in the consolidated financial statement in the most recent two years to the Company's directors, supervisors, general managers, and deputy general managers, and statement of the policies, standards, and packages for payment of compensation, the procedures for determining compensation, and its linkage to business performance and future risk exposure:

1. Analysis of total compensation as a percentage of net income after taxes:

Title	2017		2018	
	Percentage of net income after taxes (%)		Percentage of net income after taxes (%)	
	The Company	All companies listed in the consolidated financial report	The Company	All companies listed in the consolidated financial report
Director	3.77	3.77	3.89	3.89
Supervisor	-	-	-	-
General and Deputy General Managers	4.26	4.26	3.77	3.77

Note: The sum of director remunerations include remuneration paid to concurrent employees, hence there are parts that overlap with the total sum of remunerations paid to general and deputy general managers.

2. Policies, standards, and packages for payment of remuneration, as well as the procedures for determining remuneration, and its linkage to business performance and future risk exposure:

(1) Directors and Supervisors

According to Article 25 of the Company's Articles of Association, no more than 3% of the amount of profit before deducting employee bonus and directors' remuneration from profit before taxes shall be distributed as directors' bonus.

(2) General Managers and Deputy General Managers

Remunerations for CEO, general and deputy general managers include salaries, bonuses, and employee bonuses. Salary standards are established upon positions in the Company, respective responsibilities, levels of contribution to the Company, and in reference to industry standards. The distribution standard of employee bonuses is in compliance with the Company's Articles of Association, and distribution is only made after submission to the Board of Directors and upon resolution by the Shareholders' Meeting. According to Article 25 of the Company's Articles of Association, whereas 2% to 6% of the amount of profit before deducting employee bonus and directors' remuneration from profit before taxes shall be distributed as employee bonus.

In summary, the Company shall determine remuneration in accordance with the Company's "Regulations Governing Performance Evaluation of Directors and Managers" by not only referring to the Company's overall operational performance, future business risks and development trends of the industry, but also taking into account an individual employee's performance achievement rate and degree of contribution to company performance, in order to offer reasonable remuneration which has a positive correlation with business performance. The relevant performance appraisal and the reasonable of compensation shall be reviewed by the Remuneration Committee and the Board of Directors. In addition, the remuneration system shall be reviewed in a timely manner according to actual operating conditions and the relevant laws and regulations to strike a balance between sustainable management and risk control at the Company.

#### IV. Implementation of Corporate Governance

##### (I) Operation of the Board of Directors

The Board of Directors convened 8 meetings in last year (2018). Attendance of directors and supervisors is as follows:

Title	Name	Actual presence (attendance)	Attendance by proxy	Rate of actual presence (attendance) (%) (Note 1)	Remarks (Note 2)
Chairman	Wu, Cheng-Hsien	8	0	100	Re-elected on May 16, 2017
Director	Pou Chien Chemical Co., Ltd.				Re-elected on May 16, 2017
	Representative: Chang, Chia-Li	6	2	75	Newly appointed on November 1, 2017
Director	Guang Rong Investment Ltd. Representative: Hsu, Ming-Hsien	7	1	87.5	Re-elected on May 16, 2017
Director	Guang Rong Investment Ltd. Representative: Liu, Chi-Lin	8	0	100	Re-elected on May 16, 2017
Director	Guang Rong Investment Ltd.				Re-elected on May 16, 2017
	Representative: Lee, Juh-Shyong	2	0	100	Released from duty on April 12, 2018
	Representative: Chang, Kuo-Jung	5	1	83.33	Newly appointed on April 12, 2018
Independent Director	Chen, Yun	7	1	87.5	Newly appointed on December 12, 2017
Independent Director	Chiang, Yung-Cheng	8	0	100	Newly appointed on December 12, 2017
Independent Director	Lee, Yi-Hsi	8	0	100	Newly appointed on December 12, 2017

Other items that shall be recorded:

- When one of the following situations occurs to the operation of the Board, the date and term of the board meeting, the content of proposals, opinions of all independent directors, and the Company's actions in response to the opinions of the independent directors shall be stated:

(1) All conditions listed in Article 14-3 of the Securities and Exchange Act

Date	Agenda	Suggestions
2018.03.20	<ol style="list-style-type: none"> <li>The Company's proposal to engage in capital increase for Nan Pao Materials Vietnam Co., Ltd.</li> <li>The Company's proposal to cancel the establishment of a new company, Nan Pao Resins Material (Shaoguan) Co., Ltd. at Nanxiong Fine Chemical Industrial Park in Guangdong Province, China.</li> <li>The investment structure of the Company's subsidiary, Progroups Technology Co., Ltd.</li> <li>The Company's 2017 "Statement on Internal Control System".</li> <li>The amendment of the Company's internal control system on "procurement, property, and production cycles".</li> <li>The Company's provision or cancellation of endorsements or guarantees for subsidiaries.</li> </ol>	All independent directors stated no objection; the above proposals have been passed, and the Company also carried out the resolutions according to the results.
2018.04.12	<ol style="list-style-type: none"> <li>The Company's 2017 business report and financial statements..</li> <li>The salary adjustment and promotion for the Company's managers.</li> </ol>	All independent directors stated no objection; the above proposals have been passed, and the Company also carried

		out the resolutions according to the results.
2018.06.06	<ol style="list-style-type: none"> <li>1. The Company's financial forecast for the second, third and fourth quarters of 2018.</li> <li>2. The Company's proposal to invest in the establishment of a new company in Mainland China, "Nan Pao Resin (Yunan) Co., Ltd.".</li> <li>3. The Company's proposal to provide guarantees for borrowings by subsidiaries.</li> <li>4. The lifting of non-compete restriction against the Company's managers.</li> </ol>	All independent directors stated no objection; the above proposals have been passed, and the Company also carried out the resolutions according to the results.
2018.08.09	<ol style="list-style-type: none"> <li>1. Approved the Company's 2017 employee bonus distribution plan for managers.</li> <li>2. Approved the Company's proposal to provide guarantees for borrowings by subsidiaries.</li> </ol>	All independent directors stated no objection; the above proposals have been passed, and the Company also carried out the resolutions according to the results.
2018.09.26	<ol style="list-style-type: none"> <li>1. The Company's proposal for cash capital increase through the issuance of new shares for initial public offering.</li> <li>2. The amendment of the Company's "General Principles for Internal Control System", "Implementation Rules for Internal Audit", and "Operating Guidelines for Bill Management".</li> <li>3. The Company's "Remuneration Committee Charter" and "Management Guidelines for the Operation of Remuneration Committee".</li> <li>4. The Company's proposal to correct some parts of the financial statements.</li> </ol>	All independent directors stated no objection; the above proposals have been passed, and the Company also carried out the resolutions according to the results.
2018.11.08	<ol style="list-style-type: none"> <li>1. The Company's 2018 cash capital increase through stock ownership for managers.</li> <li>2. The Company's proposal to terminate stock listing on the over-the-counter market and transfer stock listing to Taiwan Stock Exchange.</li> <li>3. The amendment of the Company's "Regulations Governing Seal Management".</li> <li>4. The Company's provision of guarantees for borrowings by subsidiaries.</li> </ol>	All independent directors stated no objection; the above proposals have been passed, and the Company also carried out the resolutions according to the results.
2018.12.25	<ol style="list-style-type: none"> <li>1. The Company's and the Group's 2019 Business Plan.</li> <li>2. The Company's 2019 internal audit plan.</li> <li>3. The amendment of the Company's "Internal Control System - Management Cycle".</li> <li>4. The amendment of the Company's "accounting system".</li> <li>5. The Company's proposal to cancel guarantees for borrowings by subsidiaries.</li> <li>6. The Company's issuance of letter of support for borrowings by subsidiaries.</li> </ol>	All independent directors stated no objection; the above proposals have been passed, and the Company also carried out the resolutions according to the results.

(2) In addition to the aforementioned matters, any other resolutions from the Board meetings where an independent director expresses a dissenting or qualified opinion that has been recorded or stated in written form: None.

2. When directors abstain themselves for being a stakeholder in certain proposals, the names of



the directors, the content of the proposal, reasons for abstention, and the results of voting counts shall be stated.

Date	Agenda	Name of director	Reason for Recusal
2018.04.12	Salary adjustment and promotion for the Company's managers.	Wu, Cheng-Hsien / Hsu, Ming-Hsien / Liu, Chi-Li	Abstained from voting as the above directors also serve as managers concurrently
2018.06.06	Lifting of non-compete restriction against the Company's managers.	Wu, Cheng-Hsien / Hsu, Ming-Hsien / Liu, Chi-Li	Abstained from voting as the above directors also serve as managers concurrently
2018.08.09	The Company's 2017 employee bonus distribution plan.	Wu, Cheng-Hsien / Hsu, Ming-Hsien / Liu, Chi-Li	Abstained from voting as the above directors also serve as managers concurrently
2018.11.08	The Company's 2018 cash capital increase through stock ownership for managers.	Wu, Cheng-Hsien / Hsu, Ming-Hsien / Liu, Chi-Li	Abstained from voting as the above directors also serve as managers concurrently

3. Goals (e.g. establishing the audit committee, enhancing information transparency) primed to enhance the Board of Directors' professionalism and the assessment on their effectiveness for the year and the most recent fiscal year:

- (I) The Company believes that the basis for successful corporate governance is a sound and effective Board of Directors. In line with this principle, the Company has established two committees, the Audit Committee, and Remuneration Committee, to help the Board carry out its obligations, and disclosed material decisions from the Board on the Company website.
- (II) The Company has established "Rules of Procedure for Board of Directors Meetings" for compliance purpose in accordance with the "Regulations Governing Procedure for Board of Directors Meetings of Public Companies."
- (III) To protect directors and managerial officers from risks when performing their duties, the Company has already purchased liability insurance for directors and managerial officers.
- (IV) The Company has appointed dedicated personnel in charge of disclosing the Company's information and updating the Company's website information to continuously enhance information transparency.

Note 1: Actual presence (attendance) rate (%) shall be calculated using the number of Board meetings convened and actual presence (attendance) during the term of service.

Note 2: The Company held the re-election of 5 directors and 2 supervisors on May 16, 2017. In addition, 3 independent directors were elected on December 12, 2017; the independent directors formed the Audit Committee, and the supervisors were terminated on the day of the election.

(II) Operations of the Audit Committee or supervisors' participation in the Board meeting

1. Operations of the Audit Committee

The Audit Committee of the Company consists of three independent directors, with the purpose of assisting the Board of Directors in supervising the quality and integrity of the Company in accounting, audit, financial reporting and financial control. The Audit Committee's primary responsibilities include the following:

- (1) Adoption or amendment of internal control systems in accordance with Article 14-1 of the Securities and Exchange Act.
- (2) Evaluation of the effectiveness of internal control systems.

- (3) Adoption or amendment, pursuant to Article 36-1 of the Securities and Exchange Act, of handling procedures for financial or operational actions of material significance, such as acquisition or disposal of assets, derivatives trading, loaning of funds to others, and provision of endorsements or guarantees for others.
- (4) Items involving the interests of directors.
- (5) Major assets or derivative trading.
- (6) Major loaning of funds and provision of endorsements or guarantees.
- (7) Offering, issuance or private placement of equity securities.
- (8) Appointment, dismissal and compensation of CPAs.
- (9) Appointment and dismissal of finance, accounting and internal audit managers.
- (10) Annual financial reports and semi-annual financial reports.
- (11) Other major items required by other companies or the competent authority.

The Audit Committee had convened 7 meeting in the most recent year (2018) with the following attendance from the independent directors:

Title	Name	Actual presence (attendance)	Attendance by proxy	Rate of actual presence (attendance) (%)	Remarks
Independent Director	Chen, Yun	6	1	85.71	Newly appointed on December 12, 2017
Independent Director	Chiang, Yung-Cheng	7	0	100	Newly appointed on December 12, 2017
Independent Director	Lee, Yi-Hsi	7	0	100	Newly appointed on December 12, 2017

Other items that shall be recorded:

1. When one of the following situations occurs to the operation of the Audit Committee, the date and term of the Board meeting, the content of proposals, opinions of all members of the Audit Committee, and the Company's actions in response to the opinions of the Audit Committee shall be stated:

(1) Items listed in Article 14-5 of the Securities and Exchange Act:

Date	Session	Content	Suggestions
2018.03.20	First Board The 2nd time	<ol style="list-style-type: none"> <li>1. The Company's proposal to engage in capital increase for Nan Pao Materials Vietnam Co., Ltd.</li> <li>2. The Company's proposal to cancel the establishment of a new company, Nan Pao Resins Material (Shaoguan) Co., Ltd. at Nanxiong Fine Chemical Industrial Park in Guangdong Province, China.</li> <li>3. The investment structure of the Company's subsidiary, Progroups Technology Co., Ltd.</li> <li>4. The Company's 2017 "Statement on Internal Control System".</li> <li>5. The amendment of the Company's internal control system on "procurement, property, and production cycles".</li> <li>6. The Company's provision or cancellation of endorsements or guarantees for subsidiaries.</li> </ol>	The Audit Committee stated no objection; the above proposals have been passed submitted to the Board of Directors for resolution.
2018.04.12	First Board The 3rd time	<ol style="list-style-type: none"> <li>1. The Company's 2017 business report and financial statements.</li> <li>2. The Company's 2017 profit distribution plan.</li> <li>3. The Company's issuance of letter of support for borrowings by subsidiaries.</li> <li>4. The Company's issuance of Letter of Comfort for subsidiary Thai Nanpao Resins Chemical Co., Ltd.</li> <li>5. The Company's over-allotment and proposal to request</li> </ol>	The Audit Committee stated no objection; the above proposals have been passed submitted to the Board of Directors for resolution.

		specific shareholders to engage in central custody of shares within a specific time period.	
2018.06.06	First Board The 4th time	<ol style="list-style-type: none"> <li>1. The Company's application for stock listing and proposal to issue the "Statement on Internal Control System".</li> <li>2. The Company's financial forecast for the second, third and fourth quarters of 2018.</li> <li>3. The amendment of the Company's "Regulations Governing Budget Management".</li> <li>4. The Company's proposal to invest in the establishment of a new company in Mainland China, "Nan Pao Resin (Yunan) Co., Ltd.".</li> <li>5. The Company's proposal to provide guarantees for borrowings by subsidiaries.</li> <li>6. The Company's issuance of letter of support for borrowings by subsidiaries.</li> </ol>	The Audit Committee stated no objection; the above proposals have been passed submitted to the Board of Directors for resolution.
2018.08.09	First Board The 5th time	<ol style="list-style-type: none"> <li>1. The Company's proposal to provide guarantees for borrowings by subsidiaries.</li> <li>2. The Company's issuance of letter of support for borrowings by subsidiaries.</li> </ol>	The Audit Committee stated no objection; the above proposals have been passed submitted to the Board of Directors for resolution.
2018.09.26	First Board The 6th time	<ol style="list-style-type: none"> <li>1. The Company's proposal for cash capital increase through the issuance of new shares for initial public offering.</li> <li>2. The amendment of the Company's "General Principles for Internal Control System", "Implementation Rules for Internal Audit", and "Operating Guidelines for Bill Management".</li> <li>3. The Company's "Remuneration Committee Charter" and "Management Guidelines for the Operation of Remuneration Committee".</li> <li>4. The Company's proposal to correct some parts of the financial statements.</li> </ol>	The Audit Committee stated no objection; the above proposals have been passed submitted to the Board of Directors for resolution.
2018.11.08	First Board The 7th time	<ol style="list-style-type: none"> <li>1. The Company's proposal to terminate stock listing on the over-the-counter market and transfer stock listing to Taiwan Stock Exchange.</li> <li>2. The amendment of the Company's "Regulations Governing Seal Management".</li> <li>3. The Company's provision of guarantees for borrowings by subsidiaries.</li> </ol>	The Audit Committee stated no objection; the above proposals have been passed submitted to the Board of Directors for resolution.

(2) Except for the items in the preceding issues, other resolutions approved by two-thirds of all the directors but yet to be approved by the Audit Committee: None.

2. Ways in which an independent director has abstained from motions that pose a conflict of interests, the independent director's name, the content of the motion, cause of the conflict of interests, and the circumstance of the vote shall be elaborated: none.

3. Communication between directors and the head of internal audit and CPAs (including material issues, audit methods, and results relating to the Company's finances and business):

(I) The Audit Committee of the Company consists of all independent directors, and meets at least once a quarter. The Audit Committee convenes meetings at any time as required.

- (II) The internal audit manager of the Company regularly reports audit plans and execution results to independent directors, and conducts face-to-face communication with independent directors on the day of each meeting convened by the Audit Committee.
- (III) CPAs report the Company's financial reports, financial status and the implementation of internal audit to independent directors at least twice a year, and sit in on meetings convened by the Audit Committee according to the meeting agendas.
- (IV) In addition to the abovementioned, the internal audit manager and CPAs also keep in close contact with independent directors as needed, and can make full use of a diverse range of communication channels (e.g., telephone, e-mail or face-to-face meeting) to carry out discussion; therefore, communication between them has been good.

2. Supervisors' participation in the Board meeting

On December 12, 2017, the Company elected three independent directors, and established the Audit Committee composed of independent directors. Meanwhile, supervisors were naturally dismissed; therefore, no supervisors participated in the operation of Board of Directors in 2018.

(III) Corporate Governance Execution Status and Deviations from the “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies”

Assessed items	State of operations			Gaps with the Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies, and the cause of the said gaps
	Yes	No	Summary	
1. Did the company stipulate and disclose best practice principles for corporate governance according to the Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies?	✓		The Company has established a set of Corporate Governance Code of Practice, which has been disclosed on the Company website and is available for any shareholder inquiry.	No material gap was found.
2. Equity structure and shareholders' rights of the Company				
(1) Has the Company established internal procedures to handle shareholder's suggestions, questions, problems, and litigations, and implemented these measures accordingly?	✓		(1) The Company has established a spokesperson and the deputy spokesperson system to handle problems such as shareholders' suggestions or questions. We handle shareholders' suggestions, questions, problems, and litigations in accordance with relevant procedures.	No material gap was found.
(2) Is the Company aware of substantial shareholders who maintain material control over the Company and their identities?	✓		(2) The Company is aware of substantial shareholders who maintain material control over the Company and their identities and discloses such information in accordance with the law.	No material gap was found.
(3) Has the Company established and carried out risk control and firewall measures for affiliated companies?	✓		(3) The Company has established “Subsidiary Monitoring Work Procedures” and facilitates and supervises subsidiaries to establish a written internal control system. In addition, the Company has also established relevant management procedures including “Handling Procedures for Loaning of Funds and Making of Endorsements/Guarantees” and “Handling Procedures for Acquisition and Disposal of Assets” in accordance with the actual operation to implement the risk control mechanism over subsidiaries. Any transaction between affiliated entities is treated as independent third-party procedures to prevent abnormal transactions.	No material gap was found.
(4) Has the Company established internal regulations to prohibit internal staff from selling and buying securities with undisclosed information to the market?	✓		(4) The Company has followed the “Procedures for the Prevention of Insider Trading” to prevent the Company's insiders from using information that has not been disclosed on the market to purchase and sell securities.	No material gap was found.
3. Composition and responsibilities of the Board of Directors:				
(1) Has the Board established and implemented diversification measures in its member setup?	✓		(1)1. The Company's "Corporate Governance Code of Practice" has clearly established that diversity shall be taken into account in the composition of Board of Directors. The nomination and election of members of the Company's Board of Directors is conducted in accordance with the Articles of Association, wherein a candidate nomination system is adopted. In addition to the evaluation of the education background and work experience of candidates, stakeholders' opinions are also taken into consideration in accordance with “Regulations	No material gap was found.

Assessed items	State of operations			Gaps with the Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies, and the cause of the said gaps
	Yes	No	Summary	
			<p>Governing Election of Directors” and “Corporate Governance Code of Practice”, in order to ensure the diversity and independence of members of the Board of Directors.</p> <p>2. The current Board of Directors of the Company comprises eight directors (including three independent directors), who have extensive experience and expertise in areas such as chemical engineering, sales, finance and accounting, legal and management in order to implement and execute the diversity policy.</p> <p>3. Directors who serve concurrently as employees account for 50% of the total number of directors at the Company, whereas independent directors constitute 37.5%, with a term of office of less than 2 years. Six directors are between 60 and 69 years old, and one director is between 50 and 59 years old, while the last one is under 49 years old.</p> <p>4. The Company takes into account gender equality in the composition of Board of Directors, and plans to increase the number of female directors during the next re-election of Board members.</p>	
(2) In addition to setting up a Remuneration Committee and Audit Committee in accordance with the law, has the Company voluntarily established other functional committees?		✓	(2)The Company has established the Remuneration Committee and the Audit Committee. In the future, the Company will establish other functional committees according to the needs of the Company.	The Company will handle relevant matters based on actual needs.
(3) Has the Company established a performance evaluation method for the Board of Directors, and conducts performance evaluation accordingly on an annual basis?	✓		<p>(3) The Company has established the "Regulations Governing Performance Evaluation of Directors and Managers". Upon approval by the Board of Directors, the performance of the Board of Directors and functional committees shall be assessed at least once a year.</p> <p>The measurement items for performance evaluation of the Board of Directors cover the following areas:</p> <p>(I) Mastery of the Company's goals and tasks</p> <p>(II) Understanding of directors' duties and responsibilities</p> <p>(III) Degree of participation in the operations of the Company</p> <p>(IV) Internal relationship management and communication</p> <p>(V) Professional and continuing education and training of directors</p> <p>(VI) Internal control</p> <p>The measurement items for self-performance evaluation of Board members cover the following areas:</p> <p>(I) Degree of participation in the operations of the Company</p> <p>(II) Improvement of the quality of decision-making by the Board of Directors</p>	No material gap was found.

Assessed items	State of operations			Gaps with the Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies, and the cause of the said gaps
	Yes	No	Summary	
			<p>(III) Composition and structure of the Board of Directors  (IV) Election and continuing education and training of directors  (V) Internal control  The measurement items for performance evaluation of functional committees cover the following areas:  (I) Degree of participation in the operations of the Company  (II) Understanding of duties and responsibilities of functional committees  (III) Improvement of the quality of decision-making by functional committees  (IV) Composition of functional committees and election of committee members  (V) Internal control  In the first quarter of 2019, the Company completed the performance evaluation of the Board of Directors, Board members and functional committees in 2018 by means of individual self-evaluation and overall evaluation, and reported the results to the Board of Directors on March 21, 2019. The 2018 evaluation scores ranged from 95 to 100 points, thus demonstrating good results. No director or committee member is yet to provide suggestions for improvement.  (3) The Company has established “Director and Manager Performance Evaluation Method,” and such evaluations are carried out with the directors’ self-evaluations and the overall evaluation of the Board of Directors. The performance of the Board is evaluated at least once each year, and the evaluation result will be submitted to the Board.</p>	
(4) Has the Company assessed the independence of its certified public accountants (CPAs) routinely?	✓		<p>(4) The Company evaluates the independence and competency of the auditors at least once a year, the content of evaluations including the interests between the company and auditor, <i>years</i> of continuous audition and the quality of the auditions; the relevant auditing information and the statement of independence from the CPA and the accounting firms shall be reported to the board for the evaluation, the result had to be reported to the Audition Committee and the board on March 21<sup>st</sup>, 2019.</p>	No material gap was found.
4. Does the TWSE/GTSM listed company have a dedicated unit/staff member in charge of the Company’ corporate governance affairs (including but not limited to providing information required for director/supervisor’s operations, convening board/shareholder meetings in compliance with the law, apply for/change company registry and	✓		<p>The Company’s Financial Management Division is in charge of the Company’s corporate governance affairs and is responsible for governance-related matters and relevant management methods, promotions, and implementation.</p>	No material gap was found.

Assessed items	State of operations			Gaps with the Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies, and the cause of the said gaps
	Yes	No	Summary	
producing meeting minutes of board/shareholder meetings)?				
5. Has the Company set up channels of communication for stakeholders (including but not limited to shareholders, employees, customers, and suppliers), dedicated a section on the Company's website for stakeholder affairs, and responded adequately to stakeholders' inquiries on significant corporate social responsibility issues?	✓		The Company has appointed a spokesperson and a deputy spokesperson as the channel to respond to inquiries. A CSR section has also been established on the Company's website to appropriately address material topics of concern for our stakeholders.	No material gap was found.
6. Does the Company commission any professional shareholder services agency to hold Shareholders' Meeting and other relevant affairs?	✓		The Company has commissioned the Transfer Agency of CTBC Bank to handle affairs relevant to the Shareholders' Meeting.	No material gap was found.
7. Information disclosure				
(1) Has the Company set up a website to disclose information pertaining to financial services and corporate governance?	✓		(1) The Investor Relations section which discloses finance, business, and corporate governance information has been established on the Company's website as a reference for investors.	No material gap was found.
(2) Has the Company utilized other methods of information disclosure (such as setting up a website in English, assigning someone to be responsible for the collection and disclosure of company information, implementing the spokesperson system, and/or recording the investors' conference and uploading it to the Company website)?	✓		(2) The Company has established a website in both Chinese and English and has delegated personnel to regularly update the Company's information. A spokesperson system has been set up and is implemented in accordance with relevant law and regulations. Investor conference contents and announcements are announced on the MOPS and the Company's website.	No material gap was found.
8. Has the Company disclosed other information to facilitate a better understanding of its corporate governance (Including but not limited to employee's rights, employee care, investor relations, supplier relations, stakeholders' rights, further studies of directors and supervisors, implementation of risk management policies and measurement standards, implementation of customer policies and purchase of liability insurance for the directors and supervisors of the Company)?	✓		(1) Employee rights: The Company has always treated its employees with honesty. An Employee Welfare Committee and employee retirement plan have been established in accordance with legal regulations, and the Company also protects various legal rights of employees pursuant to the Labor Standards Act. (2) Employee caring: The Company focuses on employee safety and physical and mental health and arranges regular health checkups and plans employee insurance. In addition, the Company also values employment (employer-employee) relationship and provides equal employment opportunity. We organize employee educational training from time to time to facilitate continuous growth in employees' individual and work-related competencies. (3) Investor relations and rights of stakeholders: The Company announces the Company's information in accordance with the law to protect the rights of	No material gap was found.



Assessed items	State of operations			Gaps with the Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies, and the cause of the said gaps
	Yes	No	Summary	
			<p>investors and stakeholders.</p> <p>(4) Supplier relations: The Company has always maintained good relations with suppliers.</p> <p>(5) Continued studies from directors and supervisors: The Company's directors, supervisors, and managerial officers all have industry and professional backgrounds and management experiences. They also participate in continued studies from time to time.</p> <p>(6) Risk management policy and implementation of risk evaluation standards: In terms of risk control, the Company has established various internal standards to lower risks and to prevent probable risks.</p> <p>(7) Implementation of customer policy: The Company maintains a sound and positive relationship with customers to create Company profits.</p> <p>(8) Purchase of liability insurance for the directors and supervisors by the Company: The Company purchases liability insurance for directors and supervisors.</p>	
<p>9. Please explain the improvement of the Company's corporate governance evaluation results released by the Corporate Governance Center of the Taiwan Stock Exchange Corporation in the past year, and propose priorities and measures for criteria that have not been improved:</p> <p>The Company was not listed as publicly traded company until November 28<sup>th</sup>, 2018, it has not been evaluated. Therefore, this is not applicable.</p>				

(IV) Composition, duties, and operations of the Remuneration Committee

1. Information on the members of the Remuneration Committee

Identity (Note 1)	Criteria  Name	Has more than 5 years of work experience and the following professional qualifications			Stature of independence (Note 2)								Number of the Remuneration Committee memberships concurrently held in other public companies	Remarks
		Currently serving as an instructor or higher post in a private or public college or university in the field of business, law, finance, accounting, or any other filed related to the Company's businesses	Currently serving as a judge, prosecutor, lawyer, accountant, or other professional or technician related to the Company's businesses that must undergo national examinations and obtain a specialized license	Has professional experience of business administration, legal affairs, finance, accounting, or any other business related to the Company's businesses	1	2	3	4	5	6	7	8		
Independent Director	Chen, Yun	✓			✓	✓	✓	✓	✓	✓	✓	✓	0	Newly appointed on December 12, 2017
Independent Director	Chiang, Yung-Cheng		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	
Independent Director	Lee, Yi-Hsi	✓			✓	✓	✓	✓	✓	✓	✓	✓	0	

Note 1: For identity, please annotate whether the person is a director, independent director, or others.

Note 2: For any committee member who fulfills the relevant condition(s) 2 years before being elected or during the term of office, please provide the sign in the field next to the corresponding condition(s). ✓

- (1) Not employed by the Company or an affiliated business.
- (2) Not a director or supervisor at the Company or its affiliated companies. This does not apply in cases where the person is an independent director of the Company, its parent company, or subsidiaries where the Company holds, directly and indirectly, more than 50% of the voting shares.
- (3) Not a shareholder that holds more than 1% of the Company's total shares or ranks among top-ten shareholders; this applies for the director him/herself, spouse, minor children, or shares held under others' names.
- (4) Not a spouse, second-degree relative, or direct, blood-related five-degree relative of the personnel listed in the first three criteria.
- (5) Not a director, supervisor, or employee of a corporate shareholder that holds more than 5% of the Company's total shares, nor a director, supervisor, or employee of a top-five ranked corporate shareholder.
- (6) Not a director, supervisor, managerial officer, or a shareholder that holds more than 5% of shares at a company or institution that has financial or business exchanges with the Company.
- (7) Not a professional, business owner, partner, director, supervisor, managerial officer, or their spouse at a sole proprietor, partnership, company, or institution that offers business, finance, accounting, or consulting services for the Company or its affiliated companies.
- (8) Where none of the circumstances in the subparagraphs of Article 30 of the Company Act applies.

2. The duties of the Remuneration Committee are as follows:

- (1) Regularly review Compensation Committee Charter and provide amendment suggestions.
- (2) Establish and routinely review the annual and long-term performance objectives and policies, systems, standards, and structures on compensations of the Company's directors, supervisors, and managerial officers.
- (3) Routinely evaluate the effectiveness of directors and managerial officers in achieving their objectives, and develop individual compensation packages.

3. Operation of the Remuneration Committee

- (1) There are three members in the Remuneration Committee of the Company.
- (2) The term of current committee members: The first term of the Remuneration Committee assumed office on June 19, 2017. However, the first term of the Remuneration Committee members has been released from duty after the election of independent directors on December 12, 2017, and the three independent directors had assumed the membership of the second term of the Remuneration Committee upon resolution by the Board on

December 21, 2017, with the term of office from December 21, 2017, to May 15, 2020. The Remuneration Committee convened 2 meetings in the most recent year (2018) with the following qualifications and attendance from members:

Title	Name	Actual Number of attendance	Attendance by proxy Number of attendance	Actual Attendance Rate	Remarks
Committee Chair	Chen, Yun	4	0	100%	
Member	Chiang, Yung-Cheng	4	0	100%	
Member	Lee, Yi-Hsi	4	0	100%	

Other items that shall be recorded:

1. Operation of the Remuneration Committee

Date	Session	Content	Suggestions
2018.02.02	Second Board The 1st time	1. The amendment of the Company's "Regulations Governing Performance Evaluation of Directors and Managers". 2. The 2017 performance-based bonuses for managers.	The Remuneration Committee stated no objection; the above proposals have been passed submitted to the Board of Directors for resolution.
2018.04.12	Second Board The 2nd time	1. The Company's 2017 employee bonus and directors' bonus distribution plan. 2. The salary adjustment and promotion for the Company's managers.	The Remuneration Committee stated no objection; the above proposals have been passed submitted to the Board of Directors for resolution.
2018.08.09	Second Board The 3rd time	1. The Company's 2017 employee bonus distribution plan for managers. 2. The Company's R&D results competition rewards.	The Remuneration Committee stated no objection; the above proposals have been passed submitted to the Board of Directors for resolution.
2018.11.08	Second Board The 4rd time	1. The Company's appointment of managers. 2. The amendment of the Company's "Regulations Governing Cash Capital Increase through Employee Stock Ownership". 3. The Company's 2018 cash capital increase through stock ownership for managers.	The Remuneration Committee stated no objection; the above proposals have been passed submitted to the Board of Directors for resolution.

2. If the Board of Directors does not adopt or amend the suggestions made by the Remuneration Committee, the date and session of the Board of Directors' meeting, resolutions, the voting result, and handling of opinions of the Remuneration Committee by the Company shall be disclosed (if the remuneration approved by the Board of Directors is better than the suggestion of the Remuneration Committee, the discrepancies and related reasons shall be stated): None.

3. If the members of the Remuneration Committee have any dissenting or qualified opinions on the resolutions of the Remuneration Committee, where such opinions are documented or issued through written statements, the date, and session of the meeting of the Remuneration Committee, resolutions, all the members' opinions, and handling of these opinions shall be stated: None.

(V) Corporate Social Responsibility

Assessed items	State of operations			Gaps with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and Root Causes
	Yes	No	Summary	
1. Implementation of corporate governance				
(1) Has the Company established a corporate social responsibility (CSR) policy or system, and assessed the effectiveness of implementations?	✓		(1) The Company has established the "Corporate Social Responsibility Code of Practice" and "Sustainability Policy", and has set up the CSR Committee to implement and promote corporate governance, develop a sustainable environment, sustain community services, and enhance CSR information disclosure, with a view to practicing CSR. The responsible units shall regularly report the implementation results for various activities to the responsible managers.	No material gap was found.
(2) Does the Company routinely promote and hold CSR training?	✓		(2)The CSR Committee of the Company invites professional lecturers to share international trends and training from time to time. On the other hand, the Company regularly uses internal meetings or employee activities to promote CSR, and participates in community services, donation and sponsorship activities to actively maintain social culture and fulfill CSR.	No material gap was found.
(3) Has the Company established a designated unit to promote CSR, and has the Board authorized senior management to deal with and then to report to the Board pertaining to relevant executions?	✓		(3)To ensure sound management of CSR at the Company, the Company has designated the CSR Committee as the part-time unit in charge of promoting and supervising CSR. Furthermore, the Company has established the "Corporate Social Responsibility Working Group" to execute these tasks, where the working group is divided into various teams by the execution content, including corporate governance team, environment team, green product team, as well as employee and social relationship team, which are responsible for the implement of CSR and regularly report to the Board of Directors. The implementation of CSR in 2017 was reported to the Board of Directors on August 9, 2018.	
(4) Has the Company established a fair compensation policy and linked employee performance evaluation with CSR policy, as well as established a precise and effective incentive and disincentive system?	✓		(4)The Company has established a compensation system that includes performance-based bonuses and employee bonuses, allowing the Company to share its operating profits to employees based on employee performance, while also guiding employee conduct to remain in line with the CSR policy for mutual employee compensation and Company operational growth.	No material gap was found.
2. Developing a sustainable environment				
(1) Does the Company strive to enhance the utility rate of every resource and use renewable materials that pose fewer impacts on the environment?	✓		(1)The Company has established the Energy Management Review Team, which meets regularly to review energy consumption, sets the directions for the implementation of energy conservation, and continuously tracks the performance of energy conservation projects. The Company has also established the relevant rules and regulations in line with the directions of the policies set forth by the Energy Management Review Team so that the	No material gap was found.

Assessed items	State of operations			Gaps with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and Root Causes
	Yes	No	Summary	
(2) Has the Company established a suitable environmental management system by referencing its industry's characteristics?			<p>team can implement its tasks, and provides the team with detailed information required for the relevant projects.</p> <p>(I)Energy management: To actively cooperate with the energy policies set forth by the local government, Bao Li Plant has installed solar power generation facilities, and participated in the "Factory Smart Energy Management Demonstration and Guidance Program" conducted by the Industrial Development Bureau, Ministry of Economic Affairs. The Company produced more than 1% of renewable energy for self use.</p> <p>(II)Water resource management: The Company has set up wastewater treatment plants, where part of the purified and treated water is used for washing machines and recycling tanks and as secondary water for replenishing cooling water pools. In 2018, the amount of effluent recycled was 5,341 metric tons, thereby maintaining the concept of continuous recycling and reuse. Besides, cleaner water from production processes is separately collected according to water quality. For example, water reclaimed from steam is used for steam heating in boilers to reduce the amount of tap water used and reduce the use of heavy oil or natural gas. In addition, effluent is reused for other secondary purposes such as wastewater treatment, cleaning filter cloths and flushing baths and toilets, in order to improve the overall water recycling and reuse at our plants. The Company also accelerates the planning of rainwater harvesting and recycling systems and gradual implementation of these systems in factories, with a view to continuously striving to 100% recycling and reusing cooling water and recycled water.</p> <p>(III)Waste management: The Company commissions recycling operators to recycle and reuse sorted waste such as paper, plastics and scrap iron, whereas some empty iron drums and plastic buckets are reused or recycled at our plants to reduce the amount of waste.</p>	
	✓		<p>(2)1. With safety as the primary consideration, the Company is committed to optimizing processes, improving protective facilities, promoting pollution control and preventing occupational disasters, in order to create a safe, healthy and comfortable working environment. The Company established the "Safety and Health Committee", in which the management representative of each plant takes turns to serve as the chairman of the committee. Members of the Safety and Health Committee include</p>	No material gap was found.

Assessed items	State of operations			Gaps with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and Root Causes												
	Yes	No	Summary													
			occupational safety and health personnel, business division managers, supervisory and command personnel, occupational safety and health-related engineers and technicians, medical personnel engaging in labor health services, and labor representatives, and are responsible for drafting, coordinating and supervising environmental,safety, hygiene and health-related matters at our plants. Each plant convenes an in-plant safety meeting every two weeks to discuss the improvement of various audit discrepancies in order to prevent occupational disasters from happening. Meanwhile, the Safety and Health Committee meets regularly every quarter.													
			2. In response to international trend, the Company has promoted the environmental, safety and health management system by successfully obtained the ISO14001 Environmental Management System certification, the ISO50001 Energy Management System certification, and the OHSAS18001 Occupational Safety and Health Management System certification, with the Company migrating to ISO45001 in 2019.													
(3) Has the Company paid attention to the impacts of weather changes on its operational activities, carried out inspections on greenhouse gases, and implemented strategies to conserve energy and to lower CO2 emissions and greenhouse gases?	✓		<table><tr><td>Certificate</td><td>Certification date</td><td>Effective date</td></tr><tr><td>ISO14001 Environmental Management System</td><td>1999.04.14</td><td>2017.12.14~2020.12.14</td></tr><tr><td>ISO50001 Energy Management System</td><td>2016.11.16</td><td>2016.11.16~2019.11.16</td></tr><tr><td>OHSAS18001 Occupational Safety and Health Management System</td><td>2016.11.21</td><td>2017.11.14~2020.11.18</td></tr></table>	Certificate	Certification date	Effective date	ISO14001 Environmental Management System	1999.04.14	2017.12.14~2020.12.14	ISO50001 Energy Management System	2016.11.16	2016.11.16~2019.11.16	OHSAS18001 Occupational Safety and Health Management System	2016.11.21	2017.11.14~2020.11.18	
Certificate	Certification date	Effective date														
ISO14001 Environmental Management System	1999.04.14	2017.12.14~2020.12.14														
ISO50001 Energy Management System	2016.11.16	2016.11.16~2019.11.16														
OHSAS18001 Occupational Safety and Health Management System	2016.11.21	2017.11.14~2020.11.18														
			(3)1. In 2009, the Company introduced the greenhouse gas (GHG) Inventory audit and established a GHG Inventory Audit Team. Relevant operating procedures have been standardized into the Procedures for Greenhouse Gas Inventory Management so as to effectively understand our GHG emissions through GHG inventory and results. During the GHG inventory audit, it is found that GHG emissions mainly originate from energy use. Therefore, the reduction of carbon emissions can be achieved if energy management is implemented. Every year, each plant sets an energy baseline (the amount of electricity used per ton of products or the amount of heavy oil (natural gas) used per ton of products) and reviews this baseline in due course. the GHG emissions, the Company conducts a GHG inventory audit in accordance with ISO14064-1 every	No material gap was found.												

Assessed items	State of operations			Gaps with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and Root Causes												
	Yes	No	Summary													
			<p>year, in order to understand our GHG emissions and continue our reduction efforts.</p> <p>2. GHG emissions at the Company can be divided into Scope 1, Scope 2 and Scope 3. Scope 1 includes direct emissions from the Company's plants, where sources of such emissions include greenhouse gases used during production processes (perfluorinated compounds, hydrofluorocarbons, nitrous oxide, methane, carbon dioxide, sulfur hexafluoride, and nitrogen trifluoride) and the use of fuels (such as heavy oil and diesel). Scope 2 primarily involves indirect emissions from externally purchased electricity. Meanwhile, Scope 3 includes other indirect emissions, including employees' travels, transportation of raw materials, and waste recycling and processing. Due to relatively low emissions from employees' travels and product transportation, information on Scope 3 emissions was not included in the inventory audit.</p> <div><div>Unit of Emission: metric tons</div><table><tr><th>Scope of inventory audit</th><th>2017</th><th>2018</th></tr><tr><td>Scope 1 (CO2e): (Gasoline + Diesel + Liquefied Natural Gas (LNG) + Liquefied Petroleum Gas (LPG) + Heavy Oil)</td><td>7,633</td><td>6,923</td></tr><tr><td>Scope 2 (CO2e): (Electric Power)</td><td>7,532</td><td>7,601</td></tr><tr><td>Total emissions = Scope 1 + Scope 2</td><td>15,165</td><td>14,524</td></tr></table></div> <p>3. In 2018, the Company has gradually replaced heavy oil, which is the fuel used in steam boilers, with natural gas to reduce GHG emissions. It is expected that the fuel used in all steam boilers will be replaced with natural gas in 2019.</p>	Scope of inventory audit	2017	2018	Scope 1 (CO2e): (Gasoline + Diesel + Liquefied Natural Gas (LNG) + Liquefied Petroleum Gas (LPG) + Heavy Oil)	7,633	6,923	Scope 2 (CO2e): (Electric Power)	7,532	7,601	Total emissions = Scope 1 + Scope 2	15,165	14,524	
Scope of inventory audit	2017	2018														
Scope 1 (CO2e): (Gasoline + Diesel + Liquefied Natural Gas (LNG) + Liquefied Petroleum Gas (LPG) + Heavy Oil)	7,633	6,923														
Scope 2 (CO2e): (Electric Power)	7,532	7,601														
Total emissions = Scope 1 + Scope 2	15,165	14,524														
3. Sustaining community services																
(1) Has the Company set up management policy and procedures according to related laws and regulation and the International Human Rights Treaty?	✓		(1) The Company comply with relevant labor laws at the site of its employees and operations and has established relevant procedures to implement and ensure employee rights.	No material gap was found.												
(2) Has the Company established an employee grievance mechanism and channels, and handled these grievances appropriately?	✓		(2) The Company has established a grievance mechanism and channels, and a designated unit will immediately handle employee feedback.	No material gap was found.												
(3) Has the Company offered a safe and healthy work environment for its employees, and routinely implemented safety and health education for the employees?	✓		(3) The Company regularly implements labor safety and health promotional training course during orientation; moreover, the Company also arranges labor safety promotion, fire prevention seminars, and practice drills, and	No material gap was found.												

Assessed items	State of operations			Gaps with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and Root Causes
	Yes	No	Summary	
(4) Has the Company installed a communications system for routine communication with employees, and alerts operational changes that may pose significant impacts on its employees in a fair manner?	✓		arranges for health checkups for current employees. (4) To strengthen efficiency and effectiveness of communication with employees, we provide diverse communication methods to interact with employees. The Company regularly organizes staff meetings and weekly meetings to disseminate the Company's policies and messages, and such meetings also serve as a regular communication method between the Company and employees.	No material gap was found.
(5) Has the Company established an effective career developmental plan for its employees?	✓		(5) The Company holds internal training programs and expatriate professional training programs from time to time to cultivate employees' competency and strengths.	No material gap was found.
(6) Has the Company established consumer rights protection policy and grievance-filing procedures in terms of R&D, Procurement, Production, Operations, and Customer Support?	✓		(6) The Company regularly reviews R&D, procurement, production, operations, and selling procedures to ensure compliance with relevant laws. Focusing on communication with customers, the Company has also established customer grievance handling procedures to effectively handle any grievances.	No material gap was found.
(7) Does the Company comply with related laws, regulations, and international standards pertaining to marketing activities and labels on its products and services?	✓		(7) In terms of product development, the Company seeks compliance with special directives such as RoHS, SVHC, and the eight heavy metals. Company products have also been certified with the ISO9001 Quality Certification.	No material gap was found.
(8) Prior to conducting business with suppliers, has the Company evaluated the suppliers in terms of past records of impacts on the environment and the society?	✓		(8) The Company has established Supplier Management Methods and created a list of certified supplier evaluation in accordance with Nike (RSL), Adidas/Reebok (A-01), EU WEEE (RoHS), Sony (SS-00259), REACH, and 8 heavy metals, as well as Green Building Material certification.	No material gap was found.
(9) Does the Company's contract with its primary supplier contain any immediate termination clause for when the supplier violates corporate social responsibility and poses significant impacts to the environment and the society?	✓		(9) The Company has established the Regulations Governing Supplier Management, and promoted green supply chain management by collaborating with major suppliers and contractors and strengthening partnerships with them in order to pursue a better performance, and make greater contributions to the society. The Company also wants to ensure that a supplier's CSR spirit is in line with the Company's requirements before the supplier can be classified as a qualified supplier. The Company will plan to remove suppliers that do not comply with the Company's CSR requirements in accordance with the Regulations Governing Supplier Environmental and Social Management which is to be added in 2019.	No material gap was found.
4. Improvement of information disclosure Does the company disclose relevant and reliable information regarding its corporate social responsibility on its website and the	✓		For reference to interested parties, the Company has established relevant CSR information on the Company website.	No material gap was found.



Assessed items	State of operations			Gaps with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and Root Causes
	Yes	No	Summary	
Market Observation Post System (MOPS)?				
5. Where the Company has stipulated its own Best Practices on CSR according to the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies, please describe any gaps between the prescribed best practices and actual activities taken by the Company: None.				
6. Other important information helpful in understanding CSR operation:				
<p>Nan Pao Group believes in the importance of giving back what we have taken from society. In addition to being committed to pursuing technical innovation and service quality, the Company also actively promotes social culture and strives to train the next generation to become the pillars of the society, while exercising our obligations to take care of senior citizens. In 2007, Nan Pao Social Welfare Foundation was established to help the Company fulfill corporate social responsibility through three major aspects, "talent cultivation," "care for senior citizens," and "care for disadvantaged groups." The main contents of various social activities are summarized as follows:</p> <p>(1) Development of school-age children</p> <p>Due to increasingly open policies and social changes, socioeconomic gaps have been widened, which leads to problems such as single-parent families, inter-generational families, and foreign families. Xigang District is a remote area of Tainan City, and its income standard is far lower than the national average. Children from such family backgrounds will eventually grow old on this land. Only education can help them choose their lives, as well as pursue and realize their dreams. Every child is like a seedling. Some are roses with soft petals, while others are strong and resilient like camphor trees. Therefore, we must provide a diverse range of courses and cultural learning opportunities adapted for different children. We need to respect the differences among children and further unleash their diverse potential and creative skills. Based on this philosophy, Nan Pao Foundation has teamed up with six elementary schools in Tainan, including Sigang Elementary School, Gangdong Elementary School, Houying Elementary School, Songlin Elementary School, Chenggong Elementary School, and Wunnei Elementary School in the remote Jiali District, where after-school tutoring and summer and winter camps are jointly organized for the students. The courses are designed by school teachers of each school based on the students' needs. In addition to professional academic development, club activities designed to enhance students' positive interests in arts and athletics are also included.</p> <p>(2) Care for senior citizens</p> <p>Following increasing concern over population aging in Taiwan, the problems and needs of senior citizens have attracted the attention of society, and even more commitment should be made to solve these issues. After contacting Huashan Social Welfare Foundation, an NGO committed to the welfare of senior citizens throughout Taiwan, Nan Pao Social Welfare Foundation has learned that there is currently a lack of sufficient care for senior citizens. Therefore, Nan Pao Social Welfare Foundation partners with the Xigang Angel Station of Huashan Social Welfare Foundation and calls on our employees to donate gift baskets during Dragon Boat Festival, Mid-Autumn Festival, and Chinese New Year. The gifts are then delivered in person by the social workers from Huashan Social Welfare Foundation to the homes of all senior citizens as a token of care for senior citizens with physical disabilities or those residing alone. To implement home care for senior citizens on a larger scale, we purchased a designated service vehicle for Xigang District, and provided professional social workers at Huashan Social Welfare Foundation with funds to care for senior citizens residing alone. Social workers take turns to accompany the senior citizens to medical visits, help them with bathing, deliver nutritional supplements and food, etc. Apart from providing basic services for physiological needs, social workers also chat with senior citizens residing alone, helping them to regain self-confidence and life goals.</p> <p>Although the number of senior citizens is not significantly high in comparison with the population of Xigang District, Tainan City, many young people have migrated for work. Despite having sufficient material resources and support, senior citizens here are suffering from loneliness as they live alone. With a view to encouraging the senior residents of Xigang District to participate in social activities to maintain physical and mental well-being, Nan Pao Social Welfare Foundation collaborates with Xigang District Senior Citizen Welfare Association to organize activities and luncheons during the Double Ninth Festival. In addition, we also provide funds to Qing-an Community in Xigang District to prepare rice dumplings during the Dragon Boat Festival. These delicious rice dumplings are then distributed to senior citizens who are disabled, residing alone, or disadvantaged so that all families in Xigang can enjoy a warm, heartfelt festivity. Furthermore, Nan Pao Social Welfare Foundation also joins the Shulin Community Development Association in Qigu District to establish the Shulin Community Senior Citizen Day Care School. Senior citizens residing alone in the community are arranged to attend classes to enrich their daily lives and boost their confidence through participating in contests with the skills they have learned in these classes.</p>				

Assessed items	State of operations			Gaps with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and Root Causes
	Yes	No	Summary	
<p>(3) Care for disadvantaged groups</p> <p>As the income gap has significantly widened in Taiwan in the past decade, wealth and resources have become concentrated in the hands of a few. Located in a remote area, Nan Pao has firsthand experience of difficulties in life. Therefore, Nan Pao Social Welfare Foundation also provides emergency relief as solutions in the face of abrupt challenges for disadvantaged families. Since its establishment, Nan Pao Social Welfare Foundation has subsidized medical expenses, funerals, emergency assistance, as well as tuition fees for low-income students. Furthermore, we have helped to fill part of the funding gap of many foundations near the Tainan area, including Tzu Kuang Mental Care Association, Tobias Social Welfare Foundation, Chao Hsing Social Welfare Foundation, Love Child Care Foundation, Eden Social Welfare Foundation and Tainan Welfare Association of the Deaf, so as to spread our love and care to further corners. Nan Pao has collaborated with Taipei Medical University and provides funds for neuro-regeneration medical research in Taiwan, in hopes of achieving more breakthroughs in the neuro-regeneration research, thereby benefiting the people of Taiwan.</p>				
<p>7. The Company should specify if the Company’s CSR Report has passed the relevant accreditation awarded by any validation agency:</p> <p>The 2018 CSR Report which was written and published according to the latest GRI Standard is yet to be verified by the relevant certification bodies.</p>				

#### (VI) Ethical corporate management at the Company and related implementation

Items assessed	State of operations			Gaps with the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, and the cause of the said gaps
	Yes	No	Summary	
1. Stipulating policies and plans for ethical corporate management				
(1) Has the Company clearly shown its ethical operational policy and methods in its regulations and external documents, in addition, and has the Board of Directors and management proactively implemented the commitment to ethical business operations in practice?	✓		(1) The Company has established Ethical Operational Policy and Methods and Code of Conduct to clearly demonstrate the policy and methods of ethical management. In addition, the Board of Directors and the management also actively fulfill the promise to ethical management policy.	No material gap was found.
(2) Has the Company established preventative programs for unethical behavior, and clearly stated operational procedures, behavioral code, and disincentive measures and grievance systems in each proposal and implemented them in practice?	✓		(2) The Company has established Ethical Operational Policy and Methods and Code of Conduct, which clearly define regulations on prevention of conflicts of interests from directors, managerial officers, employees, commissioned personnel, and any person with substantial control, as well as behavioral principles such as prohibition of illegal political contributions, provision or acceptance of inappropriate benefits, charitable donation, or sponsorships. Besides requiring senior management to comply with ethical management, the Company also implements such principles to the employees through the Employee Handbook, internal promotion, communication platforms, and regular educational training.	No material gap was found.
(3) Does the Company undertake preventative measures for the items included in Section 2, Article 7 in the "Policies of ethical management for Listed and Traded Companies in the Stock	✓		(3) The Company has established a sound and effective accounting and internal control system. To ensure implementation of internal control and management in practice, internal auditors will include operating	No material gap was found.

Items assessed	State of operations			Gaps with the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, and the cause of the said gaps
	Yes	No	Summary	
Exchange” in addition to other operational activities which pose higher risks of unethical behavior?			activities with risks of unethical conduct and status of compliance with the aforementioned system in the scope of verification of each operating activity. The Company has established “Management Procedures to Prevent Insider Trading” for compliance from directors and managerial officers. An audit manager will report auditing affairs in a Board of Directors meeting quarterly so that the senior management can be aware of the implementation status of the internal control system.	
2. Implementing ethical corporate management (1) Has the Company assessed the integrity records of its business partners, and specified ethical business policy in contracts with its trading partners?	✓		(1) Prior to undertaking business transactions, the Company will take the counterparty’s legal stature and reputation into account to prevent transacting with those with records of unethical conduct. Contracts signed with counterparties shall include compliance with the ethical management policy, and clauses to ensure that the Company may terminate or dismiss the contract at any time when the counterparty may be involved with unethical conduct.	No material gap was found.
(2) Has the Company established a unit directly under the supervision of the Board, which is devoted (or partly devoted) to promoting corporate ethical business, and routinely reports its implementations to the Board?	✓		(2) Integrity is one of the Company’s management philosophies, and we promote and advocate our core values through internal slogans. Presently, the Auditing Office is in charge of implementing, amending, and reviewing management procedures relevant to ethical management, as well as reporting implementation results to the Board of Directors. The implementation of ethical corporate management in 2018 was reported to the Board of Directors on June 6, 2018.	No material gap was found.
(3) Has the Company set up policies to prevent conflict of interest, and provide an appropriate reporting channel in practice?	✓		(3) The Company’s “Ethical Operational Policy and Methods and Code of Conduct” and “Code of Ethical Conduct” have clearly defined policies to prevent conflict of interests. In addition, the Company has also established “Internal and External Reporting Methods,” which provide grievance channels, including the Email address: audit@nanpao.com.	No material gap was found.
(4) To implement ethical business policy, has the Company established an effective accounting system and internal control system and routinely asks the internal auditing unit to verify or entrusts accountant to review the systems?	✓		(4) To fulfill ethical management in practice, the Company has already established an effective accounting system and internal control system, and internal auditors will regularly inspect the condition of compliance, compile audit reports, and report to the Board of Directors. Furthermore, to ensure accuracy and transparency of financial information, financial statements are all reviewed or audited by CPAs in accordance with regulations and are announced and uploaded accordingly.	No material gap was found.

Items assessed	State of operations			Gaps with the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, and the cause of the said gaps
	Yes	No	Summary	
(5) Does the Company host routine internal and external ethical business operations training?	✓		(5) The Company has established “Employee Handbook” to require ethical conduct from employees; in addition, new employee educational training also includes relevant training, and the Company’s ethical management philosophy is also promoted during management meetings and weekly meetings from time to time, so that all employees could be aware of information including business operations, the Company’s strategies, the management vision, etc.	No material gap was found.
3. Status for enforcing the whistle-blowing system in the Company (1) Has the Company established a material whistle-blowing and incentive system, set up a convenient reporting channel, and designated appropriate personnel to handle the investigation, depending on the identity of the person being reported?	✓		(1) The Company has clearly defined a whistleblowing and incentive system in the “Ethical Operational Policy and Methods and Code of Conduct” and on the “Employee Handbook,” and grievance and whistleblowing mailbox: audit@nanpao.com has also been established, in which designated personnel will be in charge of subsequent processing.	No material gap was found.
(2) Has the Company set up SOP for accepting and investigating reporting cases and relevant confidentiality structure?	✓		(2) The Company delegates a dedicated unit to accept and investigate inappropriate conduct, and keeps the personal information of the whistle-blower and reporting content confidential.	No material gap was found.
(3) Has the Company set up protection for the whistle-blower to prevent the person from being subjected to inappropriate measures from reporting the incident?	✓		(3) The Company always keeps the identity of the whistle-blower confidential and adopts appropriate measures to protect the whistle-blower from being subjected to inappropriate measures from the reporting incident.	No material gap was found.
4. Improvement of information disclosure Does the company disclose its ethical corporate management policy and the result of its implementation on the Company’s website and MOPS?	✓		A Company website has been established to disclose information such as the Company’s corporate culture and relevant management policies, in addition to disclosing contents from the ethical management policy.	No material gap was found.
5. Where the Company has stipulated its own best practices on ethical corporate management according to the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies, please describe any gaps between the prescribed best practices and actual activities taken by the Company: None				
6. Other important information that facilitates the understanding of the implementation of ethical corporate management: (such as review and amendment of the Company’s Ethical Corporate Management Best Practice Principles): 1. As the basis to fulfilling ethical management in practice, the Company is in compliance with the Company Act, the Securities and Exchange Act, relevant regulations for TWSE/TPEX listed companies, and other legal regulations related to business activities. 2. The Company’s “Rules of Procedure for Board of Directors Meetings” has clearly stated conflict of interest preventions for directors: ‘If any director or a juristic person represented by a director is an interested party with respect to any agenda item, the director shall state the important aspects of the interested party relationship at the respective meeting. When the relationship is likely to prejudice the interests of the Company, the director may not participate in discussion or voting on that agenda item, and further, shall enter recusal during discussion and voting on that item and may not act as another director’s proxy to exercise voting rights on that matter.’				

Items assessed	State of operations			Gaps with the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, and the cause of the said gaps
	Yes	No	Summary	
3. The Company’s “Management Method to Prevent Insider Trading” clearly defines that: the Company’s directors, managerial officers, and employees shall exercise the due care and fiduciary duty of a good administrator and act in good faith when performing their duties, and shall not divulge their knowledge of material inside information to others.				

(VII) If the Company sets up corporate governance practice and related bylaws, the Company shall disclose how these can be searched:

The Company has established "Corporate Governance Code of Practice" and relevant regulations, and such regulations have been disclosed on the Company website for investors.

(VIII) Other important information that could facilitate the understanding of corporate governance could be disclosed:

1. The Company implements corporate governance pursuant to the Company Act and relevant regulations from the Securities and Futures Bureau, and the scope of which has already included major governance principles as the basis of fulfilling ethical management in practice.
2. The Company's website has established a CSR Section, in which the Company prepares and updates the annual CSR Report each year to disclose the Company's implementation effectiveness for corporate governance.
3. The Company's directors and supervisors all exercise the due care and fiduciary duty of a good administrator and act in good faith when performing their duties.
4. "Directors and supervisors' continued studies" and "directors and supervisors' attendance at Board meetings" have both been disclosed on the MOPS.

## (IX) Implementation of Internal Control System

### 1. Statement of Internal Controls

#### **Nan Pao Resins Chemical Co., Ltd.**

#### **Statement of the Internal Control System**

Date: March 21, 2019

This Statement of Internal Control System is issued based on the self-assessment of the Company for the year 2017:

1. The Company is clearly aware that establishing, implementing, and maintaining the internal control system is the responsibility of the Company's Board of Directors and the managers. The Company has already implemented this system in place. The objectives of ICS include achieving various objectives in business benefits and efficiency (including profitability, performance, and protection of assets and safety), ensuring the reliability, timeliness, transparency, and regulatory compliance of reporting, and providing reasonable assurance.
2. The internal control system has inherent constraints, and no matter how comprehensive its design may be, an effective internal control system is only capable of providing adequate assurance for achieving the above-mentioned objectives. Moreover, the effectiveness of the internal control system may be altered from changes in the environment and under different situations. Hence, the Company's internal control system has been implemented with a self-monitoring system, in which the Company will immediately undertake rectification measures once a deficiency has been identified.
3. The Company assesses for the effectiveness of the internal control system's design and practices through the effectiveness of internal control system, as stated in the "Protocols and Measures for the Establishment of Internal Control System in Publicly Listed Companies" (hereinafter referred to as "the Protocols"). "The Protocols" determines the effectiveness of internal control system by separating internal control system into five compositions through management control processes, including 1. control environment, 2. risk evaluation, 3. control procedures, 4. information and communication, and 5. supervision. Each composition further includes various items. Please see "the Protocols" for the aforementioned items.
4. The Company has already adopted the above-mentioned internal control system evaluation to assess the design and effectiveness of the internal control system in practice.
5. Based on the above assessment, the Company has assessed that the internal control system (covering monitoring and management of its subsidiaries) as of December 31, 2017 is effectively designed and implemented and is sufficient to ensure that the following objectives are achieved, including understanding the degree of achievement of operational effectiveness and efficiency objectives, reliable, timely and transparent reporting and compliance of applicable rules, laws, regulations, and bylaws.
6. This statement will become the primary content of the Company's Annual Report and Public Statement to Investors, and will also be disclosed to the public. If the aforementioned content contains illegal matters such as any fraudulent or hidden information, the Company will be in question of breaching Articles 20, 32, 171, and 174 in the Securities and Exchange Act and face legal consequences.
7. This statement was passed by the Board of Directors meeting held on March 21, 2019, with none of the eight attending directors expressing dissenting opinions, and the remainder all affirming the content of this Statement.

Nan Pao Resins Chemical Co., Ltd.

Chairman: Wu, Cheng-Hsien

General Manager: Hsu, Ming-Hsien

2. Disclosing the review report of independent auditors if they are engaged for reviewing the internal control system:

**Deloitte.**

**勤業眾信**

勤業眾信聯合會計師事務所  
20051 台南市永福路一段135號13樓

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13th Floor, 101 Yangfu Road, Sec. 1  
Tainan 70051, Taiwan

Tel.: 806-601-215-6006  
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內部控制制度審查報告

後附南寶樹脂化學工廠股份有限公司民國 107 年 6 月 6 日請經評估認為其與財務報導及保障資產安全有關之內部控制制度，於民國 107 年 3 月 31 日係有效設計及執行之聲明書。業經本會計師審查竣事。維持有效之內部控制制度及評估其有效性係公司管理階層之責任，本會計師之責任則為根據審查結果對公司內部控制制度之有效性及上開公司之內部控制制度聲明書表示意見。

本會計師係依照「公開發行公司建立內部控制制度處理準則」及一般公認審計準則規劃並執行審查工作，以合理確信公司上述內部控制制度是否存在所有重大方面維持有效性。此項審查工作包括瞭解公司內部控制制度、評估管理階層評估整體內部控制制度有效性之過程、測試及評估內部控制制度設計及執行之有效性，以及本會計師認為必要之其他審查程序。本會計師相信此項審查工作可對所表示之意見提供合理之依據。

任何內部控制制度均有其先天上之限制，故南寶樹脂化學工廠股份有限公司上述內部控制制度仍可能未能預防或偵測出業已發生之錯誤或舞弊。此外，未來之環境可能變遷，遵循內部控制制度之程度亦可能降低，故在本期有效之內部控制制度，並不表示在未來亦必有效。

依本會計師意見，依照「公開發行公司建立內部控制制度處理準則」之內部控制有效性判斷項目判斷，南寶樹脂化學工廠股份有限公司與外部財務報導及保障資產安全有關之內部控制制度，於民國 107 年 3 月 31 日之設計及執行，在所有重大方面可維持有效性；南寶樹脂化學工廠股份有限公司於民國 107 年 6 月 6 日所出具請經評估認為其上述與財務報導及保障資產安全有關之內部控制制度係有效設計及執行之聲明書，在所有重大方面則屬允當。

勤業眾信聯合會計師事務所

會計師 廖 鴻 鵬

會計師 龔 俊 吉



- (X) From the most recent fiscal year up to the publication of the Annual Report, explaining the circumstances in which the Company and its personnel have been punished by law, the disincentives measures put in place for breaching the internal control system, and any material deficiencies and revisions: None.
- (XI) Critical resolutions made during shareholders' and Board of Directors' meetings in recent years and up to the publication of this annual report:

1. Shareholder's Meeting

Date	Major resolutions	Implementation status
2018.6.14 Annual General Meeting	(1) Proposal:	
	1. Adoption of the 2017 business report and financial statements	Resolution: Passed
	2. Adoption of the 2017 profit distribution plan.	Resolution: Passed The date of profit distribution was set on August 10, 2018. Cash dividends totaled NT\$543,103,900 (NT\$5 per share) has been distributed on August 31, 2018.
	(2) Discussion items:	
	Amendments to the Company's "Rules of Procedure for Shareholders' Meeting"	Resolution: Passed The resolution has been announced on the Company's website, and has been implemented upon amendment.

2. Board of Directors

Date	Major resolutions of Board of Directors
2018.02.02	1. Approved the amendment of the Company's "Regulations Governing Performance Evaluation of Directors and Managers". 2. Approved the 2017 performance-based bonuses for managers. 3. Approved the Company's donation to the affiliate "Nan Pao Social Welfare Foundation".
2018.03.20	1. Approved the Company's proposal to engage in capital increase for Nan Pao Materials Vietnam Co., Ltd. 2. Approved the Company's proposal to cancel the establishment of a new company, Nan Pao Resins Material (Shaoguan) Co., Ltd. at Nanxiong Fine Chemical Industrial Park in Guangdong Province, China. 3. Approved the investment structure of the Company's subsidiary, Progroups Technology Co., Ltd. 4. Approved the Company's 2017 "Statement on Internal Control System". 5. Approved the amendment of the Company's internal control system on "procurement, property, and production cycles". 6. Approved the amendment of the Company's "Code of Ethical Conduct". 7. Approved the amendment of the Company's "Rules of Procedure for Shareholders' Meetings". 8. Approved the Company's application for the renewal of commercial paper to financial institutions. 9. Approved the Company's application for loan renewals to banks. 10. Approved the Company's provision or cancellation of endorsements or guarantees for subsidiaries. 11. Approved the Company's proposal to convene the 2018 Annual General Meeting.
2018.04.12	1. Approved the Company's 2017 business report and financial statements. 2. Approved the Company's 2017 profit distribution plan. 3. Approved the Company's 2017 employee bonus and directors' bonus distribution plan.



Date	Major resolutions of Board of Directors
	<ul style="list-style-type: none"> <li>4. Approved the amendment of the Company's "Corporate Governance Code of Practice".</li> <li>5. Approved the Company's issuance of letter of support for borrowings by subsidiaries.</li> <li>6. Approved the Company's issuance of Letter of Comfort for subsidiary Thai Nanpao Resins Chemical Co., Ltd.</li> <li>7. Approved the Company's over-allotment and proposal to request specific shareholders to engage in central custody of shares within a specific time period.</li> <li>8. Approved salary adjustment and promotion for the Company's managers.</li> </ul>
2018.06.06	<ul style="list-style-type: none"> <li>1. Approved the Company's application for stock listing and proposal to issue the "Statement on Internal Control System".</li> <li>2. Approved the Company's financial forecast for the second, third and fourth quarters of 2018.</li> <li>3. Approved the amendment of the Company's "Regulations Governing Budget Management".</li> <li>4. Approved the Company's proposal to invest in the establishment of a new company in Mainland China, "Nan Pao Resin (Yunan) Co., Ltd.".</li> <li>5. Approved the Company's proposal to provide guarantees for borrowings by subsidiaries.</li> <li>6. Approved the Company's issuance of letter of support for borrowings by subsidiaries.</li> <li>7. Approved the Company's proposal to apply for loan renewals or new loans to banks.</li> <li>8. Approved the lifting of non-compete restriction against the Company's managers.</li> <li>9. Approved the accumulated profit distribution plan of overseas subsidiaries invested by the Company.</li> </ul>
2018.08.09	<ul style="list-style-type: none"> <li>1. Approved the Company's 2017 employee bonus distribution plan for managers.</li> <li>2. Approved the Company's R&amp;D results competition rewards.</li> <li>3. Approved the Company's proposal to provide guarantees for borrowings by subsidiaries.</li> <li>4. Approved the Company's issuance of letter of support for borrowings by subsidiaries.</li> <li>5. Approved the Company's proposal to apply for loan renewals or new loans to banks.</li> </ul>
2018.09.26	<ul style="list-style-type: none"> <li>1. Approve the Company's proposal for cash capital increase through the issuance of new shares for initial public offering.</li> <li>2. Approved the amendment of the Company's "General Principles for Internal Control System", "Implementation Rules for Internal Audit", and "Operating Guidelines for Bill Management".</li> <li>3. Approved the Company's "Remuneration Committee Charter" and "Management Guidelines for the Operation of Remuneration Committee".</li> <li>4. Approved the Company's proposal to correct some parts of the financial statements.</li> </ul>
2018.11.08	<ul style="list-style-type: none"> <li>1. Approved the Company's appointment of managers.</li> <li>2. Approved the amendment of the Company's "Regulations Governing Cash Capital Increase through Employee Stock Ownership".</li> <li>3. Approved the Company's 2018 cash capital increase through stock ownership for managers.</li> <li>4. Approved the Company's proposal to terminate stock listing on the over-the-counter market and transfer stock listing to Taiwan Stock Exchange.</li> <li>5. Approved the amendment of the Company's "Regulations Governing Seal Management".</li> <li>6. Approved the Company's provision of guarantees for borrowings by subsidiaries.</li> <li>7. Approved the Company's proposal to apply for loan renewals or new loans to banks.</li> </ul>
2018.12.25	<ul style="list-style-type: none"> <li>1. Approved the Company's and the Group's 2019 Business Plan.</li> <li>2. Approved the Company's 2019 internal audit plan.</li> <li>3. Approved the amendment of the Company's "Internal Control System - Management Cycle".</li> </ul>

Date	Major resolutions of Board of Directors
	4. Approved the amendment of the Company's "accounting system". 5. Approved the Company's proposal to cancel guarantees for borrowings by subsidiaries. 6. Approved the Company's issuance of letter of support for borrowings by subsidiaries. 7. Approved the Company's proposal to apply for loan renewals to banks. 8. Approved the Company's donation to affiliate "Nan Pao Social Welfare Foundation". 9. Approved the establishment of the Company's "Corporate Social Responsibility Committee Charter".
2019.01.25	1. Approved the 2018 performance-based bonuses for managers. 2. Approved the Company's appointment of managers. 3. Approved the Company's proposal to loan funds to subsidiary RLA Polymers (M) Sdn. Bhd.
2019.03.21	1. Approved the Company's 2018 business report and financial statements. 2. Approved the Company's 2018 profit distribution plan. 3. Approved the Company's 2018 employee bonus and director's bonus distribution plan. 4. Approved the Company's 2018 "Statement on Internal Control System". 5. Approved the amendment of the Company's "Articles of Association". 6. Approved the amendment of the Company's "Procedure for Acquisition or Disposal of Assets". 7. Approved the amendment of the Company's "Procedures for Loaning of Funds and Provision of Endorsements and Guarantees". 8. Approved the amendment of the Company's "Corporate Governance Code of Practice". 9. Approved the establishment of the Company's "Standard Operating Procedures for Handling Directors' Requirements". 10. Approved the amendment of the Company's "Management Guidelines for the Operation of Remuneration Committee". 11. Approved the Company's proposal to set up employee stock ownership trust. 12. Approved the Company's proposal to provide or cancel endorsements or guarantees for subsidiaries. 13. Approved the Company's proposal to provide or cancel letter of support for subsidiaries. 14. Approved the Company's proposal to apply for loan renewals to banks. 15. Approved matters related to convening the 2019 Annual General Meeting and handling shareholders' proposals.

(XII) Dissenting opinions or qualified opinions on resolutions passed by the Board of Directors that are made by Directors or Supervisors, and are documented or issued through written statements, in the most recent year up to the publication date of this Annual Report: None.

(XIII) A summary of the resignation and dismissal of the Company personnel in the past fiscal year and as of the date of publication of the Annual Report:

Title	Name	On Board Date	Date of dissolution	Reason
Vice President of R&D and Innovation Division (CRO)	Li, Ju-Shiung	2005.01.03	2019.04.30	Retire

#### V. Information on CPA Professional Fees and Replacement of Certified

Accounting firms Title	Name of the CPA		Audit period	Notes
Deloitte & Touche Taiwan Accounting firms	Liao, Hung-Ju	Kung, Chun-Chi	2018	

Professional charge		Unit price: thousand NT\$		
Fee range		Audit charge	Non - Audit charge	Total
1	Less than NT\$ 2,000,000			
2	NT\$ 2,000,000 (inclusive) to NT\$ 4,000,000			
3	NT\$ 4,000,000 (inclusive) to NT\$ 6,000,000	✓	✓	
4	NT\$ 6,000,000 (inclusive) to NT\$ 8,000,000			
5	NT\$ 8,000,000 (inclusive) to NT\$ 10,000,000			
6	More than NT\$ 10,000,000 (inclusive)			✓

- (I) The non-audit fee paid to certified CPAs, the firm of the certified CPAs, and affiliated companies accounts for over 1/4 to audit fee: None.

accounts for over 7.7 thousand NT\$.

Unit price: thousand NT\$								
Name of the accounting firm	Name of the CPA	Accounting charge	Non-accounting charge					CPA Audit period
			System Design	Business Registration	Human Resources Capital Resources	Others (Note)	Total	
Deloitte & Touche Taiwan Accounting firms	Liao, Hung-Ju	5,600	0	15	0	4,186	4,201	2018
	Kung, Chun-Chi							

Note: Other services include transfer pricing NT\$1,252 thousand, tax consultation NT\$1,268 thousand, IPO coaching NT\$640 thousand and other fees NT\$1,026 thousand.

- (II) Having altered the CPA firm and the audit fee in the altering year is less than that in the previous year: None.
- (III) The audit fee is reduced by over 15% compared with the previous year: None.

**VI. Replacement of the CPA:** No replacement of the CPA should be disclosure until the annual report is published and printed.

**VII. Any of the Company's Chairman, general managers, or managers responsible for finance or accounting duties served in a CPA accounting firm or its affiliated company within the last fiscal year:** None.

**VIII. Equity transfer or changes to equity pledge of directors, supervisors, managerial officers, or shareholders holding more than 10% of Company shares during the past year prior to the publication date of this Report..**

- (I) Equity transfer or changes to equity pledge of directors, supervisors, managerial officers, or shareholders holding more than 10% of Company shares.

		Unit: shares			
Job Title	Name	2018		From this year to up to April 16, 2019	
		Shares held Increase (decrease)	Increase (decrease) in equity pledges Increase (decrease)	Shares held Increase (decrease)	Increase (decrease) in equity pledges Increase (decrease)
Chairman	Wu, Cheng-Hsien	(16,257)	0	0	0
Director and major shareholder	Pou Chien Chemical Co., Ltd	0	0	0	0
Director	Guang Rong Investment Ltd.	0	0	0	0
	Representative: Hsu, Ming-Hsien	0	0	0	0

Job Title	Name	2018		From this year to up to April 16, 2019	
		Shares held Increase (decrease)	Increase (decrease) in equity pledges Increase (decrease)	Shares held Increase (decrease)	Increase (decrease) in equity pledges Increase (decrease)
	Representative: Liu, Chi-Lin	0	0	0	0
	Representative: Chang, Kuo-Jung (Note 1)	0	0	0	0
Independent Director	Chen, Yun	0	0	0	0
Independent Director	Chiang, Yung-Cheng	0	0	0	0
Independent Director	Lee, Yi-Hsi	0	0	0	0
CEO	Hsu, Ming-Hsien	0	0	0	0
Sports Goods Adhesives and Materials Business Division Executive General Manager	Tsai, Chao-Chian	(47,000)	0	(9,000)	0
Paints and Coatings Business Division Executive General Manager	Tsai, Yi-Fa	0	0	0	0
Adhesives and Specialty Business Division Executive General Manager	Hsu, Chi-Yuan	0	0	(27,000)	0
General Manager of Financial Management Division	Liu, Chi-Lin	0	0	0	0
Operation Management Division General Manager	Hung, Chung-Yuan	(73,000)	0	(9,000)	0
Adhesives and Specialty Business Division Deputy General Manager in Adhesives Division II	Chang, Chi-Yao Date of dissolution:2019.03.18 (Note 2)	0	0	(1,000)	0
Vice President of R&D& Innovation Division	Lee, Juh-Shyong Date of dissolution:2019.04.30 (Note 2)	31,000	0	(8,000)	0
R&D & Innovation Division Innovation and Development Department R&D Deputy General Manager	Shen, Yong-Ching	0	0	0	0
R&D & Innovation Division Hot Melt Adhesive R&D Department R&D Deputy General Manager	Wang, Ping	(23,000)	0	(6,000)	0
Sports Goods Adhesives and Materials Business Division Vice President	Kong, Wen-Xian On board date: 2018.11.08 (Note2)	0	0	0	0
Adhesives and Specialty Business Division Deputy General Manager	Kuo, Sen-Mao	(3,000)	0	0	0

Job Title	Name	2018		From this year to up to April 16, 2019	
		Shares held Increase (decrease)	Increase (decrease) in equity pledges Increase (decrease)	Shares held Increase (decrease)	Increase (decrease) in equity pledges Increase (decrease)
Vice General Manager of Paints and Coatings Business Division	Chen,Zhi-Wei On board date: 2019.01.25 (Note2)	0	0	0	0
Sports Goods Adhesives and Materials Business Division Assistant Manager	Fang, Yi-Jen	(44,700)	0	(16,000)	0
Sports Goods Adhesives and Materials Business Division R&D Technical Assistant Manager	Hung, Sen-Pei	0	0	(10,000)	0
Operation Management Division Assistant Manager of Factory Affairs Department	Wang, Chung-Ming Date of dissolution:2018.09.17 (Note 2)	(15,000)	0	0	0
Financial Management Division Assistant Manager (Accounting Manager)	Lin, Kun-Chin	0	0	0	0
Strategic Development Division Assistant Manager in HR Department	Lee, Hui-Fen	0	0	(10,000)	0
Strategic Development Division Assistant Manager in Business Development Department	Luo, Yuan-Yang On Board Date: 2018.04.16 (Note 2)	0	0	0	0
Q&A Assistant General Manager of R&D & Innovation Division	Lin,Zhi-Cheng On Board Date: 2018.11.08 (Note 2)	8,000	0	0	0
Polyester polyol Technology Assistant General Manager of R&D & Innovation Division	Chen,Yan-Cheng On Board Date: 2018.11.08 (Note 2)	0	0	0	0

Note 1: Corporate director Guang Rong Investment Ltd. appointed a new representative director on April 12, 2018 (the former representative: Lee, Juh-Shyong; the new representative: Chang, Kuo-Jung)

Note 2: Only information during their terms of office will be disclosed.

(II) Where the counterparty of equity transfer is a related party:

Name	Reason for transfer	Transaction date	Transaction counterparty	Relationship between the counterparty and the Company, its directors, supervisors, and shareholders with shareholding percentage exceeding ten (10) percent	Number of shares	Transaction price
Wu, Cheng-Hsien	Gift	2018.01.24	Wu, Yi-Lin	Father and son	16,257	135.32
Lee, Juh-Shyong	Inherit	2018.05.24	Hung, Yu-Hsun	Spouse	31,000	139.79

(III) Where the counterparty of equity pledge is a related party: None.

**IX. Relationship information of anyone among the ten largest shareholders who is a related party, or is the spouse or a relative within the second degree of kinship of another:**

As of April 16, 2019 ; Unit: Shares

NAME	SHARES HELD BY THE SHAREHOLDER SHARES HELD		SHARES HELD BY SPOUSE OR MINOR CHILDREN		SHARES HELD IN THE NAME OF OTHER PERSONS		LIST OF THE COMPANY'S 10 LARGEST SHAREHOLDERS WHO ARE RELATED PARTIES, SPOUSES, OR RELATIVES WITHIN THE SECOND DEGREE OF KINSHIP OF ANOTHER		REMARKS
	Number of shares	Ratio	Number of shares	Ratio	Number of shares	Ratio	Title (or Name)	Relations	
Paochien Company Limited Representative: Lu, Chin-Chu	21,205,248	17.59	-	-	-	-	None	None	
Ding-Feng Investment Co., Ltd. Representative: Fang, Guan-Jie	10,381,947	8.61	-	-	-	-	None	None	
Chuan-De Investment Co., Ltd. Representative: Tu, Wan-Hsin	9,650,298	8.00	-	-	-	-	None	None	
Guang Rong Investment Ltd. Representative: Lim Boon Seng	8,868,132	7.36	-	-	-	-	None	None	
Growth Machine Development Co., Ltd. Representative: Wei, Chih-Chuang	7,826,523	6.49	-	-	-	-	None	None	
Pao-Wang Investment Co., Ltd. Representative: Chou, Ding-Chiang	7,308,068	6.06	-	-	-	-	None	None	
Huang, Yin-Lin	4,479,936	3.72	-	-	-	-	None	None	
Lan-shi-ta Investment Co., Ltd. Representative: Hsiao, Yu-Ting	2,060,773	1.71	-	-	-	-	None	None	
Han-hsin Investment Co., Ltd. Representative: Luo, Shang-Yi	2,030,813	1.68	-	-	-	-	None	None	
Mega International Commercial Bank Co., Ltd. Representative: Chang, Chao-Shun	1,304,969	1.08	-	-	-	-	None	None	

**X. Number of shares held and percentage of the stake of investment in other companies by the Company, the Company's directors, supervisors, managerial officers, or a company directly or indirectly controlled by the Company, and calculations for the consolidated shareholding percentage of the above categories**

December 31, 2018; Units: Share; %

Reinvestment (Note 1)	Investment by the Company		Investments by the directors, supervisors, managerial officers, and companies directly or indirectly controlled by this Company		Composite Investment	
	Number of shares	Ratio	Number of shares	Ratio	Number of shares	Ratio
Nan Pao Chemical Company Ltd.	15,000,000	100.00	-	-	15,000,000	100.00
Nan Pao Application Material Co., Ltd.	200,000	100.00	-	-	200,000	100.00
Nan Pao Electronic Material Company	4,000,000	100.00	-	-	4,000,000	100.00
ITLS International Development Co., Ltd.	30,500,000	100.00	-	-	30,500,000	100.00
Prince Pharmaceutical Co., Ltd.	14,500,000	49.90	-	-	14,500,000	49.90
PHYMED BIO-TEC CO., LTD.	600,000	100.00	-	-	600,000	100.00
Biorich Biotechnology Co., Ltd.	391,462	57.10	-	-	391,462	57.10
Nan Pao Advanced Materials Co., LTD.	350,000	70.00	-	-	350,000	70.00
Fuqing Nan Pao Investment Limited	4,990,000	100.00	-	-	4,990,000	100.00
Thai Nan Pao Investments Limited	5,282,000	100.00	-	-	5,282,000	100.00
Nan Pao Resins India Pvt. Ltd.	3,000,000	100.00	-	-	3,000,000	100.00
Nan Pao Materials Vietnam Co., Limited	Note 2	100.00	Note 2	-	Note 2	100.00
Nanpao Advanced Materials Vietnam Co., Ltd.	Note 2	100.00	Note 2	-	Note 2	100.00
Nan Pao Overseas Holdings Limited	67,284,333	100.00	-	-	67,284,333	100.00
Profit Land Limited	983,333	73.75	350,000	26.25	1,333,333	100.00
All Saints Enterprises Limited	5,452,549	54.53	4,547,451	45.47	10,000,000	100.00
Ongoing Profits Limited	1,560,000	32.18	3,287,546	67.82	4,847,546	100.00
PT. Indo Nan Pao Resins Chemical	2,756,250	49.00	1,040,625	18.50	3,796,875	67.50
Hsin Chung Industrial Co., Ltd.	1,500,000	30.00	-	-	1,500,000	30.00

Note 1: Long-term investment calculated by equity method

Note 2: Number of shares is not applicable for limited companies.

## Chapter IV CAPITAL OVERVIEW

### I. Source of Capital Stock

#### (I) Source of capital shares

##### 1. Types of shares

April 30, 2019; unit: shares

Types of shares	Authorized capital stock			Remarks
	Shares outstanding	Unissued shares	Total	
Common shares	120,570,780	79,429,220	200,000,000	

##### 2. Formation of capital (changes in the last five years until the date of publication of this Report)

April 30, 2019

Year and month	listed Price	Authorized stock		Paid-in capital		Remarks		
		Number of shares	Sum	Number of shares	Sum	Source of capital shares	Equity contributions made in the form of assets other than cash	Others
November 2013	45.6	80,000,000	800,000,000	76,893,196	768,931,960	Capital cash increase NT\$ 28,747,520	-	December 11, 2013, authorized by Letter No. 10201247200
October 2014	10	200,000,000	2,000,000,000	88,427,175	884,271,750	Capital Surplus Transferred to Capital NT\$115,339,790	-	December 3, 2014 authorized by Letter No. 10301240220
August 2015	10	200,000,000	2,000,000,000	92,848,500	928,485,000	Capital Surplus Transferred to Capital NT\$ 44,213,590	-	September 21, 2015 authorized by Letter No. 10401197620
August 2016	10	200,000,000	2,000,000,000	97,490,961	974,909,610	Capital Surplus Transferred to Capital NT\$ 46,424,270	-	September 22, 2016 authorized by Letter No. 10501228350
December 2016	70	200,000,000	2,000,000,000	103,490,961	1,034,909,610	Stock option conversion NT\$ 60,000,000	-	January 20, 2017 authorized by Letter No. 10601007990
June 2017	180	200,000,000	2,000,000,000	106,490,961	1,064,909,610	Capital cash increase NT\$ 30,000,000	-	June 27, 2017 authorized by Letter No. 10601083750
August 2017	10	200,000,000	2,000,000,000	108,620,780	1,086,207,800	Capital Surplus Transferred to Capital NT\$ 21,298,190	-	August 18, 2017 authorized by Letter No. 10601115930
December 2018	76.8	200,000,000	2,000,000,000	120,570,780	1,205,707,800	Capital cash increase NT\$119,500,000		December 18, 2018 authorized by Letter No. 10701156590

##### 3. Reporting system: Not applicable.

#### (II) Shareholder structure

April 16, 2019

Shareholder structure	Government institutions	Financial institutions	Other corporations	Foreign institutions and foreigners	Natural persons	Total
Quantity						
Number of people (individual)	0	17	71	19	2,413	2,520
Shares held (# of shares)	0	6,105,969	71,937,222	11,949,089	30,578,500	120,570,780
Shareholding percentage	0	5.06%	59.67%	9.91%	25.36%	100.00%



(III) Diffusion of Ownership (Common Shares)

1. Ordinary shares:

April 16, 2019

Shareholder Ownership (Unit: Share)	Number of shareholders	Shares held	Shareholding Percentage
1-999	341	49,227	0.04%
1,000-5,000	1,543	2,838,618	2.35%
5,001-10,000	222	1,741,378	1.44%
10,001-15,000	75	967,584	0.80%
15,001-20,000	51	938,730	0.78%
20,001-30,000	64	1,615,918	1.34%
30,001-40,000	44	1,568,234	1.30%
40,001-50,000	26	1,199,035	0.99%
50,001-100,000	56	4,059,652	3.37%
100,001-200,000	41	6,159,978	5.11%
200,001-400,000	24	6,362,519	5.29%
400,001-600,000	7	3,196,907	2.65%
600,001-800,000	7	4,861,574	4.03%
800,001-1,000,000	4	3,718,219	3.08%
1,000,001 shares and more	15	81,293,207	67.43%
Total	2,520	120,570,780	100.00%

2. Preferred shares: The Company has not distributed preferred shares.

(IV) List of Principal Shareholders

Names, numbers of shares held, and shareholding percentage of shareholders who hold more than 5% of the shares or the 10 largest shareholders:

April 16, 2019

Name of substantial shareholders	Shares held	Shareholding Percentage
Paochien Company Limited	21,205,248	17.59%
Ding-Feng Investment Co., Ltd.	10,381,947	8.61%
Chuan-De Investment Co., Ltd.	9,650,298	8.00%
Guang Rong Investment Ltd.	8,868,132	7.36%
Growth Machine Development Co., Ltd.	7,826,523	6.49%
Pao-Wang Investment Co., Ltd.	7,308,068	6.06%
Huang, Yin-Lin	4,479,936	3.72%
Lan-shi-ta Investment Co., Ltd.	2,060,773	1.71%
Han-hsin Investment Co., Ltd.	2,030,813	1.68%
Mega International Commercial Bank Co., Ltd.	1,304,969	1.08%

(V) Disclosure of the Share Prices and Related Information for the Past Two Fiscal Years

Unit: NT\$1,000; 1,000 shares

Item \ Year		2017	2018
Dividend per share	Max	Not on the market (unlisted)	124.00
	Min		87.00
	Average		113.98
Net value per share	Before issuance	68.65	79.85
	After issuance	63.65	74.85 (Note1)
Earnings per share	Weighted average	107,225	109,469
	Earnings per share	8.22	6.15
Dividend per share Dividend	Cash dividend	5	5 (Note1)
	Stock grants		
	Stock dividends from retained earnings	-	-
	Dividend for paid-in capital	-	-
Return on Investments Analysis	Cumulative unpaid dividends	-	-
	Price/Earnings Ratio	Not on the market (unlisted)	18.53
	Price/Dividend Ratio		22.80 (Note1)
	Cash Dividend Yield Rate		4.39% (Note1)

Note1 : The motion for distribution of net income was passed by the Board of Directors on April 12, 2018, and is pending for resolution from the Shareholders' Meeting.

Note 2: Price/earnings ratio = Average closing price per share for the current year/Earnings per share.

Note 3: Price/dividend ratio = Average closing price per share for the current year/Cash dividend per share.

Note 4: Cash dividend yield = Cash dividend per share/Average closing price per share for the current year.

(VI) Dividend Policy and Earnings Distribution Implementation Status

1. Dividend Policy

If undistributed revenue is present after the closing of the fiscal year, the Company shall distribute the earnings in the following order:

- (1) Pay taxes.
- (2) Offsetting losses in previous years
- (3) Appropriating 10% to be the statutory surplus reserve.
- (4) Other special surplus reserve recognized or reversed in accordance with laws and regulations or competent authorities.
- (5) A proposal for the distribution of the remaining earnings, plus the accumulated undistributed earnings will be drawn up by the Board of Directors for the approval by the shareholders' meeting.

As the Company is in a stage of robust growth, after taking into account of the Company's current and future development plan, the dividend policy of the Company is to set aside no less than 10% of distributable earnings as shareholders' dividends and bonuses. Dividends may be distributed by way of the combination of cash dividend and stock dividend, in which cash dividend may be 20% to 100%, with stock dividend ranging from 0% to 80% of the total dividends.

However, to maintain the profitability of Company shares, in consideration of the effects of dividends on the Company's business performance, if EPS has declined by more than 20% YoY in the year of dividend distribution, the Board of Directors shall draw up an earnings

distribution plan and appropriately adjust the amount and ratio of dividend payout, and dividend payout will be processed upon approval from the shareholders' meeting.

2. The status of shareholders' meeting on approving the proposal for the distribution of 2017 earnings:

On March 21, 2019, the Board of Directors had passed the resolution for the distribution of net income for 2018 and proposes to distribute the cash dividend of NT\$5 for each share based on the outstanding 120,570,780 shares at the time of resolution. Ex-dividend date will be established upon resolution from the General Shareholders' Meeting.

(VII) Impact to the Company's business performance and earnings per share (EPS) for free shares allotment proposed by this Shareholders' Meeting: Not applicable.

(VIII) Compensation for employees, directors, and supervisors

1. Quantity or scope of compensation for employees, directors, and supervisors as prescribed under the Articles of Association:

Pursuant to Article 25 of the Company's Articles of Association, the Company will allocate 2% to 6% as employee compensations and no higher than 3% as directors' and supervisors' compensations from the pretax income after deducting compensations for employees, directors, and supervisors.

2. The basis for estimation of the compensations to employees, directors, and supervisors in the current period, the basis for calculation of the number of shares for employee compensations distributed by stock, and the accounting treatment used when there are differentials between the actual distributed amount and the estimated amount:

The basis for estimation of the compensations to employees and directors in the current period is the most appropriate estimation of the possible distributable amounts in the past, and the compensations have been recognized as the current expense. When discrepancies are found in the actual distributions and the estimates, the differences will be treated as changes in estimate and recognized as profit and loss during the year of actual distribution. The actual appropriated remuneration for employees and for Directors and Supervisors in 2016 was consistent with the assessed amount in the Individual Financial Report of 2016.

3. Status of compensation distribution as approved by the Board of Directors:
  - (1) For the appropriation of net income in 2018, the Board of Directors meeting had already resolved to distribute NT\$33,000 thousand as compensations for employees, and NT\$13,322 thousand as compensations for directors on March 21, 2019. No discrepancies were found in the actual sums and the recognized estimated expenses.
  - (2) The Company did not allocate shares as employee compensations in 2018.
4. Actual distribution of compensation to employees, directors, and supervisors (including the number, sum, and price of shares distributed), and where there were discrepancies with the approved compensation for employees, directors, and supervisors, describe the sum, the cause, and treatment of the discrepancy:

No discrepancy was found between the actual distribution of compensation to employees, directors, and supervisors and the approved compensations for employees, directors, and supervisors in 2017.

(IX) Status of Shares Buyback: None.

**II. Status of Corporate Bonds: None.**

**III. Status of Preferred Stocks: None.**

**IV. Status of GDR/ADR:** None.

**V. Status of Employee Stock Option Plan:**

Employee stock option plans processed in 2016 were matured on December 31, 2016, and have been fully carried out.

**VI. New Employee reserved share rights handing:** None.

**VII. Mergers or transferee to other companies and issuance of new shares:** None.

**VIII. Implementation of Budget Decisions:**

The Company does not have private offering of marketable securities. The funds raised in the cash capital fundraising in 2017 have been used to replenish working capital in Q3 2017 and have been fully implemented.

The funds raised in the cash capital fundraising in 2018 have been used to replenish working capital in Q4 2018 and have been fully implemented. Therefore, as of one quarter before the publication date of this Annual Report, there have been no previous issuance or private placement of marketable securities that have not been completed, or that have been completed but are yet to record any benefit within the three most recent years.

## Chapter V BUSINESS OPERATIONS OVERVIEW

### I. Service Content

#### (I) Business Scope

##### 1. Main Businesses

- (1) C801060 Synthetic Rubber Manufacturing.
- (2) C801100 Synthetic Resin and Plastic Manufacturing.
- (3) C802120 Industrial Catalyst Manufacturing.
- (4) C802200 Coating, Paint, Dyeing and Dyestuff Manufacturing.
- (5) ZZ99999 All business items that are not prohibited or restricted by law, except those that are subject to special approval.

##### 2. Proportion of Revenue from Major Products

Unit: NT\$1,000

Item	2017		2018	
	Operating revenue	Proportion of Revenue (%)	Operating revenue	Proportion of Revenue (%)
Adhesives	10,414,902	71.26	11,423,743	71.30
Coatings	1,485,410	10.16	1,757,081	10.97
Others	2,714,696	18.58	2,841,396	17.73
Total	14,615,008	100.00	16,022,220	100.00

##### 3. Current Company Products (Services)

Item	Use	Application industry
Adhesives	Various shoe material adhesives, upper lining fitting adhesive, hem adhesive, board lasted constructions adhesive, edge banding glue, plywood lining glue, curved packaging glue, membrane press adhesive, particle board glue, medium density fiberboard glue, yellow latex adhesive, polyurethane adhesive, finger joint adhesive, plywood glue, veneer plywood glue, furniture foam fitting adhesive, etc.	Industries including footwear, woodwork, construction and interior decoration, textile, and flexible packaging
Coatings	Metal/Wood decorative coating and functional coating, interior/exterior wall decoration and waterproof coating, interior decoration board material coating, metal component protection, and energy savings and thermal insulation	Industries including construction and waterproofing, furniture, car components, sports equipment, general hardware, woodcrafts, corrosion protection, bathroom appliances, and equipment

##### 4. Projected new product development

No.	Items	New R&D technology or improvement project
1	Environmentally-friendly water-based leather resin glue	Solvent-less water-based PU coating applications

No.	Items	New R&D technology or improvement project
2	Water-based woodwork resin coating	Solvent-less water-based resin base coat and top coat
3	3D printed shoes material	Innovative material for automated 3D printed shoes
4	Water-based thermal insulating green coating	Low VOC, high-reflective thermal blocking, thermal transfer blocking
5	Woodwork lamination PUR (reactive PU)	Low processing temperature, formaldehyde-free, VOC-free, used with WPC (wood-plastic composite material made with recycled plastic)
6	Carbon fiber composite material	High Tg (glass transition temperature), high-strength, high flame-retardancy, low processing period
7	Optically clear adhesive	High transmittance, interstitial filling, age-resistant
8	Polarizer glue	age-resistant, low light-leakage
9	Water-based hydrolysis resistant PU glue for shoes	High-adhesion, heat-resistant, and hydrolysis resistant
10	Solvent-less fast thick PU coating	Solvent-less PU top coating applications
11	Computer, communication, and consumer electronics component coating	Environmentally-friendly water-based/powder coating
12	Automotive interior binding heat-resistant hot melt adhesive	Secondary activation processing, enhance heat-resistance and adhesion
13	Biomass can coating development	Biomass bisphenol A free epoxy coating
14	Formaldehyde-free D3 woodwork adhesive	Formaldehyde-free water-resistant white adhesive
15	Nan Ya PVC foam door frame/PUR for plastic sheet lamination	Made from eco-friendly and solvent-free processes with fast solidification, increasing door frame production capacity
16	Construction adhesive PUR for electronics	Used in the lamination, sealing and reinforcement of internal parts of 3C products, and comply with environmental protection regulations including RoHS and REACH
17	PUD for textile foam coating	Used in functional textile surface coating, water-based and eco-friendly PU adhesive, equipping clothes with special functions, including breathability and comfort
18	ES epoxy adhesive	Made from eco-friendly water-based epoxy resin, and used in electromagnetic ring insulated package for electromagnetic ring
19	Fully water-based CR adhesive	Promote green products, reduce VOC emissions and promote adhesives for green building materials
20	Solvent-free soft 2K PU	Eco-friendly and solvent-free, replacing

No.	Items	New R&D technology or improvement project
	adhesive	traditional solvent-based PU adhesives used for lamination in flexible packaging, and improving food packaging to meet FDA regulations
21	PUR for wall panel wrapping	Eco-friendly and free from VOC and formaldehyde emissions, serving as an advanced process indicator in the building renovation market
22	PUD for car roof lamination and finishing	Comply with the latest environmental protection requirements in the automotive industry, with zero VOC emissions, replacing oil-based CR adhesive and oil-based PU adhesive for automotive interior material lamination
23	Water-immersed PU for mesh yarns	Used for toughening PU in yarns and enhancing the wear resistance of mesh yarns, maintain the original resistance to twists and turns, and feel soft simultaneously
24	Hardware accessories coating	Inorganic nano/eco-friendly water-based coating
25	Low-odor epoxy floor coating	Eco-friendly and low VOC, replacing traditional solvent-based coating

## (II) Industry Overview

Based on the classification of chemical substances, chemicals can be divided into two categories, bulk chemicals, and specialized chemicals.

Product category	Product features
Commodity chemicals	<ul style="list-style-type: none"> <li>● Sold based on chemical composition only.</li> <li>● Single chemical entities</li> <li>● Easy to replace suppliers</li> <li>● Mass produced with less added value</li> </ul>
Specialized chemicals	<ul style="list-style-type: none"> <li>● Rarely single chemical entities, but often composite substances or formulations</li> <li>● Usually industrial products manufactured in batches</li> <li>● Only a small part of customer's cost</li> <li>● Sold based on functionality</li> <li>● Possess the highest added value</li> </ul>

Source: IEK, Industrial Technology Research Institute (May 2018)

As shown in the table below, bulk chemicals have the characteristics of a simple composition, large output, and low profit, such as general-purpose plastics. Because of its simple composition, users of bulk chemicals can easily change suppliers without affecting the use of the products. Alternatively, specialized chemicals are high value-added chemicals with unique properties, which are often compounds or have mixed formulas, and the function of the product is affected by the composition. As users often have limited consumption of special chemicals, they are often produced in batches during production. Of all products used by users, specialized chemicals often account for

a relatively smaller ratio. Therefore, users are often unwilling to risk changing suppliers. And users of specialized chemicals also have greater loyalty to suppliers than users of bulk chemicals.

Synthetic resin is one of the important specialized chemical products of our country and is widely used in products of the coatings, paints, inks, adhesives, plastics, textile, aerospace, medical, electronics, and information technology industries. The synthetic resin industry and the plastic manufacturing industry are downstream industries of the petrochemical industry. The 5 most widely adopted products are polyester (PE), polypropylene (PP), polystyrene (PS), polyvinyl chloride (PVC), and acrylonitrile butadiene styrene (ABS) epoxy resin.

The Company's major sources of business come from adhesives and coatings. The following are overviews of the adhesive industry and coating industry based on the Company's major businesses and scale of revenue:

## 1. Current state and development of the industry

### (1) Adhesive Industry Overview

Adhesives have qualities such as extensive applications, easy to use, high economic benefits, and rapid development. Adhesives have garnered increased attention over the years with economic development and technological advancement; moreover, as applications encompass both industrial and commercial use, the adhesive industry is a critical support industry for many industries as they develop. Therefore, though it is a traditional industry, its development should not be easily overlooked.

In 2017, the scale of the global adhesive industry had increased to US\$13,279 million. As the oil prices had continued to remain at low levels, the prices of certain products had been sluggish. Hence, the market size had only grown by 3.3% compared with 2016. Looking to the future, as global crude oil supply begins to even out and the negative effects of declining oil prices have slowly recovered, we anticipate that the market scale of the global adhesive industry will show stable growth at a compound annual growth rate of 4% in 2018.

The trend analysis of global adhesive industry output value from 2016 to 2020 is shown in the following table:



資料來源：工研院 IEK(2018/05)

As far as the market size of Taiwan's adhesive industry, prices of adhesive raw materials and product fell due to low international oil prices in 2016, based on statistics provided by IEK in 2017, whereas the output value of Taiwan's adhesive industry experienced a decrease of 9.6% from 2015, totaling NT\$876,15 million. Furthermore, according to statistics provided by IEK in 2018, the output value of Taiwan's adhesive industry in 2017 rebounded to NT\$921,11 million, an increase of 5.1% from 2016. Looking forward to steady growth in the global economy and a rebound in oil prices from 2019 to 2020, the output value of Taiwan's adhesive industry will also grow steadily.



The trend analysis of Taiwan adhesive industry output value from 2016 to 2020 is shown in the following table:



資料來源：經濟部統計處；工研院 IEK(2018/05)

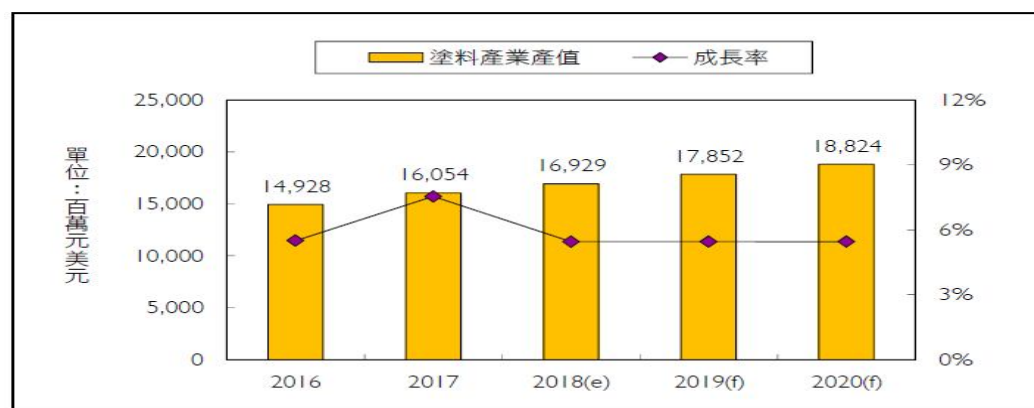
Nan Pao is the leading manufacturer of PVAc adhesives in Taiwan and is renowned for the 815 water-based emulsion paint in the industry. In the past, Nan Pao primarily relied on itself for research and development and mainly focused on PU resin, water-based PVAc, EVA, and acrylic epoxy, powder coating, liquid coating, yellow glue, chloroprene graft copolymer, epoxy, phenol formaldehyde resin, and other shoe materials and agents. In the recent years, Nan Pao has been cooperating with third parties, the government, and the academia, as well as hiring external consultants to enhance the exchange and improvement of technical expertise, and to expand our research field into water-based PU, PU hot melt adhesives, specialized nanocoatings, specialized hardening type adhesives, and water-based plywood glues.

## (2)Coating Industry Overview

In the coating product and coating application market, the main terminal applications can be classified into three types, construction, industrial, and special application coatings. Construction coatings account for the largest market, which is followed by industrial coatings (such as automotive OEM coatings, steel coatings, etc.), and other special application coatings, such as automotive paint, industrial maintenance coatings, and vessel coatings.

Development of the global coatings industry revolves around energy and environmental protection issues, with sustainability being the focus as before. Sustainability is defined as the ability to provide humans and the ecology with a healthier and safer environment by reducing the use of petrochemical raw materials, preventing the production of GHG and abnormal climate change on Earth. In terms of product development trends, energy and environmental issues continue to influence the Company's product development strategies for coatings. Therefore, emphasis on low carbon emissions, reduction of VOC and saving materials remain the key to product development. According to statistics provided by IEK in 2018, global demand for coatings is expected to reach US\$188,24 million in 2020, with an average annual growth rate of 3.7%. Due to strong economic growth in developing regions, especially the large-scale market in the Asia Pacific region, the growth of construction activities will drive the sales of architectural coatings. Suppliers in developing regions will also benefit from the recovery of manufacturing industry output and infrastructure spending, which will also stimulate demand for industrial coatings used for the production and maintenance of automobiles, furniture, ships and road bridges and related sales.

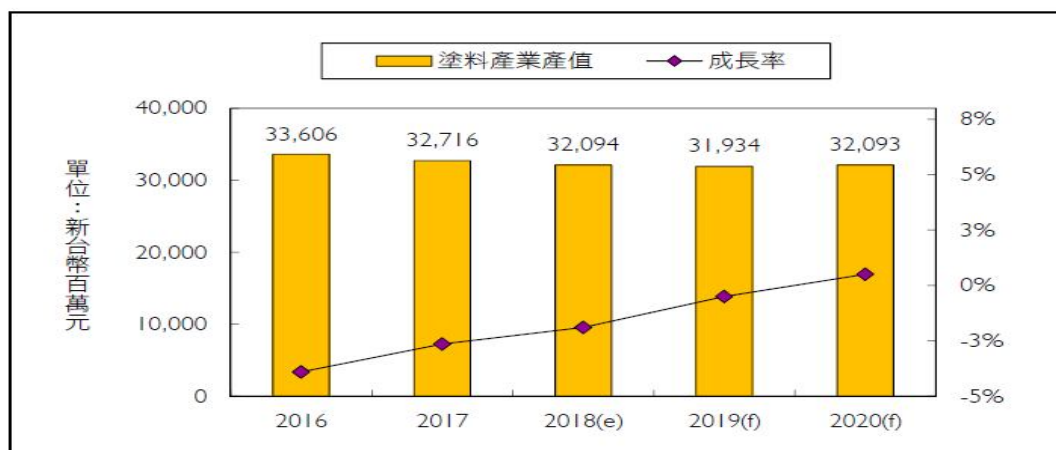
The trend analysis of global coating industry output value from 2016 to 2020 is shown in the following table:



資料來源：Coating World；工研院 IEK(2018/05)

According to statistics provided by IEK in 2018, the domestic market for Taiwan's coatings industry has been experiencing a decline since 2016. In the coatings export market, the largest importer of Taiwan coatings is Mainland China. With the improvement of production technology and quality among Chinese coatings manufacturers in recent years, coatings manufacturers in Taiwan have also improved their own quality and technologies. Even so, the total output volume of Taiwan coatings in 2017 fell by 2,908 metric tons, a decrease of 0.7% from 2016, whereas the total output value of Taiwan coatings in 2017 was NT\$32,716 million, a decrease of 2.6% from the same period in 2016. In 2017, the total sales volume of Taiwan coatings decreased by NT\$7.62 million compared with that during the same period in 2016. It is estimated that the output value of Taiwan coatings will not change much from 2019 to 2020.

The trend analysis of Taiwan coating industry output value from 2016 to 2020 is shown in the following table:



資料來源：經濟部統計處；工研院 IEK(2018/05)

Strategically, the Company will focus on producing eco-friendly coating products and developing specialized chemicals and materials to offer high value-added products and comprehensive services. The Company's product development directions include water-based PU resin, high solid content PU resin, water-based PVAC, high-value powder coatings, electronic coatings, flame retardant coatings, water-based coatings, high-performance yellow glue and eco-friendly and water-based shoe processing agents and sprays.

In the future, under the restrictions of environmental protection policies in each country, increasing application of eco-friendly water-based coatings and solvent-free coatings to buildings, as well as rising demand for functional coatings such as energy saving, fire retardant, and self-cleaning coatings for various industrial products, including vehicles and steel, are the driving force for the expansion of the coatings market.

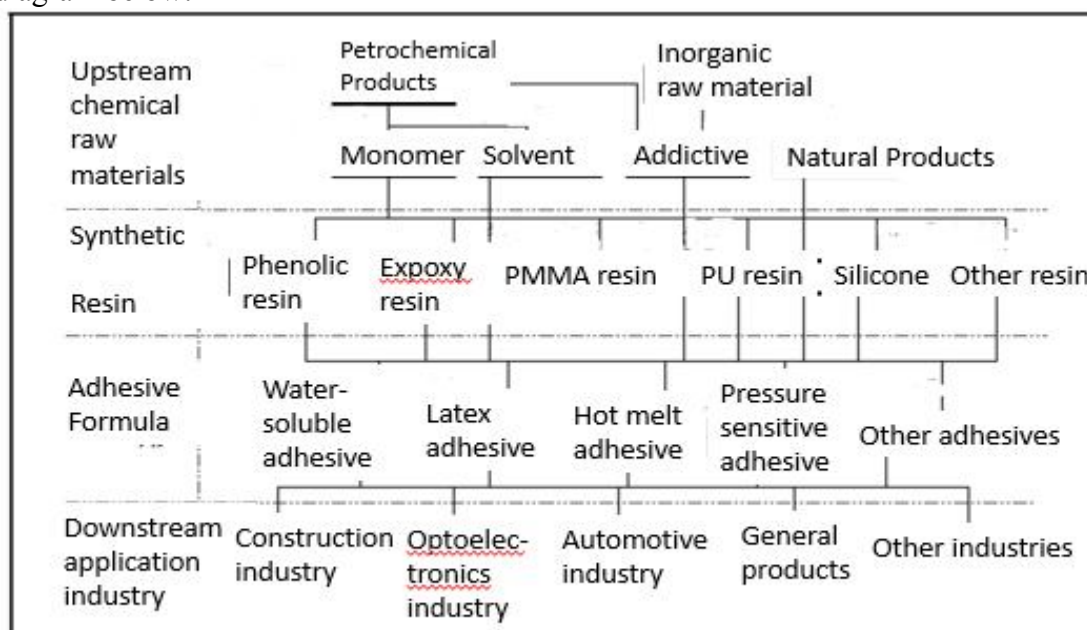
Furthermore, the Company is also transitioning to group management and globalized development. Apart from continuing expansion efforts in China, our subsidiary Nan Pao Resins Vietnam Co., Ltd. began to manufacture PVAc adhesives and coatings for mobile devices in 2005 and started to manufacture products like insulating varnish for electronics, PVDF powder coating, energy saving insulating coating, and anti-static powder in 2006. In 2008, the powder coating factory was established by Nan Pao Resins Vietnam Co., Ltd., thereby completing the strategic layout of Nan Pao Group in Southeast Asia. In 2009, Nan Pao Group began to develop its biotechnology business and diversify its business scope.

## 2. Correlation with Upstream, Midstream, and Downstream Sections of the Industry

### (1) Adhesive Industry

The development of adhesives manufacturer in Taiwan tend to use backward integration, they expand backward on the production path into manufacturing of synthetic resin industry as the key of success. The synthetic resins industry and adhesives industry in Taiwan complement each other well.

Adhesives are synthesized from the compounds, additives, solvents, and natural compounds extracted from the upstream petrochemical materials, and are widely used in shoemaking, plywood, electronics, automobile, construction, fiber processing, tape, furniture, paper, and aerospace industries. Please see the vertical adhesive industry structure as the diagram below:



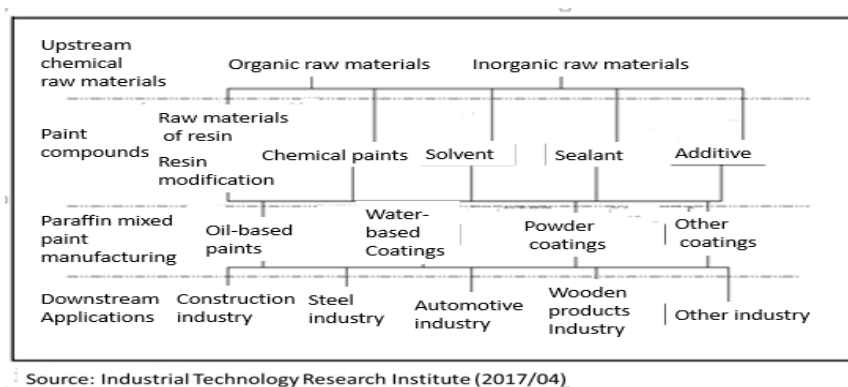
Source: Taiwan Synthetic Resin & Adhesives Industrial Association; ITRI

### (2) Coatings industry

Coating products are formulated products that combine many raw materials. Common primary components include resin, pigments, solvents, fillers, and additives. Common resins include polyester resin, acrylic, and polyurethane resin; pigments include white TiO<sub>2</sub> and CaCO<sub>3</sub> powder. The third component, solvents, include toluene, xylene, isopropanol, water, etc.; fillers are mainly used to increase the coating thickness and reduce cost, with different

physical and chemical properties depending on the various types, including calcium carbonate, talcum powder, mica powder, and silicates, and additives are used to give coatings properties like being easier to apply or stability. Common additives are anti-foaming agents, film-forming aid, dispersing agent, and thickener. Although the 5 aforementioned substances are parts of the ingredients of coatings, they belong to the upstream industries of the coating industry and are not classified as products of the coating industry.

In terms of applications in the downstream industries, the applications of coatings range from construction, naval architecture, bridge construction, machinery, toys, and woodwork industries. Additionally, as technology and innovation progress, new uses of coatings are being discovered, which results in the wide use of coatings in engineering, transportation devices, machinery, and steel industries. Therefore, the coating industry is an industry that changes along with the overall industrial progress. Please see the upstream and downstream industry structure of the coatings industry as the diagram below:



### 3. Trends in the development of various products

#### (1) Adhesive Products

In terms of adhesives, they have very wide applications and are often used in the commercial and construction industry, and in particular in compound panels, furniture, and footwear products. In recent years, many manufacturers in Taiwan have been producing adhesives for packaging in the electronics and optoelectronic industries and are actively developing products with higher added value. Currently, the major trends for development are products with low formaldehyde emissions and specialized hot melt adhesive products. The primary reasons for low formaldehyde emission products are that they are part of the environmental requirements for wood-based panel building materials and government regulations. Therefore, water-based polyurethane and water-based neoprene-type adhesives are some of the most popular developmental objectives. Moreover, as hot melt adhesives do not contain organic volatiles, and spilled adhesives can be reused if not contaminated, they are widely accepted by the market. Certain specialized hot melt adhesive products have also garnered better market demand due to swift construction and high adhesive qualities. Therefore, in addition to the traditional EVA hot melt adhesives, the Company is also attempting to develop other specialized compound hot melt adhesives.

In terms of the footwear industry, footwear adhesives have the widest applications in terms of footwear materials, and such adhesives are also valuable products. Once defects start to form, shoes may no longer be of good use. However, currently, footwear adhesives are mostly solvent-based polyurethane adhesive, which may pose harm to the human body when it vaporizes. Therefore, Taiwanese manufacturers have already begun developing triphenyl-free adhesives that do not contain solvents such as toluene, benzene, xylene, etc., to reduce the impact of chemical substances on the environment and the human body. In addition, as solvents may harm the human body and the environment, countries have also established

relevant regulations to restrict the use of certain solvents that pose greater impacts on the human body and the environment. Therefore, the Company has begun to develop low-solvent and water-based adhesives to comply with environmental trends and to maintain our competitive advantage. In recent years, due to rapid changes in human rights and compensation structure, footwear companies have begun demanding for automation, and the Company also strives to keep up with such trend in terms of developing footwear adhesives and 3D printing of footwear materials.

## (2)Coating Products

In terms of coating, the coating industry chain in Taiwan is mostly divided into upstream chemical raw materials, mid-stream coating compounds, coating production, and the downstream application industry. Coating products mostly include construction, vessel, and metal shield applications, and the special coating materials for computer, communication, and commercial electronic products are still mostly imported from the United States and Japan. In recent years, as consumers pay increasingly more attention on air quality at home and for their health, and domestic and international environmental regulations on coating product specifications have become even more rigorous, domestic and international coating products have become more environmentally-friendly, energy-saving, and with higher added-value. The so-called environmentally-friendly and energy-saving coatings are friendly to the environment and the human body, as well as heat insulation coatings through the combination of infrared reflection and low thermal conductivity. Currently, environmentally-friendly coating products such as nano-photocatalyst coatings, water-based coatings, UV curable coatings and powder-based coatings that do not use solvents all possess qualities such as low pollution and low toxicity. Other high value-added products are coating products such as anti-fouling coatings, high-durability coatings, and nanocoatings. Among them, anti-fouling coatings have the advantages of reducing the number of cleaning needed and help to conserve cleaning costs. High durability coatings such as fluororesin coatings that have a longer life cycle can last up to 20 or even 30 years or more. In addition, the use of nanotechnology to develop nanocoatings, such as antibacterial, scratch-resistant, anti-fouling, high coverage rate, and other characteristics, is also a developmental objective of the coatings market. Currently, the development of nanocoatings is relatively more mature in Japan and the United States, while the nanocoatings in Taiwan are also used in the metal, machinery and electronics industries. ITRI is also actively investing in research and development of nanocoating technologies to achieve properties such as anti-fouling, self-cleaning, and waterproofing.

## (3)Forward-Looking Production Project

### A. Fiber Reinforced Polymers

Carbon fiber is seen as one of the high tech materials with the most potential in the 21st Century, while epoxy resin is a key raw material for carbon fiber reinforced polymers (CFRP). Initial products are primarily halogen-free flame-resistant carbon fiber prepreg materials and composites and are used as the base material for carbon fiber molding and processing. Normally the resin used by CFRP materials are flammable and adding flame-resistant agents not only lowers the physical and chemical properties of CFRP but is also an uncertainty in the process and can result in lower yield and quality. Nan Pao expands the applications of carbon fiber reinforced composite materials by improving and shortening the processing of carbon fiber composite materials, using enhance halogen-free flame-resistant materials, increasing the strength of the carbon fiber composites, simplifying post-processing procedures, and increasing yield and process ability of the final product. At the same time, Nan Pao breaks the constraints placed on CFRP by the lower halogen and flame resistant requirements of RoHS and UL94-V0 regulations in the

3C electronics, construction materials, automobile, and aerospace industries. Furthermore, Nan Pao reduces the costs of CFRP products by having higher yields and finally makes CFRP meet the requirement of energy efficiency.

#### B. 3D Printed Material Products

3D printing and laminate manufacturing technologies continue to improve, and a wide range of materials such as nickel alloys, carbon fibers, glass, conductive inks, electronics, pharmaceuticals, and biomaterials are already available. These innovative technologies continue to drive user demand. In addition, applications have also been expanded to even more industries, including aeronautical, medical, automobile, energy, and military. As materials suitable for 3D printing continue to expand, it is anticipated that output produced using 3D printing will achieve an annual compound growth rate of 64% before 2019. Under such advancement, we need to rethink the assembly and supply chain processing to make 3D printing technology even more effective. 3D printing can digitally disseminate production data to each production facility. Such digital manufacturing is one of the core concepts of “smart production” and “Industry 4.0” that the industry has been discussing over the past few years.

The manufacturing method of 3D printing products has been changed from the traditional “subtractive manufacturing” to the “additive manufacturing”. This technology can quickly produce prototypes for design appraisal and simulation, and can even directly serve as functional components. Nevertheless, 3D printing still faces the difficult technical challenge of mass production. Compared to the traditional subtractive manufacturing procedures, laminated manufacturing is slower, and the precision and completeness of materials are also inconsistent. However, as the technology gradually expands to the mass market, 3D printing could potentially send the manufacturing industry into a revolution.

The Company has used our material research and development team to develop environmentally-friendly, biodegradable materials PLA and elastomer TPU, and developed and tested 3D printing machines and technologies through industry-academia cooperation. As we have established a long-term partnership with footwear companies, our initial R&D can be applied to the customized smart production of the mid and bottom sole, enabling the Company to continuously advance along with the major footwear companies.

#### C. Biomass products

Currently, the chemical engineering industry is still highly reliant upon petroleum raw materials, but relevant research has indicated that in the not too distant future, we will have fully exploited the scarce petroleum materials, and their waste will be difficult to degrade and process. On the other hand, natural, biomass materials are abundant and more friendly to the environment. Therefore, chemical engineering technologies have also actively turned toward the applications and developments of biomass materials. In addition, greenhouse gases produced from using petroleum materials have led to greenhouse effect and global warming, which are all pressing environmental issues. Because of these issues, the consumption and development of biomass materials and products have garnered more and more attention. Biodegradable, high biomass has become the focus due to its eco-friendly property. By using lignin to synthesize epoxy resin in place of bisphenol A (BPA), not only can we reduce the problem of environmental hormones, but we can also make food coating safer, as well as reduce the carbon emissions during production processes. Therefore, biomass raw material and product applications will be the R&D objective and key points in our future.

#### D. Fluorine-free water repellent material products

In recent years, there has been increased awareness of environmental protection, and Greenpeace also released the results of 40 outdoor functional products for inspection in a

German laboratory. It was found that up to 90% of products contained PFCs, which may affect the reproductive and immune systems. Animal experiments have also shown that some perfluorinated compounds may cause cancer. Currently, the EU and Norway have imposed various degrees of restrictions on the use of Long-Chain Perfluorinated Chemicals (PFCs) to varying degrees. The ZDHC Alliance even expects to achieve the goal of non-fluorination by 2020. Therefore, major textile producers, garment factories, and footwear factories have begun to look for fluorine-free, environmentally- friendly products to produce non-toxic, environmentally-friendly functional clothing and fabrics. Though PFC-free water-repellent treatment agents are already in trend, most of the fluorine-free products available in the market exist problems such as poor reaction effects, overly high production costs, or poor pH rate stability. Based on these factors, in response to international environmental requirements, Nan Pao has invested in the development of environmentally-friendly fluorine-free water-repellent agent. Besides excluding APEO, the agent also does not contain any PFCs, which helps achieve positive water-repellent effect without containing fluorine carbons. Since the fluorine carbons prohibited by the ZDHC are eliminated from the agent; the new agent also reduces human contact hazards and environmental impacts.

#### 4. Competition

##### (1)Adhesive Business

The applications of adhesives are wide and varied, and average commercial use, construction engineering, and electronic materials all contain applications. Since the business has numerous downstream vendors, the demand of each downstream business will all influence the revenue from adhesives. The source of competition for this business comes from the threat of alternative products, which overlap with this industry for certain functions, in particular, the industrial processing materials, which could replace the functionality of adhesive products, leading to external competition. Therefore, creating differentiated services and products with higher yield are the keys to maintaining a competitive edge. Moreover, for the footwear adhesive products, competition can be categorized as domestic and overseas. Domestic competitors include Great Eastern Resins Industrial Co., Ltd., while the largest overseas manufacturer is Henkel. In recent years, to save labor and operating costs, footwear OEM companies have gradually moved from coastal regions in China to inner China, or to other regions such as Indonesia, Cambodia, Myanmar, Bangladesh, or India. This causes the market for footwear adhesives to continue to change. Therefore, the critical competitive factor for footwear adhesive makers would be to cultivate existing markets and to actively expand new overseas markets such as the Middle East, North Africa, India, and other emerging markets.

##### (2)Coating Business

The largest domestic competitor for this business is Yung Chi Paint & Varnish Mfg. Co., Ltd. Since common coating production procedures and its technical know-how and equipment are not complex, the barrier to entry is not high. Therefore, there is intense market competition, leading to price wars between competitors and inferior quality. In addition, after Taiwan has joined the TWO, the import duties for products in this industry have also been lowered, which leads to negative influences over the intensely competitive domestic market. Furthermore, due to intense market competition, vendors with greater economies of scale not only enjoy competitive advantage associated with their brand image, but they can also expand their operating sites, seize retail channels, and actively expand to export market. Furthermore, products with saturated colors, stable colors without fading or changing, and durability, can also enjoy more competitive advantages.

### (III) Overview of Technologies and R&D

1. R&D investment in the most recent year, up to the publication of this Annual Report:

Unit: NT\$1,000

Items	2018	2019 Q1
Research and development expenses	419,850	106,049

2. Successfully Developed Technologies and Products in the Most Recent Five Years:

Year	Technology or product
2014	Water-based PU glue for automated manufacturing (certified by NIKE)
2015	Acrylic pressure sensitive adhesive for protective films
	Flame retardant carbon fiber reinforced resin and super lower pressure plate moulding technology
	Reactive PU Hot Melt Glue for Woodwork
2016	Acrylic pressure sensitive adhesive for optics
2017	Water-based UV processing agent for automated applications, high-performance water-based PU shoe glue NP500 (brushed, automated spraying)
	One-component water-based paint resin for shoes
	WPC floor laminating PUR
	Moisture hardening zinc powder primer
	Eco-friendly water-based metal paint
	Magnesium alloy laptop case powder coating
	Car interior binding-less heat-resistant hot melt adhesive
	Halogen-free flame-resistant epoxy thermosetting epoxy resin and fiber reinforced composite material
2018	High performance sealant (HPS) for hollow glass
	Water-based PU resin (PUD) for eco-friendly leather
	Membrane press adhesive (PUD)
	Water-based PU resin (PUD) for ink
	Water-based PU resin (PUD) for sealing tape
	UV coating for steel pipes
	Water-based hardener for woodenware
	Water-based PU adhesive for plasma
	Hydrolysis-resistant water-based PU adhesive for football shoes (NIKE certified)
	Materials for 3D printed shoes (PLA/TPU/TPE)
	Water-repellent materials for textiles/shoe cloths (water-based/Oil-based)
	Formaldehyde-free D3 woodwork adhesive
	Water-based rubber adhesive 105G (green building certificate obtained)
	Water-based foam lamination for textiles
	PUD for full fabric bonding

### (IV) Long-term and Short-term Development

1. Short-Term Development
  - (1) Marketing Strategy



#### A. Adhesives

- a. The year 2019 is the basis of our short-term goal. We plan to work with various machinery companies to innovate and develop products with wide applications to accelerate the promotions of automated production in order to lower labor cost and to double our productivity.
- b. The Company plans to collaborate with international chemical companies to co-develop new products and to provide innovative products to brands.
- c. We will assist brands to implement a policy of VOC reduction. For instance, in setting BPFC procedures, we will opt for environmentally-friendly water-based products in place of oil-based products.
- d. The Company will solidify mature markets and expand in line with the Chinese domestic market (set up offices in Huabei, Huazhong, and western China regions). In addition, we will also cultivate the Vietnamese market and build Ninh Binh Plant in northern Vietnam and Binh Duong Plant in southern Vietnam.
- e. The Company will also cultivate emerging markets and businesses in new locations, for instance, Myanmar, North America, and Latin America.

#### B. Coatings

- a. Liquid coating: Develop channels and actively promote products with high quality and competitiveness; expand and maintain public infrastructure construction in Taiwan, and cultivate the water-based industrial coating market in China.
- b. Powder-based coating: Work with demand from local markets and provide services to existing markets, as well as cultivate new export orders from new locations such as Latin America and Southeast Asia.
- c. Cultivate emerging markets and businesses in new locations, for instance, the Middle East and North Africa.

#### (2) Production Policy

- A. Simplify production processing, enhance equipment yield rate and productivity to achieve professional production and to lower costs.
- B. Confirm production methods and establish effective and reasonable production operational standards to increase yield and to achieve swift output scheduling.
- C. Reduce inventory and reinforce inventory management.

#### (3) Product Development Objectives

- A. Holding true to legal compliance and pollution prevention policy, and strive to develop environmentally-friendly products such as green, eco-friendly, and innovative products including water-based resin, solvent-free resin, and biomass materials.
- B. Facilitate customers to achieve their requirements for streamlined manpower and cost reduction; collaborate with customers to achieve simplified footwear production procedures and to achieve innovative automated production.
- C. Invest and explore new fields of application and to enhance the production efficiency and excellence of existing production procedures; implement the Company's sustainable management vision in practice, and increase the industry's added values.

### 2. Long-term Business Development Plan

#### (1) Marketing Strategy

- A. Establish a professional project team to work with objectives and policies from global brands. Promote the craftsmanship and arts of automated footwear production and provide products needed by this innovation. Mutually expand the automated production sites in Europe and America, and provide a localized professional person of contact,

- onsite technical service personnel to timely problem-solving solutions.
  - B. Promote water-based biomass products to lower carbon emissions from the upstream source, and to mutually achieve the goals of Global Climate Change Summit and international brands. Implement innovative materials, green, and environmentally-friendly materials that can be repaired, renewed, and reused to achieve social economic prosperity and sustainable development in the ecological environment.
  - C. Move toward diversification, cultivate core technology, and cultivate emerging markets in terms of management direction for adhesive and coating products.
- (2) Production Policy
- A. Continue to improve and review existing processes; automate the production control to enhance product quality and productivity.
  - B. Control from the source to conserve energy and reduce waste, thereby enhancing the Company's competitiveness and image.
- (3) Product Development Objectives
- A. Develop sustainable green products (e.g. high biomass PUD), conserve manpower through automated production, and reduce waste of water and carbon emissions.
  - B. Enter industries with correlations to existing business, technology, and processes of our three major businesses.

## II. Market and Marketing Overview

### (I) Market Analysis

#### 1. Main product sales area

Unit: NT\$1,000

Region \ Year	2017		2018	
	Sum	%	Sum	%
Taiwan	2,309,948	15.81	2,363,313	14.75
Asia	10,229,272	69.99	11,526,562	71.94
Oceania	1,762,867	12.06	1,781,868	11.12
Others	312,921	2.14	350,477	2.19
Total	14,615,008	100	16,022,220	100

#### 2. Market Share

Nan Pao strives to develop and produce products that meet customer expectations and continues to revise our formula and lower costs to keep up with market competition. Over the years, we have established stable and sound business partnerships with various international and regional footwear brands and their OEM/ODM factories. Since we have a complete product line, stable quality, and excellent service, Nan Pao has a fair market share and market visibility in various regional markets (Taiwan, China, and other regions), and we have also established a sound reputation.

According to the IEK 2018 Specialized Chemistry Industry Annual Overview from the ITRI, the global adhesive and coating product estimates in 2018 were US\$13,810 million and US\$16,929 million respectively. The Company's global adhesive and coating market shares are 2.74% and 0.34% respectively.

#### 3. Future Market Conditions and Growth

"Clothing, food, housing, and accessibility" are fundamental human needs. As a part of "clothing, housing, and accessibility," footwear, adhesives, and coating production will never go out of the market.

As the human standard of living continues to rise, people have also gradually consumed more footwear and required for more quality and functionality in their footwear. At the same time, footwear production is a “migrant industry,” in which the major footwear production sites have migrated from Europe and the United States to Korea and Taiwan, and then China, over several decades. In recent years, they have also swiftly moved to Southeast Asian countries including Vietnam, Indonesia, and India.

As a professional footwear adhesive supplier, Nan Pao continues to keep a close eye on the footwear market and changes and trends in footwear adhesives and continues to be very involved in the industry. We continuously develop new products, add and adjust production service blueprints, and develop new regions and new markets. Over the years, we have accumulated many top-notch customers and production service experiences, forming our robust team that continues to improve. No matter what changes the global footwear industry, our business division will always have the competency to respond to future market changes, to continuously grow, and to achieve sustainable operations.

At present, the coatings market in the Asia Pacific region is undergoing the most intensive development. Hence, the demand for coatings in this region will increase to half the total global demand; therefore, revenue will grow strongly. China will continue to be the largest coatings market, while Southeast Asian countries and India will experience strong demand. Faced with such trends, the coatings industry will have great opportunities whether in construction coating needs due to urbanization or in industrial coating development due to industrialization. The coatings industry in Taiwan has mature technology and supply chain and will have high growth potential under such favorable market conditions.

#### 4. Competitive Niches

Nan Pao’s target markets are mostly various adhesives and construction, industrial, and furniture coatings. After years of development and faced with intense domestic and overseas competition, the Company has come to have the following competitive niches:

- (1) Having operated for more than 55 years, we have built a positive Company reputation and stable customers

Nan Pao has been founded for more than 55 years, and we have built a positive reputation and are positively acknowledged by our customers. Our customer groups are stable and most of whom are globally-recognized major companies with a stable customer base. We can also attract new customers and partners through word-of-the-mouth marketing to increase our revenues and profitability. In addition, since our customers all come from diverse industries and regions, we can diversify and lower the risk of market influence from a single industry or area. These are the Company’s primary competitive niches

- (2) We have a complete product line to satisfy one-time needs and needs from different customer groups

Nan Pao’s product line is complete, and we continuously improve product quality, while responding to and lead the trend of the product upgrade, gaining market opportunities and providing competitive prices. At the same time, we strengthen customer service and business through our strong sales and technical teams. Besides satisfying the one-time purchasing needs from customers, we can also enhance customer satisfaction level and receive steady orders.

- (3) Strong R&D team

Nan Pao’s solid research and development team continues to recruit and foster professional R&D and project management personnel. We actively and continuously innovate and develop key technologies and new products based on existing technologies and materials. For instance, we have successfully developed the world’s first single-liquid (1K) water-based footwear adhesive and received the certification from various major sports goods brands. In addition, we have also successfully developed the first polyurethane optical

protection polymer gel in Taiwan. In terms of coatings, we have also pioneered the industry in launching an insulation heat-proof paint to pursue green building materials; thereby achieving energy conservation and carbon reduction. The relevant technology has also received a patent in China. These efforts have helped the Company to achieve market-leading advantages.

(4) Open culture and dare to change

Since its establishment, Nan Pao Group has been constantly seeking changes as we are the first to develop and introduce a wide variety of products or technologies. We implement organizational change, system transformation, internationalization, acquisitions, joint ventures, and team introduction with an open attitude. Furthermore, we want employees not to be afraid of making mistakes, but to fear not doing instead, and to go all out and be brave in all undertakings with innovation, passion, accountability, and delegate (iPad).

5. The Favorable Factors and Unfavorable Factors of the Development Prospect and Countermeasures

(1) Advantageous factor

A. The global footwear industry has a mature development model and favorable outlook

The global footwear industry has gradually formed a sophisticated and regular pattern whether in the technical development in footwear production, footwear supply chain formation, production migration, and cost control. As a professional footwear adhesive supply and service provider, Nan Pao has adapted to the development of the market and is able to respond quickly and effectively to various changes. Along with the development of the world economy and the improvement of people's living standards, the demand for footwear is on the rise, and the outlook for the footwear industry continues to be optimistic.

B. Outstanding R&D technical team with pioneering technical advantage

Relying on our excellent R&D technical team, Nan Pao can develop and launch new products according to the trend of the footwear adhesive industry to ensure our competitive edge. In addition, as the world's leading supplier of adhesives, the Group has been conducting various product application testing and innovation projects with some of the best footwear brands around the world and large-scale footwear groups. We actively research and develop, design, and create new products that are marketable, pioneering, and futuristic according to customer needs and quickly launch them to the market.

C. Extensive production and service, and ownership of proprietary key material production know-how and skills

Nan Pao's production and service sites are located throughout Taiwan, China, Southeast Asia, Australia, and India. We can provide various products and timely and complete services for customers at their locations. During the migration movement of the global footwear industry, Nan Pao has always maintained a synergistic advantage of our extensive strategic layout to carry out "seamless transition" of customer service, leading to high customer loyalty.

D. Establishment of management information system to increase operational performance

Enterprise Resource Planning (ERP) has been established according to our plan, and the Company's internal management continues to move toward systemization and computerization. We utilize the management information system (MIS) to enhance decision-making quality and increase operating performance, which benefits the Company's future development.

E. Industry suppliers have a complete structure and good system

Adhesive and coating industries are mature industries throughout the world. The structure of our suppliers are complete and can meet the industry's localized production needs. Since the supply system is complete, suppliers can work with Nan Pao to produce

- products with higher quality and functionality. Because we have ample suppliers, we are in a better position to provide customers with products with higher value for money.
- F. Industry strategic layout is comprehensive, can seize markets with rapidly growing needs
- a. Nan Pao is actively planning strategies for Chinese and Southeast Asian export and domestic markets. Besides providing services to existing customers to achieve mutual growth, we also anticipate cultivating new business in new markets, creating a comprehensive domestic retail network.
  - b. Nan Pao's coating business has cultivated the Chinese market for many years, and Nan Pao coatings continue to receive awards such as China Top Brands and China Well-known Trademark, making us one of the very few Taiwanese companies to win such distinctions. Not only does this represent that we have begun to achieve positive effects from the Chinese market, but also that our products have received positive recognition from the consumers.
- G. Being consumer- and customer-oriented to develop environmentally-friendly products with high functionality to maintain industry competitiveness
- a. To remain in line with the carbon reduction and environmentally-friendly trend, Nan Pao is the first to launch green products in the hopes of seizing opportunities in the green and eco-friendly market. We have also improved the functionality of the coating and reduced engineering procedures, lowering costs for customers.
  - b. Nan Pao has launched water-based furniture coatings. The Company's R&D team has successfully developed products with pricing and functionality that could rival oil-based furniture paints, and have been introduced at furniture plants for mass adoption. Under such conditions, we believe that Nan Pao can lead the trend and promotion of water-based furniture paints and maintain a market competitive niche.
- H. Persisting on producing and selling high-quality products
- The most important foundation for the survival and development of companies is to provide high-quality products, and the chemical engineering industry has even more rigorous requirements for quality. Hence, the Company always implements a "well-rounded quality system" in place to continuously increase product quality and reinforce customer service. The integration of product innovation, speed, and perfect technology have helped us to achieve client trust.

## (2) Unfavorable Factors and Countermeasures

Disadvantageous factors	Response measures
A. Pressure from inflation of costs of raw materials	<ol style="list-style-type: none"> <li>1. Maintain long-term cooperation with decent suppliers, establish good relationships, and obtain favorable transaction prices and conditions.</li> <li>2. Adopt joint procurement for bulk materials to reduce the price.</li> <li>3. Moderately diversify the source of purchase to reduce supply-side pressure and risk.</li> <li>4. Strengthen product R&amp;D to lower costs through technical advantages.</li> <li>5. When raw material prices fluctuate greatly, the Company communicates with sales customers and adjust the selling prices moderately.</li> </ol>
B. Intensely competitive pricing	<ol style="list-style-type: none"> <li>1. The Company actively invests in overseas markets and sets up production bases in local areas to effectively reduce the impact of tariffs on profits.</li> </ol>

Disadvantageous factors	Response measures
	2. The Company improves services and maintains customer relationships, nurtures multi-functional talents, and establishes service outlets to further improve service efficiency and reduce employee travel expenses.
C. Environmental requirements are become even stricter	1. Strengthen the development of water-based products 2. Strengthen the R&D and promotions of high-functionality eco-friendly powder-based coating. 3. Utilization and promotion of carbon-reducing, eco-friendly paints. 4. In line with changes in environmental protection policies in Mainland China, the Company is actively planning to set up a new company in the Guangdong Province Qualified Chemical Industrial Zone, which is expected to be the main operational base for production in the China region after plant construction is completed.

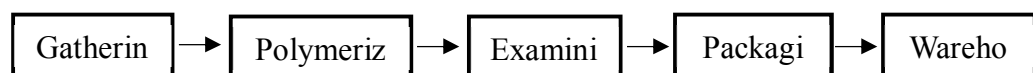
## (II) Major Uses and Production Process of the Primary Products

### 1. Key applications of the primary products

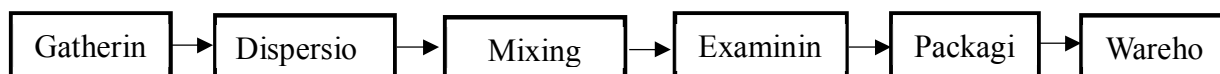
Main products	Use	Application industry
Adhesives	Various shoe material adhesives, upper lining glue, flanging adhesives, upper lining fitting adhesives, hem adhesives, shoe lasting adhesives, textile adhesives, pigment resin for printing, flocking adhesives, fabric stabilizer, starching agents, flannel primer, foam coating, fabric and EVA foam adhesive, fabric adhesive, plush adhesive, and various cloth processing	Shoe materials, textile, woodwork, construction, graphic art, and composite products
Coatings	Metal/Wood decorative coating and functional coating, interior/exterior wall decoration and waterproof coating, interior decoration board material coating, metal component protection, and energy savings and thermal insulation	Construction, waterproofing, anti-corrosion, equipment, and woodcraft
	Metal product decorative coating and functional coating	Furniture, general hardware, car components, home appliances, baby carriage, aluminum wheel rim, sports equipment, aluminum construction materials, pipes, and lightings

### 2. Manufacturing process

#### (1) Adhesives



## (2) Coatings



## (III) State of Supply of Main Materials

Below is a table of Nan Pao's supply of main materials. All materials are provided by domestic and overseas quality vendors with stable source and quality. We have also established good relationships with the major suppliers, and always maintain two or more sources of supply to ensure smooth production.

Main raw material	Supplier	Supply status
Adipic acid	Shenma Group and Solvay S.A.	China and South Korea, with stable quality and source
Isoamyl acetate	Wintak Petrochemical Group Ltd., Jason Technical Corporation, Young Sun Chemtrade Co., Ltd. and Bigo Enterprise Co., Ltd.	China and Singapore, with stable quality and source
1,4-Butanediol (1.4BG)	Dairen Chemical Corporation, Achemical Corporation and BASF	Taiwan and Malaysia, with stable quality and source
Methyl ethyl ketone (MEK)	TASCO Chemical Corporation and Raysound Enterprise Corporation	Taiwan and China, with stable quality and source
EVA latex	Dairen Chemical Corporation and Wacker Chemie AG	Taiwan and South Korea, with stable quality and source
Vinyl acetate	Dairen Chemical Corporation and Celanese	Taiwan and Singapore, with stable quality and source
Toluene	Ashun Fluid Power Co., Ltd., Wintak Petrochemical Group Ltd., Young Sun Chemtrade Co., Ltd. and Hua Tai Resource Trading Company	Taiwan and South Korea, with stable quality and source
Hydrogenated petroleum resin	United Performance Materials Corporation and Henghe Materials and Science Technology Co., Ltd.	Taiwan and China, with stable quality and source
Hexamethylene diisocyanate (HDI)	Tosoh Quartz Co., Ltd. and Wanhua Chemical Group Co., Ltd.	Japan and China, with stable quality and source
Chloroprene rubber	Tosoh Quartz Co., Ltd. and Denka Co., Ltd.	Japan, with stable quality and source

(IV) List of Major Invoicing

1. The names of the suppliers who had accounted for more than 10% of the total purchase amount in the previous two years, and the amount and proportion of the purchase amount, and the reason for the increase or decrease: There have been no significant change in the Company's major suppliers in the past two years.
2. The names of the clients who had accounted for more than 10% of the total sales amount in the previous two years, and the amount and proportion of the sales amount, and the reason for the increase or decrease: There have been no significant change in the Company's major clients in the past two years.

(V) Production Volume/Value in the Most Recent Two Years

Unit: metric tons / thousand NT\$

Production quantity and value Primary products	Year	2017			2018		
		Production capacity	Production volume	Production value	Production capacity	Production volume	Production value
Adhesives		198,101	178,142	9,668,584	202,255	184,675	10,864,484
Coatings		19,332	16,397	1,199,168	20,634	17,688	1,430,381
Others (Note)		—	—	1,716,240	—	—	1,829,686
Total		217,433	194,539	12,583,992	222,889	202,363	14,124,551

Note: Because the Consolidated Company encompasses electronic materials and biotechnology industries and more; hence, the measurement units include pcs, bottles, cans, boxes, packs, pellets, strips, and more. The calculation is not possible due to the diversity of products.

(VI) Sales quantity and value in the last two years

Unit: metric tons / thousand NT\$

Sales value Primary products	Year	2017				2018			
		Internal sales		External sales		Internal sales		External sales	
		Volume	Value	Volume	Value	Volume	Value	Volume	Value
Adhesives		26,972	1,567,268	118,741	8,847,634	26,207	1,582,172	129,722	9,841,571
Coatings		4,836	469,313	13,965	1,016,097	4,746	476,215	14,973	1,280,866
Others (Note)		—	273,367	—	2,441,329	—	304,926	—	2,536,470
Total		31,808	2,309,948	132,706	12,305,060	30,953	2,363,313	144,695	13,658,907

Note: Because the Consolidated Company encompasses electronic materials and biotechnology industries and more; hence, the measurement units include pcs, bottles, cans, boxes, packs, pellets, strips, and more. The calculation is not possible due to the diversity of products.



**III. Employee data and shares of education degrees in the most recent 2 years and until the publication of this Annual Report are shown as follows:**

Year		2017	2018	As of March 31, 2019
Number of employees	Sales	632	627	625
	Management	706	667	678
	R&D	329	356	351
	Direct	871	824	830
	Indirect	418	481	468
	Total	2,956	2,955	2,952
Average age		35	36.82	36.61
Average work tenure		5	4.97	5.25
Percentage Distribution Academic Qualification (%)	Ph. D.	0.27	0.37	0.41
	Master's degree	5.48	6.13	6.06
	University/College	40.19	42.34	42.48
	High School	35.79	30.28	30.76
	Below High School	18.27	20.88	20.29

**IV. Environmental protection expenditure**

Loss (including indemnity) caused by environmental pollution and the total indemnity amount involved in the most recent year up to the date this Report is published; account of future countermeasures (including improvement actions) and possible expenditures (including loss, disposition, and an estimate of indemnity incurred by a failure to implement the countermeasure; if a reasonable estimation cannot be made, the justification shall be provided):

Unit: thousand NT\$

Year and month	Plant	Explanation of breach	Reference for penalty	Penalty	Improvements	Expenses
September 2017	Plant No. 1	On July 20, 2017, in the execution of an appeal case investigation, it was found that Plant Number One had stored a large amount of waste resin (waste code: D-0202). Some of the waste resin was placed in the waste storage area without being sorted, and the storage location was not kept clean and complete. There was leakage which contaminated the ground, while some waste resin was stored in the open air, and there were no equipment or measures to prevent the inflow of rainwater.	Article 36, Item 1 of Waste Disposal Act, and Article 6, Item 1, Clause 1, Article 6, Item 1, Clause 2, and Article 10, Item 1, Clause 1 of the Methods and Facilities Standards for the Storage, Clearance and Disposal of Industrial Waste; punitive action was taken pursuant to Article 52 of the Waste Disposal Act.	6	1. Improvement measures including classification, reduction, labeling, and timely removal of waste were undertaken for the waste storage area. 2. Compartments and wrought-iron doors were installed in the waste storage area.	315

Year and month	Plant	Explanation of breach	Reference for penalty	Penalty	Improvements	Expenses
January 2018	Bao Li Plant	On November 30, 2017, Bao Li Plant has undertaken license inspection. It was found that Bao Li Plant has received the permit for solid pollutant source operations for other synthetic resin manufacturing procedure (M01) from the government. At the time of the inspection, the temperature of the absorption facility (A020) was 24 degrees (permitted range of operation was 25-40 degrees); temperature of the washing tower (A021) was 23.5 degrees (permitted range of operation was 25-40 degrees), while raw material defoamer was 36.838 degrees/year in 2016 (the permitted amount was 30 tons/year); the polymerization catalyst in 2016 was 74.245 tons/year (the permitted amount was 21 tons/year), and the polymerization catalyst in 2017 was 36.344 tons/year (the permitted amount is 21 tons/year). The above-mentioned conditions are clearly in violation of acceptable operations and in violation of the Air Pollution Control Act.	Article 24, Item 20, Item 3 of the Air Pollution Control Act; and Article 24, Item 20 of the Fixed Pollution Source Setup and Operations Management Principles	100	<ol style="list-style-type: none"> <li>1. The Company had improved the raw material permit.</li> <li>2. The Company had filed pollution source operation permit change request (revision to remain in line with the actual situation).</li> </ol>	340
June 2018	Plant No. 1	On May 4, 2018, a fire broke out at Plant No. 1 due to burning resin in the storage area. The Environmental Protection Bureau also sent officers to carry out site inspections, and found that waste resin caught fire in the waste storage area of Plant No. 1. As no particulate pollution collection and treatment equipment was installed at the site, significant particulate pollutants were produced and dispersed in the air.	Article 31, Paragraph 1, Subparagraph 1 of the Air Pollution Control Act; Article 6, Subparagraph 1 and Article 60, Paragraph 1 of the Implementation Regulations of Air Pollution Control; and Article 3, Paragraph 1 of the Public or Private Premises that Violate of Air Pollution Control Act Should Be Penalized with the Fine Determination Regulations	100	<ol style="list-style-type: none"> <li>1. Set up fire safety equipment and connect equipment signal to fire signal receiver for monitoring at phone operator's room</li> <li>2. Set up closed-circuit television (CCTV) for full monitoring.</li> <li>3. Signed contracts with multiple cleaning companies to increase the frequency of waste collection and transportation.</li> <li>4. Enhanced waste sorting and management.</li> </ol>	400

## V. Employment Relations

- (I) Employee benefit measure, on-the-job training, training, the retirement system, negotiation between employers and employees, and other employee rights:

1. Employee welfare measures
  - (1) Meal allowance, provision of uniform and work shoes, provision of single-person dormitories, wedding allowance, funeral allowance; year-end party, in-hospitalization allowance, golf membership discount for employees, labor and health insurance, employee regular health checkup, the retirement pension system, group insurance for overseas Taiwanese staff, awards for model employees, employee mutual assistance funds (wedding, funeral, and in-hospitalization)
  - (2) The Employee Welfare Committee provides the following benefits: employee travel, Labor Day lucky draws, in-hospitalization allowance, wedding allowance, funeral allowance, birthday gifts, employee group insurance, and gifts or cash bonuses for the three traditional holidays.
  - (3) The Professional Union provides the following benefits: childbirth allowance, birthday cakes, in-hospitalization allowance, wedding allowance, and funeral allowance.
2. Employee training and advanced studies
 

The Company has established various employee educational training methods to enhance employee quality and competitiveness, in order to achieve the Company's objectives of sustainable management and development. Each departmental manager and employee can send employees or to file a voluntary application to participate in courses and training organized by external institutions on a need-basis to strengthen their professional capability and core competitiveness as well as reinforce the employees' complete training and advanced studies channels.
3. The retirement system and state of implementation thereof
  - (1) The Company has established an employee retirement method and established a Labor Retirement Reserves Supervision Committee. We have applied for the establishment of the committee to the competent authority in accordance with the Labor Standards Act, and have set a monthly pension account at the Central Trust of China. According to the Company's employee retirement method, employees who have served for more than 15 years and have reached the age of 55, or have served for more than 25 years may retire. Employees who are 65 years old or no longer fit for the job may be ordered to retire. Two base points will be given for each year of service of each retired employee. However, for those who have served for more than fifteen years, 1 base point will be given for each full year of service. For years of service of less than 1 full year, if the employee has served for less than 6 months, it will be rounded up to six months. For those who have served for six months, it will be rounded up to 1 full year. The maximum is limited to 45 base points. The standard of the employee's pension base point is the monthly average salary at the time of retirement. The calculation of the average salary is handled in accordance with the relevant provisions of the Labor Standards Act. The Company allocates the full amount under the previous pension scheme to the Central Trust of China in accordance with the law.
  - (2) Starting on July 1, 2005, with the implementation of the new system for labor pension, the Company inquires its employees whether they wish to adopt the new system or the previous system. The Company has set aside 6% of the monthly salary for employees who have opted for the new labor pension system and deposited the funds into the employees' personal pension account to safeguard their lives after retirement.
4. Employment relations negotiations and status of employee rights protections:
 

The Company's employment relationship is positive and sound. Employees can communicate with the Company through the internal website or opinion mailbox, and the regularly organized employment relations meetings to address the Company's various systems and working environment. Such opinions also serve as important references for the administrative management and help to maintain a good interaction between employers and employees. In addition, the Company has also established an Employee Welfare Committee

to be in charge of carrying out various employee benefits. The committee also organizes various activities from time to time to build a harmonious atmosphere between the Company and employees and to build cohesion. The Company always values employee benefits and maintains a positive employment relationship.

5. Measures for safeguarding employees' rights

The Company has compiled Employee Handbook so employees can be clearly aware of their rights and behavioral principles to comply with. In addition, the Company has also set up an HR Evaluation Committee and various employee grievance channels. In case an employee has any concern for his/her rights, the employee can file for appeal through various methods.

(II) Explaining the company's losses and total fines as a result of employer/employee dispute within the last two years and up to the printing of the Annual Report; disclosing current and future estimated monetary amount and response measures; if the amount cannot be reasonably estimated, please state reason for not being able to make a reasonable estimate:

A former employee filed a lawsuit against the Company in 2015, the plaintiff asked for confirmation of existence of relationship of the employment and monthly salary of NT\$41,154 plus the interests from March 1st, 2015 until the reinstatement day. The case has reconciled between the two parties on April 20th, 2017, the Company had paid off NT\$3,300,000 on May 4th, 2017.

## VI. Important Contracts

Company name	Type of Contract Nature	Party	Contract Date of meeting	Main content	Restrictive terms
Nan Pao Resins Chemical Co., Ltd	Credit Extension	E. SUN Commercial Bank	2018.05.08~2020.05.08	Working capital; NT\$ 300 million; cyclical use; loan principal repayment upon maturation	None
Nan Pao Resins Chemical Co., Ltd	Credit Extension	Chinatrust Commercial Ban	2018.09.30~2020.09.30	Working capital; NT\$ 260 million; cyclical use; loan principal repayment upon maturation	Needs to comply with certain financial ratios and standards
Nan Pao Resins Chemical Co., Ltd	Credit Extension	O-Bank (formerly Industrial Bank of Taiwan)	2016.06.15~2021.09.15	Working capital and overseas investment; NT\$ 15 million; each term was 3 months, average loan repayment	Needs to comply with certain financial ratios and standards
Nan Pao Resins Chemical Co., Ltd	Credit Extension	O-Bank (formerly Industrial Bank of Taiwan)	2017.06.29~2022.06.28	Working capital and overseas investment; NT\$ 300 million; each term was 3 months, average loan repayment	None
Nan Pao Resins Chemical Co., Ltd	Credit Extension	Yuanta Bank	2017.08.30~2020.08.29	Working capital; NT\$ 300 million; cyclical use; loan principal repayment upon maturation	None
Nan Pao Resins Chemical Co., Ltd	Credit Extension	Mizuho Bank	2018.12.15~2020.12.15	Working capital; NT\$ 500 million; cyclical use; loan principal repayment upon maturation	None
Nan Pao Resins Chemical Co., Ltd	Credit Extension	KGI Bank	2018.08.29~2020.08.29	Working capital; NT\$ 500 million; cyclical use; loan principal repayment upon maturation	None

Company name	Type of Contract Nature	Party	Contract Date of meeting	Main content	Restrictive terms
Nan Pao Resins Chemical Co., Ltd	Credit Extension	Taipei Fubon Commercial Bank	107.12.11~109.12.11	Working capital; NT\$ 260 million; cyclical use; loan principal repayment upon maturation	Needs to comply with certain financial ratios and standards
Nan Pao Resins (Vietnam) Co., Ltd.	Engineering	L&K Engineering (Vietnam) Co., Ltd.	April 25, 2016, to present	Construction of Binh Duong Plant main building	None
Nan Pao Resins (Vietnam) Co., Ltd.	Credit Extension	Mega International Commercial Bank	2017.06.03~2022.06.21	Loan for plant construction; US\$ 1.2 million; each term is three months; loan repayment in 17 terms	None
Nan Pao Resins (Vietnam) Co., Ltd.	Credit Extension	Mega International Commercial Bank	2017.06.03~2020.06.21	Loan for plant construction; US\$ 5 million; each term is three months; loan repayment in 17 terms	None
Nan Pao Resins (Vietnam) Co., Ltd.	Credit Extension	Mega International Commercial Bank	Initial date + 4 years	Loan for machine equipment; US\$ 2 million; loan repayment in 13 terms	None
Prince Pharmaceutical Co. Ltd.	Credit Extension	Taiwan Cooperative Bank	Loan A: 2017.08.04~2019.12.31 Loan B: Initial date of Loan B + 15 years	Loan A: construction loan; NT\$ 320 million; principal payment at maturation or take out Loan B Loan B: secured debt; NT\$ 320 million; one-time use; monthly repayment in 180 terms	None
Nan Pao Resins International Ltd.	Credit Extension	Taipei Fubon Commercial Bank	2018.11.07~2019.12.11	Working capital; US\$ 10 million; cyclical use; loan principal repayment upon maturation	Nan Pao Resins Chemical Co., Ltd Needs to comply with certain financial ratios and standards

## Chapter VI FINANCIAL INFORMATION

### I. Condensed balance sheet and composite income sheet for the five most recent years

#### (I) Individual Concise Balance Sheet - International Financial Reporting Standards

##### 1. Consolidated

Unit: NT\$1,000

Items \ Year		Financial information for the past five years				
		2014	2015	2016	2017	2018
Current assets		7,576,318	8,065,345	9,687,617	10,137,504	10,669,750
Property, plant, and equipment		2,283,273	2,448,851	2,661,875	3,346,729	3,959,992
Intangible assets		165,880	140,798	144,757	141,279	130,640
Other assets		981,699	1,165,367	1,381,620	1,573,630	2,603,071
Total assets		11,007,170	11,820,361	13,875,869	15,199,142	17,363,453
Current liability	Before distribution	4,094,385	3,896,226	4,563,534	4,506,918	4,704,901
	After distribution (Note 3)	4,315,453	4,267,620	5,095,989	5,050,022	5,307,755
Non-current liability		1,992,505	2,145,162	2,182,219	2,576,429	2,303,482
Total liabilities	Before distribution	6,086,890	6,041,388	6,745,753	7,083,347	7,008,383
	After distribution (Note 3)	6,307,958	6,412,782	7,278,208	7,626,451	7,611,237
Equity attributable to owners of parent Company		4,695,808	5,519,030	6,792,897	7,457,240	9,627,623
Capital		884,272	928,485	1,034,909	1,086,207	1,205,707
Capital reserve		464,476	421,541	778,977	1,290,212	2,108,235
Retained earnings	Before distribution	3,213,275	4,006,337	4,984,240	5,372,538	5,509,571
	After distribution (Note 3)	2,992,207	3,634,943	4,451,785	4,829,434	4,906,717
Other equity		133,785	162,667	(5,229)	(291,717)	804,110
Treasury stock		-	-	-	-	-
Non-controlling Interests		224,472	259,943	337,219	658,555	727,447
Total equity	Before distribution	4,920,280	5,778,973	7,130,116	8,115,795	10,355,07
	After distribution (Note 3)	4,699,212	5,407,579	6,597,661	7,572,691	9,752,216

Note 1: The Company has adopted Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS) recognized by the Financial Supervisory Commission, R.O.C. (Taiwan) in 2015, and has recompiled the financial information for 2014. Financial information from years 2013 and 2014 are prepared using ROC GAAP. Please see the explanation from the following "2. Condensed Balance Sheet - Adoption of ROC GAAP (1) Consolidated Statement" for details.

Note 2: The financial data has been examined and certified by the CPAs.

Note 3: 2018 earnings distribution is subject to the resolution of the Shareholders' Meeting.

## 2. Individual

Unit: NT\$1,000

Items \ Year	Financial information for the past five years				
	2014	2015	2016	2017	2018
Current assets	1,778,393	1,783,308	2,625,352	2,613,596	2,646,362
Property, plant, and equipment	1,188,134	1,362,182	1,405,723	1,633,008	1,735,208
Intangible assets	0	1,768	14,649	14,124	12,084
Other assets	5,258,081	5,902,190	6,971,195	7,739,902	9,161,190
Total assets	8,224,608	9,049,448	11,016,919	12,000,630	13,554,844
Current liability	Before distribution	1,600,857	1,475,131	2,195,321	2,173,880
	After distribution (Note 3)	1,821,925	1,846,525	2,727,776	2,716,984
Non-current liability	1,927,943	2,055,287	2,028,701	2,369,510	2,115,314
Total liabilities	Before distribution	3,528,800	3,530,418	4,224,022	4,543,390
	After distribution (Note 3)	3,749,868	3,901,812	4,756,477	5,086,494
Equity attributable to owners of parent Company	4,695,808	5,519,030	6,792,897	7,457,240	9,627,623
Capital	884,272	928,485	1,034,909	1,086,207	1,205,707
Capital reserve	464,476	421,541	778,977	1,290,212	2,108,235
Retained earnings	Before distribution	3,213,275	4,006,337	4,984,240	5,372,538
	After distribution (Note 3)	2,992,207	3,634,943	4,451,785	4,829,434
Other equity	133,785	162,667	(5,229)	(291,717)	804,110
Treasury stock	-	-	-	-	-
Non-controlling Interests	-	-	-	-	-
Total equity	Before distribution	4,695,808	5,519,030	6,792,897	7,457,240
	After distribution (Note 3)	4,474,740	5,147,636	6,260,442	6,914,136

Note 1: The Company has adopted Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS) recognized by the Financial Supervisory Commission, R.O.C. (Taiwan) in 2015, and has recompiled the financial information for 2014. Financial information from years 2013 and 2014 are prepared using ROC GAAP. Please see the explanation from the following “2. Condensed Balance Sheet - Adoption of ROC GAAP (2) Individual Statement” for details.

Note 2: The financial data has been examined and certified by the CPAs.

Note 3: 2018 earnings distribution is subject to the resolution of the Shareholders' Meeting.

## (II) Condensed Balance Sheets – Adoption of ROC GAAP

## 1. Consolidated

Unit: NT\$1,000

Year		Financial information for the past five years				
		2016	2015	2016	2017	2018
Current assets		7,604,743				
Funds and investments		519,584				
Fixed assets		2,301,979				
Intangible assets		303,901				
Other assets		192,404				
Total assets		10,922,611				
Current liability	Before distribution	4,094,385				
	After distribution	4,315,453				
Long-term liabilities		1,160,791				
Other Liabilities		674,188				
Total liabilities	Before distribution	5,929,364				
	After distribution	6,150,432				
Capital		884,272				
Capital reserve		464,937				
Retained earnings	Before distribution	2,936,353				
	After distribution	2,715,285				
Unrealized gains or losses of financial products		-				
Unrealized revaluation increments		338,397				
Accumulated translation adjustments		141,610				
Not recognized as retirement pension Net loss of costs		-				
Total Shareholders' equity	Before distribution	4,993,247				
	After distribution	4,772,179				

Note 1: The Company has adopted Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), recognized by the Financial Supervisory Commission, R.O.C. (Taiwan) in 2015. Please see the explanation from the above “1. Condensed Balance Sheet - Adoption of IFRS (1) Consolidated Statement” for details.

Note 2: The financial data has been examined and certified by the CPAs.



## 2. Individual

Unit: NT\$1,000

Year		Financial information for the past five years				
		2014	2015	2016	2017	2018
Items						
Current assets		1,797,486				
Funds and investments		5,039,485				
Fixed assets		1,287,247				
Intangible assets		-				
Other assets		29,571				
Total assets		8,153,789				
Current liability	Before distribution	1,600,857				
	After distribution	1,821,925				
Long-term liabilities		1,128,769				
Other Liabilities		658,594				
Total liabilities	Before distribution	3,388,220				
	After distribution	3,609,288				
Capital		884,272				
Capital reserve		464,937				
Retained earnings	Before distribution	2,936,353				
	After distribution	2,715,285				
Unrealized gains or losses of financial products		-				
Unrealized revaluation increments		338,397				
Accumulated translation adjustments		141,610				
Not recognized as retirement pension Net loss of costs		-				
Total Shareholders' equity	Before distribution	4,765,569				
	After distribution	4,544,501				

Note 1: The Company has adopted Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), recognized by the Financial Supervisory Commission, R.O.C. (Taiwan) in 2015. Please see the explanation from the above "1. Condensed Balance Sheet - Adoption of IFRS (2) Individual Statement" for details.

Note 2: The financial data has been examined and certified by the CPAs.

(III) Individual Consolidated Concise Income Statement - International Financial Reporting Standards  
1. Consolidated

Unit: NT\$1,000

Items \ Year	Financial information for the past five years				
	2014	2015	2016	2017	2018
Operating revenue		14,421,835	14,473,785	14,615,008	16,022,220
Gross profit		4,280,863	4,608,708	3,922,991	3,807,414
Operating gain (loss)		1,620,404	1,856,204	1,192,972	901,010
Non-operating income and expenses		(73,417)	26,154	(32,219)	134,802
Pre-tax profit		1,546,987	1,882,358	1,160,753	1,035,812
Income from Continuing Operations after Tax		1,089,949	1,391,063	917,003	716,630
Losses from discontinued operation		-	-	-	-
Net profit (loss) in this period		1,089,949	1,391,063	917,003	716,630
Other comprehensive income of the year (Net income after tax)		(6,394)	(136,448)	(260,582)	(267,886)
Total Consolidated Profit/Loss for the Current Period		1,083,555	1,254,615	656,421	448,744
Profit attributable to: Owners of parent		1,032,044	1,325,219	881,874	672,775
Profit attributable to: Non-controlling Interests		57,905	65,844	35,129	43,855
Comprehensive income (loss) attributable to owners of parent Company		1,043,012	1,181,401	635,626	400,327
Comprehensive income (loss) attributable to non-controlling interests		40,543	73,214	20,795	48,417
Earnings per share		10.59	13.32	8.22	6.15

Note 1: The Company has adopted Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), recognized by the Financial Supervisory Commission, R.O.C. (Taiwan) in 2015, and has recompiled the financial information for 2014. Financial information from years 2013 and 2014 are prepared using ROC GAAP. Please see the explanation from the following “4. Condensed Income Statement - Adoption of ROC GAAP (1) Consolidated Statement” for details.

Note 2: The financial data has been examined and certified by the CPAs.

## 2. Individual

Unit: NT\$1,000

Items \ Year	Financial information for the past five years				
	2014	2015	2016	2017	2018
Operating revenue	4,513,909	4,491,512	4,629,732	5,146,035	5,321,256
Gross profit	812,779	1,054,335	1,277,854	1,322,046	1,246,837
Operating gain (loss)	192,878	387,851	388,246	500,434	362,029
Non-operating income and expenses	542,645	865,131	1,205,098	558,339	495,037
Pre-tax profit	735,523	1,252,982	1,593,344	1,058,773	857,066
Income from Continuing Operations after Tax	663,033	1,032,044	1,325,219	881,874	672,775
Losses from discontinued operation	-	-	-	-	-
Net profit (loss) in this period	663,033	1,032,044	1,325,219	881,874	672,775
Other comprehensive income of the year (Net income after tax)	110,445	10,968	(143,818)	(246,248)	(272,448)
Total Consolidated Profit/Loss for the Current Period	773,478	1,043,012	1,181,401	635,626	400,327
Profit attributable to: Owners of parent	663,033	1,032,044	1,325,219	881,874	672,775
Profit attributable to: Non-controlling Interests	-	-	-	-	-
Comprehensive income (loss) attributable to owners of parent Company	773,478	1,043,012	1,181,401	635,626	400,327
Comprehensive income (loss) attributable to non-controlling interests	-	-	-	-	-
Earnings per share	6.8	10.59	13.32	8.22	6.15

Note 1: The Company has adopted Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), recognized by the Financial Supervisory Commission, R.O.C. (Taiwan) in 2015, and has recompiled the financial information for 2014. Financial information from years 2013 and 2014 are prepared using ROC GAAP. Please see the explanation from the following “4. Condensed Income Statement - Adoption of ROC GAAP (1) Individual Statement” for details.

Note 2: The financial data has been examined and certified by the CPAs.

(IV) Condensed Income Statement – Adoption the ROC GAAP

1. Consolidated

Unit: NT\$1,000

Item \ Year	Financial information for the past five years				
	2014	2015	2016	2017	2018
Operating revenue	14,503,858				
Gross profit	3,517,554				
Operating gain (loss)	847,801				
Non-operating revenues and gains	244,719				
Non-operating expenses and losses	146,069				
Continuing operation business departments Profit before tax	946,451				
Continuing operation business departments Profit and loss	714,705				
Gain (loss) of discontinued operations	-				
Gain (loss) of extraordinary items	-				
Cumulative effect of changes in accounting principle	-				
Net Gain (Loss) of the Investee	714,705				
Earnings per share	6.80				

Note 1: The Company has adopted Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), recognized by the Financial Supervisory Commission, R.O.C. (Taiwan) in 2015. Please see the explanation from the above “3. Condensed Income Statement - Adoption of IFRS (1) Consolidated Statement” for details.

Note 2: The financial data has been examined and certified by the CPAs.

## 2. Individual

Unit: NT\$1,000

Item \ Year	Financial information for the past five years				
	2014	2015	2016	2017	2018
Operating revenue	4,513,909				
Gross profit	835,031				
Unrealized profit of the affiliates	22,689				
Operating gain (loss)	192,130				
Non-operating revenues and gains	585,069				
Non-operating expenses and losses	24,777				
Continuing operation business departments Profit before tax	752,422				
Continuing operation business departments Profit and loss	676,091				
Gain (loss) of discontinued operations	-				
Gain (loss) of extraordinary items	-				
Cumulative effect of changes in accounting principle	-				
Net Gain (Loss) of the Investee	676,091				
Earnings per share	6.80				

Note 1: the Company has adopted Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), recognized by the Financial Supervisory Commission, R.O.C. (Taiwan) in 2015. Please see the explanation from the above “3. Condensed Income Statement - Adoption of IFRS (2) Individual Statement” for details.

Note 2: The financial data has been examined and certified by the CPAs.

### (V) CPA Audit Opinion for the Past Five Years

Year	Name of the accounting firm	Name of the PCA	Audit opinions
2014	KPMG	Yang, Liu-Feng, Chiang, Chung-Yi	Unqualified opinion
2015	KPMG	Yang, Liu-Feng, Chiang, Chung-Yi	Unqualified opinion
2016	Deloitte & Touche Taiwan	Liao, Hung-Ju, Kung, Chun-Chi	Unqualified opinion
2017	Deloitte & Touche Taiwan	Liao, Hung-Ju, Kung, Chun-Chi	Unqualified opinion
2018	Deloitte & Touche Taiwan	Liao, Hung-Ju, Kung, Chun-Chi	Unqualified opinion Adding extra sections

## II. Financial Analyses for the past five years

### (I) Individual financial analysis - Adoption of IFRS

#### 1. Consolidated

Item analyzed		Year	Financial analysis of the past five years				
			2014	2015	2016	2017	2018
Financial structure%	Liability to asset ratio		55.3	51.11	48.61	46.60	40.36
	Long-term funds to property, plant and equipment ratio		302.76	323.59	349.84	319.48	319.66
Solvency (%)	Current ratio		185.04	207.00	212.28	224.93	226.78
	Quick ratio		140.12	162.19	171.24	171.82	170.91
	Interest protection multiples		17.71	38.32	43.49	24.54	17.79
Operating performance	Receivables turnover ratio (times)		4.45	4.05	4.45	4.49	4.50
	Average collection days		82	90	82	81	81
	Inventory turnover ratio (times)		6.8	6.00	5.88	5.40	5.31
	Payables turnover ratio (times)		7.28	5.02	5.05	5.21	6.17
	Average inventory turnover days		54	61	62	68	69
	Property, plant, and equipment (PP&E) turnover ratio (times)		6.77	6.10	5.66	4.86	4.39
	Total asset turnover ratio (times)		1.43	1.26	1.13	1.01	0.98
Profitability	Return on assets (%)		7.32	9.81	11.08	6.55	4.67
	Return on equity (%)		15.4	20.37	21.55	12.03	7.76
	Ratio of pre-tax income to paid-in capital (%)		104.76	166.61	181.89	106.86	85.91
	Net profit margin (%)		4.82	7.56	9.61	6.27	4.47
	Earnings per share (NT\$)		6.8	10.59	13.32	8.22	6.15
Cash flow	Cash flow ratio (%)		12.23	51.91	35.02	17.03	3.31
	Cash flow adequacy ratio (%)		114.13	242.02	202.89	122.04	92.15
	Cash re-investment ratio (%)		4.22	18.24	10.89	1.90	-
Degree of leverages	Degree of operating leverage (DOL)		1.98	1.52	1.49	1.79	2.12
	Degree of financial leverage (DFL)		1.07	1.03	1.02	1.04	1.07
Information regarding the causes of changes in the various financial ratios in the last two years (analysis would not be required if the change is within 20%)							
1. The decline in interest coverage ratio and profitability: Mostly due to the inflation of raw material costs, leading to a decline in gross margin and net profit.							
2. The decline in liquidity ratios: Mostly due to the decline in profit before tax, leading to a decline in operating cash inflow.							
3. The increase in operating leverage: Mostly due to a decline in operating net profit.							

Note 1: The financial information above has been audited by CPAs.

Note 2: Please see Pages105 for the calculation formula of the aforementioned financial ratios.

## 2. Individual

Item analyzed		Financial analysis of the past five years				
		2013	2014	2015	2016	2017
Financial structure%	Liability to asset ratio	42.91	39.01	38.34	37.86	28.97
	Long-term funds to property, plant and equipment ratio	557.49	556.04	627.55	601.76	676.75
Solvency (%)	Current ratio	111.09	120.89	119.59	120.23	146.05
	Quick ratio	79.74	93.01	98.31	89.65	112.17
	Interest protection multiples	34.42	62.27	77.32	41.28	33.2
Operating performance	Receivables turnover ratio (times)	4.75	4.45	4.34	4.47	4.56
	Average collection days	77	82	84	82	80
	Inventory turnover ratio (times)	7.88	7.69	7.97	7.09	6.71
	Payables turnover ratio (times)	7.04	5.61	5.03	5.09	5.03
	Average inventory turnover days	46	47	46	51	54
	Property, plant, and equipment (PP&E) turnover ratio (times)	3.91	3.52	3.35	3.39	3.16
	Total asset turnover ratio (times)	0.58	0.52	0.46	0.45	0.42
Profitability	Return on assets (%)	8.83	12.15	13.38	7.85	5.43
	Return on equity (%)	15.22	20.21	21.53	12.38	7.88
	Ratio of pre-tax income to paid-in capital (%)	83.18	134.95	153.96	97.47	71.08
	Net profit margin (%)	14.69	22.98	28.62	17.14	12.64
	Earnings per share (NT\$)	6.8	10.59	13.32	8.22	6.15
Cash flow	Cash flow ratio (%)	15.29	42.03	12.37	10.76	6.99
	Cash flow adequacy ratio (%)	104.14	140.1	95.41	59.13	49.72
	Cash re-investment ratio (%)	1.21	4.72	-	-	-
Degree of leverages	Degree of operating leverage (DOL)	2.47	1.77	2.01	1.63	2.05
	Degree of financial leverage (DFL)	1.13	1.06	1.06	1.06	1.08
Information regarding the causes of changes in the various financial ratios in the last two years (analysis would not be required if the change is within 20%)						
<ol style="list-style-type: none"> <li>1. Decrease in debt-to-asset ratio: It was due mainly to repayment of borrowings arising from capital cash increase in order to increase equity.</li> <li>2. Increase in liquidity ratio and quick ratio: It was due mainly to repayment of short-term borrowings in order to reduce liabilities.</li> <li>3. Decrease in profitability-related ratios: It was due mainly to rising raw material costs which led to a decrease in investment income from parent company.</li> <li>4. Decrease in cash flow ratio: It was due mainly to payment of higher income tax in the current period.</li> <li>5. Increase in operating leverage: It was due mainly to rising raw material costs which led to a decrease in operating profit.</li> </ol>						

Note 1: The financial information above has been audited by CPAs.

Note 2: Please see Pages105 for the calculation formula of the aforementioned financial ratios.

## (II) Financial Analyses – Adoption the ROC GAAP

### 1. Consolidated

Item analyzed		Year	Financial analysis of the past five years				
			2014	2016	2016	2017	2018
Financial structure%	Liability to asset ratio		54.29				
	Long-term capital as a proportion of fixed assets		296.62				
Solvency (%)	Current ratio		185.74				
	Quick ratio		140.82				
	Interest protection multiples		18.07				
Operating performance	Receivables turnover ratio (times)		4.79				
	Average collection days		76				
	Inventory turnover ratio (times)		6.80				
	Payables turnover ratio (times)		7.28				
	Average inventory turnover days		54				
	Fixed assets turnover ratio (times)		6.81				
	Total asset turnover ratio (times)		1.44				
Profitability	Return on assets (%)		7.54				
	Return on shareholder's equity (%)		15.56				
	Percentage Capital Ratio (%)	Operating profit	113.31				
		Pre-tax profit	108.69				
	Net profit margin (%)		4.93				
	Earnings per share (NT\$)		6.80				
Cash flow	Cash flow ratio (%)		18.13				
	Cash flow adequacy ratio (%)		121.14				
	Cash re-investment ratio (%)		7.38				
Degree of leverages	Degree of operating leverage (DOL)		1.98				
	Degree of financial leverage (DFL)		1.07				

Note 1: The financial information above has been audited by CPAs.

Note 2: Please see Pages105 for the calculation formula of the aforementioned financial ratios.



## 2. Individual

Item analyzed		Year	Financial analysis of the past five years				
			2014	2015	2016	2017	2018
Financial structure%	Liability to asset ratio		41.55				
	Long-term capital as a proportion of fixed assets		509.07				
Solvency (%)	Current ratio		112.28				
	Quick ratio		80.93				
	Interest protection multiples		35.18				
Operating performance	Receivables turnover ratio (times)		4.75				
	Average collection days		77				
	Inventory turnover ratio (times)		7.83				
	Payables turnover ratio (times)		7.00				
	Average inventory turnover days		47				
	Fixed asset turnover ratio (times)		3.69				
	Total asset turnover ratio (times)		0.59				
Profitability	Return on assets (%)		9.08				
	Return on shareholder's equity (%)		15.32				
	Percentage Capital Ratio (%)	Operating profit	21.73				
		Pre-tax profit	85.09				
	Net profit margin (%)		14.98				
	Earnings per share (NT\$)		6.80				
Cash flow	Cash flow ratio (%)		23.27				
	Cash flow adequacy ratio (%)		89.68				
	Cash re-investment ratio (%)		3.75				
Degree of leverages	Degree of operating leverage (DOL)		3.02				
	Degree of financial leverage (DFL)		1.13				

Note 1: The financial information above has been audited by CPAs.

Note 2: Please see Pages105 for the calculation formula of the aforementioned financial ratios.

The calculation formulas are as follows:

1. Financial structure
  - (1) Liability to asset ratio = Total liabilities/total assets
  - (2) Long-term funds to fixed asset ratio = (net shareholders' equity + long-term liabilities)/net fixed assets
2. Debt-paying ability
  - (1) Current ratio = Current assets/Current liabilities
  - (2) Quick ratio = (Current asset - inventories)/Current liabilities
  - (3) Interest coverage ratio = Earnings before interests and taxes (EBIT)/Interest expenses over this period
3. Operating ability
  - (1) Receivables turnover rate (including bills receivable resulting from accounts receivable and business operations) = Net sales/Average accounts receivable in various periods (including bills receivable resulting from accounts receivable and business operations)
  - (2) Average collection days = 365/Receivables turnover ratio
  - (3) Inventory turnover ratio = Cost of sales/Average inventory value
  - (4) Payables turnover rate (including bills payable resulting from accounts payable and business operations) = Cost of sales/Average accounts payable in various periods (including bills payable resulting from accounts payable and business operations)
  - (5) Average inventory turnover days = 365/Inventory turnover ratio
  - (6) Fixed assets turnover rate = net sales/average net fixed assets
  - (7) Total inventory turnover rate = Net sales/Average total asset value
4. Return on investments
  - (1) Return on assets (ROA) = [ Gain (loss) after tax + Interest expenses x (1 - interest rates)]/Average total asset value
  - (2) Return on Equity (ROE) = Gain (loss) after tax/average net equity
  - (3) Net profit rate = Gain (loss) after tax/Net sales
  - (4) Earnings per share = (net profit after taxes - special stock dividend)/weighted average issued number of shares
5. Cash flow
  - (1) Cash flow ratio = Net cash flow of business activities/Current liabilities
  - (2) Net cash flow adequacy ratio = Net cash flow for business activities in the 5 most recent years/(capital expenditure + inventory increase + cash dividends) for the 5 most recent years
  - (3) Cash re-investment ratio = (net cash flow for business activities - cash dividends)/(gross value of fixed assets + long-term investments + other assets + working capital)
6. Degree of leverages
  - (1) Degree of operating leverage (DOL) = (Net operating revenue - operating change costs and expenses)/Operation profit
  - (2) Degree of financial leverage (DFL) = Operating profit / (Operating profit - interest expenses).

**III. Audit Committee's review reports on financial statements in the most recent year**

**Nan Pao Resins Chemical Co., Ltd.**

The 2018 Business Report, Financial Statements, and Profit Distribution Proposal are submitted by the Company's Board of Directors. The Financial Statements have been audited by CPA Liao, Hung-Ju and CPA Kung, Chun-Chi from Deloitte & Touche Taiwan, and a CPA Audit Report have been issued. The aforementioned Business Report, Financial Statements, and Profit Distribution Proposal have been audited by this Audit Committee, , and the Committee does not see any discrepancies. The report is made according to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act. Please review accordingly.

To

2019 Annual General Meeting

Nan Pao Resins Chemical Co., Ltd.

Audit Committee Chair: Chen, Yun

On March 21, 2019

**IV. Most recent Financial Reports: Please refer to Appendix 1 of the Annual Report**

**V. Parent Company Only Financial Statements audited and attested by a CPA for the most recent year: Please refer to Appendix 2 of the Annual Report.**

**VI. Any financial difficulties experienced by the Company and its affiliated companies during the most recent year up to the publication date of this annual report, as well as the impact of the aforesaid difficulties on the financial position of the Company, shall be listed: None**

## Chapter VII FINANCIAL CONDITION AND PERFORMANCE ANALYSIS AND RISK

### I. Financial Status

Unit: thousand NT\$; %

Item \ Year	2017	2018	Changes to increase (decrease)	
			Sum	%
Current asset	10,137,504	10,669,750	532,246	5
Investment using equity method	278,451	292,180	13,729	5
Property, plant, and equipment	3,346,729	3,959,992	613,263	18
Other non-current assets	1,436,458	2,441,531	1,005,073	70
Total asset	15,199,142	17,363,453	2,164,311	14
Current liabilities	4,506,918	4,704,901	197,983	4
Long-term liabilities	1,604,339	1,392,070	(212,269)	(13)
Other noncurrent liabilities	972,090	911,412	(60,678)	(6)
Total liabilities	7,083,347	7,008,383	(74,964)	(1)
Capital	1,086,207	1,205,707	119,500	11
Capital reserve	1,290,212	2,108,235	818,023	63
Retained Earnings	5,372,538	5,509,571	137,033	3
Other Equity	(291,717)	804,110	1,095,827	(376)
Non-controlling Interests	658,555	727,447	68,892	10
Total equity	8,115,795	10,355,070	2,239,275	28
Main reasons and impact of any material change in the company's assets, liabilities, or shareholders' equity during the past two fiscal years (changes that exceed 20% between periods and a value of NT\$10 million):				
1. Increase in other non-current assets: It was due mainly to the re-measurement of investments in stock not listed on TWSE (TPEX) at fair value according to IFRS 9.				
2. Increase in capital reserve: It was due mainly to cash capital increase in November 2018, as well as the recognition of premium in capital reserve.				
3. Increase in other equity: It was due mainly to the re-measurement of investments in stock not listed on TWSE (TPEX) at fair value according to IFRS 9.				
4. Increase in total equity: It was due mainly to the re-measurement of investments in stock not listed on TWSE (TPEX) at fair value according to IFRS 9, as well as cash capital increase.				

## II. Financial Performance

### (I) Analysis of changes to business outcomes over the past two fiscal years

Unit: thousand NT\$; %

Items	Year	2017	2018	Changes to increase(decrease)	
				Amount	%
Net operating revenue		14,615,008	16,022,220	1,407,212	10
Operating cost		10,692,017	12,214,806	1,522,789	14
Gross profit		3,922,991	3,807,414	(115,577)	(3)
Operating expenses		2,730,019	2,906,404	176,385	6
Operating (loss) income		1,192,972	901,010	(291,962)	(24)
Non-operating income and expenses		(32,219)	134,802	167,021	(-518)
Net income (loss) before tax		1,160,753	1,035,812	(124,941)	(11)
Income tax gains (expenses)		(243,750)	(319,182)	(75,432)	31
Net income (loss) before tax		917,003	716,630	(200,373)	(22)
Other comprehensive income of the year		(260,582)	(267,886)	(7,304)	3
Total Consolidated Profit/Loss for the Current Period		656,421	448,744	(207,677)	(32)

Main reasons and impact of any material change in the company's consolidated operating income, net operating profit, and net profit before tax during the past two fiscal years (changes that exceed 20% between periods and a value of NT\$10 million):

1. Decrease in operating profit: It was due mainly to the increase in raw material costs and sales expenses in the current period.
2. Increase in non-operating income and expenses: It was due mainly to the increase in foreign currency interest resulted from exchange rate fluctuations, as well as the increase in dividend income in 2018.
3. Increase in income tax (expenses): It was due mainly to the adjustment of income tax from 17% to 20% resulted from the amendment of the Income Tax Act of the Republic of China, as well as the adjustment of income tax expense in the previous year recognized by the parent company and subsidiaries in Vietnam.
4. Decrease in net income after tax: It was due mainly to the decrease in operating income and the increase in income tax expense.
5. Decrease in total comprehensive income for the current period: It was due mainly to the decrease in operating profit and the increase in income tax expense.

### (II) The expectation on sales volume and basis forming the expectation, the impacts on the Company's financial condition and business and the mitigation efforts.

The Company's expected sales volume is forecasted based on the Company's business plan, predicted market demand, industry competitiveness, and business outlook of major customers. The Company will continue to invest in R&D to maintain technical progress and to continuously enhance product quality, and strive to enhance customer coverage rate and expand market share. We anticipate to maintain certain degree of growth over the next year.

### III. Cash flow

#### (I) Analysis of changes to cash flow over the past two fiscal years

Unit: thousand NT\$; %

Items	2017	2018	Changes to increase(decrease)	
			Amount	%
Operating activities	767,652	155,920	(611,732)	(79.69)
Investment activity	(1,131,784)	(688,274)	443,510	(39.19)
Financing activity	279,715	307,123	27,408	9.80
Cash net increase (decrease)	(410,493)	(187,239)	223,254	(54.39)
Analysis on increase/decrease in ratio:				
1. Decrease in net cash inflow from operating activities: It was due mainly to revenue growth, as well as the increase in year-end receivables and inventory.				
2. Decrease in net cash outflow from investing activities: It was due mainly to the decrease in deposits with a maturity of more than 3 months, as well as the decrease in capital expenditure for the current period.				
3. Increase in net cash inflow from financing activities: It was due mainly to the increase in net cash inflow generated from the issuance of new shares, repayment of borrowings and cash dividends.				

#### (II) Improvement plans for liquidity shortage

The Company will use bank borrowings or capital increase should capital needs arise; therefore, cash liquidity is still sufficient.

#### (III) Analysis of cash liquidity for the next year

Unit: NT\$1,000

Opening cash balance	Expected net cash flow resulting from the year's operating activities.	Expected net cash flow resulting from the year's investment activities.	Expected net cash flow resulting from the year's financing activities.	Expected sum of cash surplus (inadequacy)
3,679,348	813,055	(805,709)	97,146	3,783,840
Explanation:				
1. Operating activities: mostly net cash inflow from operating profit.				
2. Investment activities: capital expenditure will lead to cash outflow.				
3. Financing activities: cash inflow is expected after repayment of debts after capital increase.				

### IV. Material expenditures of the most recent year and impact to the Company's finances and operations

The Company's major capital expenditures in 2018 not only included replacement of old equipment and purchase of new equipment for the production of new products at the parent company, but also comprised the construction of new factory at Central Taiwan Science Park for the purpose of expanding the operations of reinvestment company, Prince Pharmaceutical Co., Ltd. The major source of funding is the Company's own funds. Bank borrowings are used to cover any insufficiency and do not have any material impact on the Company's finances and operations.

### V. Investment policy for the most recent fiscal year, the main reasons for the profits/losses generated thereby, the plan for improving profitability, and investment plans for the coming year.

#### (I) Reinvestment policy for the most recent year

The Company's reinvestment strategies are mostly focused on the applications of our core

business “resin.” In addition, reinvestments are structured according to industry developmental trends, to serve local customers, and to reduce production costs, as well as diversified management policies (e.g. investing in health care and biotech industries) to enhance competitiveness and to benefit the Company’s long-term development objectives. Relevant execution departments undertake investment-related affairs in compliance with the internal control “investment cycle” and “Procedures to Handle Acquisition or Disposal of Assets.” In addition, the Company also maintains a constant focus on the operating status of invested businesses for subsequent management.

(II) Major reasons for profit or loss and improvement plan

There have been profits and losses from invested businesses due to market segmentation. In the future, the Group will continue to undertake the effective allocation of resources to maintain overall management performance and stable growth and profit. The investment income recognized by the Company in 2018 using equity method is NT\$ 381,640 thousand. Please refer to “8. Special Items: 1. Information on affiliated companies: (1) Consolidated Business Report from Affiliated Companies - 6. Overview of Affiliates’ Operations” for profit or loss from reinvestments. For the loss-making investment businesses, the Company will pay attention to their industry trends at all times and attempt to expand various business opportunities, and commit to internal process improvement and optimization of cost structure, on top of actively promoting product quality to enhance product value.

(III) Investment Plans in the Upcoming Year

In response to the future market changes and challenges, the Company will carefully evaluate the investment plans from a long-term and strategic perspective to enhance global competitiveness. In line with the Group’s sustainable development strategy in the Southern China region, the main investment plan for the coming year is the purchase of land in the Southern China Chemical Industry Zone through subsidiary Nanpao Advanced Investment Co., Ltd. to construct Yunan Plant in China, which is expected to replace Nan Pao Resins (Foshan) Co., Ltd. and Fuqing Nan Pao Resins Co., Ltd. in the future.

## **VI. Analysis of Risk Management**

The following matters pertain the past year and up until the publication of the Annual Report:

(I) The Impact and Future Mitigation Efforts to Risks Associated with Interest Rate Fluctuation, Foreign Exchange Volatility, and Inflation:

1. Interest rate: The Company’s interest expense in 2018 was NT\$ 61,694 thousand, accounting for 0.39% of the net operating revenue for the year. As the global economy recovers, interest rates are expected to be raised in the future. The Company will make appropriate fund utilization plans based on changes in interest rates in the financial market. We will also evaluate bank borrowing rates from time to time and strive for preferential interest rates to achieve economies of scale.
2. Exchange rate: The Company’s net exchange loss for 2018 was a loss of NT\$ 19,090 thousand, accounting for 0.12% on the net operating revenue for the year. The Company is mainly export-oriented; therefore, the exchange rate changes have a certain impact on the Company. Nevertheless, besides using the US\$ as the denomination currency for certain purchases and sales transactions, creating a natural hedging effect, in the future, we will also consider forward exchange contracts to effectively lower the risk of fluctuation in exchange.
3. Inflation: Inflation has no significant impact on the Company, and the Company is always aware of fluctuations in market prices and maintains good interaction with suppliers and customers to avoid adverse effects of inflation on the Company’s profit and loss.

(II) The policies to engage in high-risk, high-leverage investments, lending funds to others, endorsements and guarantees, and the transactions of derivative products, the main reasons for profits and losses, and the future countermeasures:

1. The policies to engage in high-risk, high-leverage investments, the main reasons for profits and losses, and the future countermeasures: the Company is focused on management of our core business, and based on the principle of prudence, the Company has not engaged in high-risk, high-leverage investments in the past year and up until the printing of this Annual Report.
2. The policies to engage in lending funds to others, endorsements and guarantees, and the main reasons for profits and losses, and the future countermeasures: the Company is focused on management of our core business and has adopted the principle of prudence as financial policy, and does not engage in derivative transactions. Besides to subsidiaries with absolute control rights or for business needs, the Company does not provide endorsement guarantees or lending of funds to others in principle. The Company has established “Procedures for Lending of Funds to Others and Provision of Endorsement/Guarantee,” which has been approved by the Shareholders’ Meeting. When undertaking related procedures, the Company will follow the relevant work procedures and legal regulations, and to immediately and accurately announce relevant information.

(III) Future R&D Projects and Estimated R&D Expenditure:

1. Future R&D Plan: the Company’s future R&D plans include: internally, we will expand research directions in line with diversified management strategies, and work toward environmental protection (water-based / high-cure, low-toxic and low-VOC (organic volatile components)), energy-saving (UV (ultraviolet light) hardening, normal / low temperature applications, process optimization and automation), carbon reduction (process simplification and quality) Material application) and quality optimization. These efforts will help us to reduce costs and enhance competitiveness. Externally, we will provide customized services, energy-saving, and high-efficiency products and effective solutions to customers to enhance customer relationships, increase market share, and the added-values of products.
2. Expected R&D expense: the Company invested NT\$ 419,850 thousand in R&D expense in 2018, accounting for 2.62% of the revenue. To ensure and enhance the Company’s competitive advantage, we will continue to invest in R&D expense and to flexibly adjust such expense upon operational status and future demand. It’s expected to invest 2% to 5% of the revenue as R&D expenses in 2019.

(IV) The Impacts of Changes of Important Domestic and Foreign Policies and Laws on the Company’s Finances and Business, and the Countermeasures:

Besides following domestic and international legal regulations on a day-to-day basis, the Company and subsidiaries also pay attention to changes in domestic and overseas political development, trends, and legal regulations at all times to be fully aware of and to respond to market environmental changes. Therefore, in the past year and until the date of printing of this Annual Report, the changes in domestic and international policies and regulations have not had significant impacts on the Company and subsidiaries’ finance and business.

(V) Technology and industry changes that have an impact on this company’s finances and response measures:

The Company pays close attention to the technology, development, and changes in the industry, and quickly seizes the industry dynamics, continuously improves R&D and production capacity and actively expands the product application market to generate profit. We make timely



product adjustments to cater to different customers' needs, and at the same time, we seize technology or industry changes to timely adjust the objective of our development efforts. Therefore, technology and industry changes have not posed significant influences on the Company's finance and business.

(VI) The Impacts of Change of Corporate Image on the Enterprise Crisis Management and the Countermeasures:

Since our establishment, the Company has always adhered to the principle of good faith and the principle of prudent management and has maintained a good corporate image, complying with the relevant local laws and regulations at home and abroad, and maintains a harmonious employment relationship to secure our positive corporate image. As of the date of printing of the Annual Report, the Company was not subjected to enterprise crisis management due to corporate image change.

(VII) Expected benefits and possible risks of mergers and response measures:

As of the date of printing of the Annual Report, the Company has not had plans to merge with other companies. If M&A plans should arise in the future, we will maintain a cautious, speculative attitude and fully consider the synergies of the merger to protect shareholders' rights in practice.

(VIII) Expected benefits and possible risks of expanding factory buildings and response measures:

Expansions of Company plants are carefully evaluated based on current capacity and future operational growth. We have also considered investment benefits and possible risks, and material capital expenditures are all submitted to the Board of Directors for review.

(IX) The Risk and Future Mitigation Efforts to Risks Associated with Purchase Concentration and Sales Concentration:

1. Purchase

Currently, the Company does not have conditions of purchase concentration. The Company maintains two or more suppliers for key raw materials, and always maintains a positive and stable partnership with suppliers. Besides being fully aware of the sources of raw materials, the Company also maintains strict control over product quality and delivery schedule to ensure that there is sufficient supply of major raw materials.

2. Sales

Currently, the Company does not have conditions of sales concentration, and as our operational scale expands, we also continue to develop new products and customers to help with lowering the risk of sales concentration. In the past two years, transacting customers are dispersed and we do not exceed 10% for most of the sales in each year. We have yet to run into problems with over-concentration.

(X) Impacts, risks, and response measures resulting from major equity transfer or replacement of directors, supervisors, or shareholders holding more than 10% of the Corporation's shares.

In the last year and up until the printing of this Annual Report, there has not been any major equity transfer or change by directors, supervisor, or major shareholders that hold more than 10% of the company's shares.

(XI) Impact, risk, and response measures related to any change in the administrative authority towards the Company's operations:

In the last year and up until the printing of this Annual Report, the Company's management has been solid and has not had changes in the administrative authority. The Company has reinforced various corporate governance measures, introduced Independent Directors,

established the Audit Committee, and the management level all strive to enhance operational performance to protect the shareholders' rights.

(XII) Litigation or non-litigious matters

Confirmed judgment, ongoing litigation, and non-litigation or administrative disputes involving the Company's Director, Supervisor, president, responsible person, and stockholder that hold more than 10% of the Company's stock in the last two years and up to the printing of this Annual Report that can have a significant impact on shareholders' equity or securities prices:

1. The lawsuits in which the Company is currently involved are shown as follows. However, the verdict of these cases did not have any material adverse impact on the Company's finances and sales:

(1) Lawsuit against Crown Chemical for payments

In November 2014, the Company sold US\$94,000 worth of products to Crown Chemical LLC (hereinafter referred to as "Crown Chemical"), a customer located in the Republic of Armenia. However, Crown Chemical owed a cumulative amount of US\$65,000 due to poor operations. The Company's sales personnel continued to push for payment, but was unable to collect the payment. At present, the Company has entrusted local lawyers to carry out the relevant legal procedures, and the case is currently being proceeded by the local court. Since 2015, the Company no longer has business dealings with Crown Chemical. As the amount of accounts receivable is not big, and the amount has been listed as bad debt, this case did not have any material adverse impact on the Company.

(2) Participation in lawsuit against Hsin Yeh Engineering Co., Ltd. and Hsi Chou Industrial Co., Ltd., as well as lawsuit against Hsi Chou Industrial Co., Ltd. for liquidated damages

The defendant, Hsi Chou Industrial Co., Ltd. (hereinafter referred to as "Hsi Chou Industrial") undertook a construction project for Hsin Yeh Engineering Co., Ltd. (hereinafter referred to as "Hsin Yeh Engineering"). Hsi Chou Industrial purchased coatings from the Company for this construction project, and has completed the payment, while the Company has issued a 20-year product warranty. Later, due to severe color difference on the baking varnish and the use of gold oil which was different from the content of the two contracts in this project, Hsin Yeh Engineering and Hsi Chou Industrial previously signed an agreement that if the owner decides to make a claim to Hsin Yeh Engineering, Hsi Chou Industrial agrees to pay the claim in full and liquidated damages worth NT\$430,000. Thereafter, Hsin Yeh Engineering paid the owner NT\$5 million in compensation due to this defect, and thus Hsi Chou Industrial had to pay NT\$5 million and liquidated damages totaled NT\$430,000. However, Hsi Chou Industrial did not pay this amount; therefore, Hsin Yeh Engineering filed a lawsuit on January 15, 2018 to seek a payment totaled NT\$5.43 million plus interest. The Company, along with the plaintiff and the defendant, had legal interests in this lawsuit. Hence, on April 17, 2018, the Company declared its participation in the lawsuit, which is currently being proceeded by Taiwan Tainan District Court.

On August 3, 2018, Hsi Chou Industrial filed a lawsuit to Qiaotou District Court for liquidated damages, in which the amount of claim was NT\$5 million plus interest. The Company has appointed a lawyer to carry out the relevant legal procedures, and this case has been transferred to Taiwan Tainan District Court for trial. The claim of NT\$5 million accounted for 0.74% of net income after tax listed in the Company's parent company-only financial statements in 2018; therefore, this case did not have any material adverse impact on the Company.

2. The lawsuits in which subordinate companies are involved are listed as follows. However, the verdict of these cases did not have any material adverse impact on the Company's finances and sales:

(1) For overdue receivables of some sales customers, subsidiaries such as Prince Pharmaceutical Co., Ltd. and Nan Pao Resins (China) Co., Ltd. urge customers to make the relevant payments as soon as possible through the public authority of the court to protect the rights and interests of these companies. The Company has won some of these cases and the verdict of these cases are currently being enforced, while other cases are currently pending before the court. Each subsidiary also lists the overdue receivables above in allowance for bad debt. Subsidiaries have constantly recovered some outstanding debts from customers.

(2) Lawsuit filed by Ho Kuei Chemicals Co., Ltd. against Nan Pao Chemical Co., Ltd. for liquidated damages due to infringement

In 2007, the Company successfully won the bid to take ownership of mortgaged items owned by Ho Kuei Chemicals Co., Ltd. (hereinafter referred to as "Ho Kuei Chemicals"), including land, buildings, machines and equipment at Taiwan Changhua District Court, and sold these items to Nan Pao Chemical Co., Ltd. for production purposes in the same year. On January 31, 2008, third party Fu Chien Management Consulting Company (hereinafter referred to as "Fu Chien Management") claimed to be the mortgagee of the aforementioned machines and equipment at Taiwan Changhua District Court and sealed up this batch of machines and equipment. Subsidiary Nan Pao Chemical Co., Ltd. has filed for the Third Party of Dissent Action, arguing that Fu Chien Management Consulting Company's claims over the abovementioned machines and equipment were false. However, a fire broke out in subsidiary Nan Pao Chemical Co., Ltd. in January 2010, and the plant and machinery were all burnt down. Hence, the content of the lawsuit was changed to confirming whether the machinery belonged to Nan Pao Chemical Co., Ltd. If the court believed that the machinery was not the property of Nan Pao Chemical Co., Ltd., and was destroyed due to its negligence, Nan Pao Chemical Co., Ltd. would be liable for damage. This civil lawsuit was filed on June 21, 2017. Based on 2017 Verdict No. 395 by Taiwan Supreme Court, the machines and equipment did not belong to subsidiary Nan Pao Chemical Co., Ltd.

At the same time, Ho Kuei Chemical filed a lawsuit for damages for liquidated damages to Taiwan Changhua District Court on January 5, 2012 using the reason that the fire and related damage were caused by negligent use of machines and equipment by Nan Pao Chemical Co., Ltd., with the amount of claim sought totaling NT\$53,102,000. However, Taiwan Changhua District Court ruled on December 18, 2012 that the legal proceedings were suspended based on the 2012 Major Lawsuit No. 5, and the case will be proceeded after confirming the ownership of machines and equipment above. On December 22, 2017, Taiwan Changhua District Court ruled that the ruling to suspend legal proceedings on December 17, 2012 is revoked. Therefore, on June 6, 2018, Ho Kuei Chemicals applied to Taiwan Changhua District Court for reconsidering the case as claim for liquidated damages due to infringement, and made a formal request to investigate the evidence of unjust enrichment arising from the use of Ho Kuei Chemicals' machines and equipment by Nan Pao Chemical Co., Ltd. On June 14, 2017, Nan Pao Chemical Co., Ltd. received a notice from the civil court of Taiwan Changhua District Court. On June 14, 2018, Taiwan Changhua District Court states that the request made by Ho Kuei Chemicals was not related with the case. At present, this case is still pending before the court.

Nevertheless, the amount of claim made by Ho Kuei Chemicals was based on the purchase price of the machines and equipment, and did not factor in depreciation based

on the useful life of property, plant and equipment. This batch of machines and equipment was purchased between 1991 and 2001, and their residual value should not reach NT\$3,102,000. After considering their residual value, Nan Pao Chemical Co., Ltd. listed NT\$38,445,000 as debt provision, which accounted for 5.71% of net profit attributable to the owner listed in the Company's consolidated financial statements in 2018. Hence, this case did not have any material adverse impact on the Company.

(3) Labor dispute at Nan Pao Resins (Foshan) Co., Ltd.

The plaintiff, who is a former employee of the Company who was assigned to subsidiary Nan Pao Resins (Foshan) Co., Ltd., has resigned from the Company, but claimed that Nan Pao Resins (Foshan) Co., Ltd. did not sign a labor contract with him and pay social insurance, thereby leading to labor dispute. The plaintiff requested to confirm the labor contract relationship, and also asked Nan Pao Resins (Foshan) Co., Ltd. to pay compensation and salary totaling RMB588,000 (approximately NT\$2,730,000) for illegal termination of the labor contract. On August 16, 2018, Foshan Sanshui District Labor and Personnel Dispute Arbitration Committee ruled to reject all arbitration requests from the former employee. On August 31, 2018, the former employee made a request to confirm the labor contract relationship, and asked Nan Pao Resins (Foshan) Co., Ltd. to pay compensation and salary totaling RMB662,000 (approximately NT\$3,072,000) for illegal termination of the labor contract. This case is currently pending before the court. The amount of compensation and salary sought accounted for 0.46% of net profit attributable to the owner listed in the Company's consolidated financial statements in 2018. Hence, this case did not have any major adverse impact on the Company.

3. The Company's directors, supervisors, general managers, persons with actual responsibility in the Company, major shareholders holding more than 10 percent of the Company's shares, and subsidiaries are not involved in any lawsuit, non-litigious proceeding, or administrative dispute involving the Company that has been finalized or is currently pending. The verdict of these cases may have a significant impact on shareholders' equity or securities prices.

(XIII) Other material risk and mitigation efforts:

Information security risk assessment:

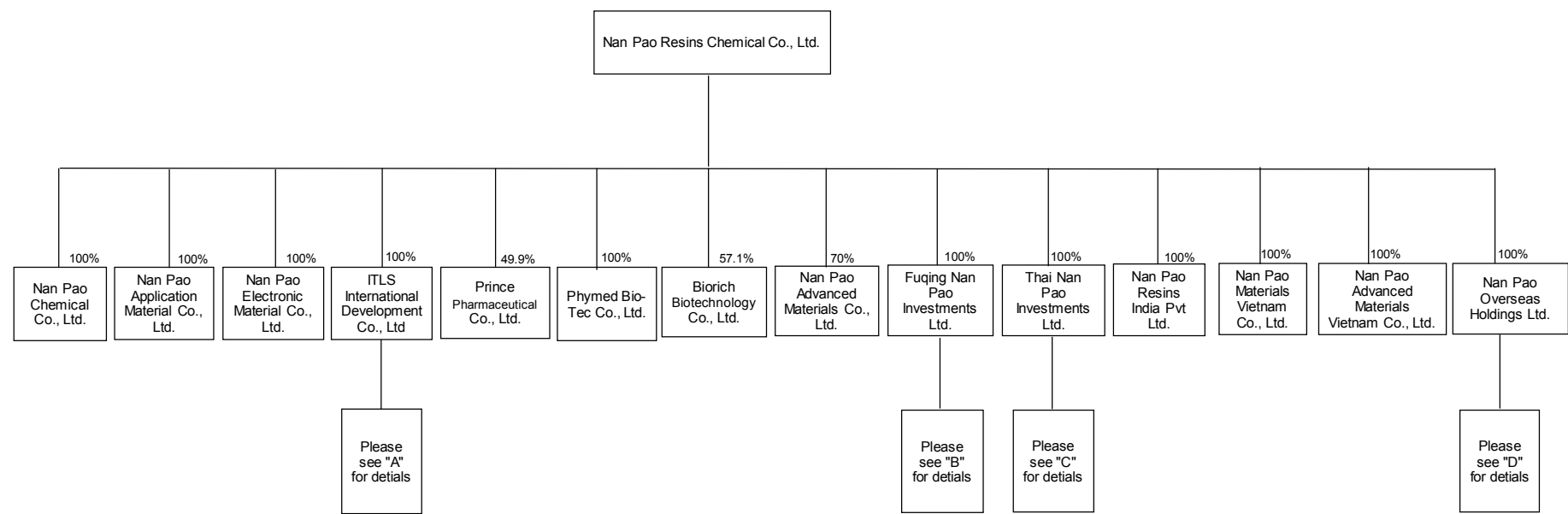
The Company's information system architecture is divided into external attacks and internal threats according to the risk scopes. With regard to external attacks, a firewall and related network devices have been established for external attacks to prevent invasion from external network attacks and causing harm to the Company internally. As for internal threats, a high-availability data backup mechanism and remote host backup have been established to ensure that information services are not interrupted. In addition, the Company enhances various simulation tests in machine rooms and regularly organizes emergency response exercise to ensure that information systems can resume normal operation in the shortest time possible during an attack. In response to the increasing number of information security threats, the Company examines and assesses its network security regulations and procedures to ensure their appropriateness and effectiveness. To implement the concept of employee information security, the Company regularly provides colleagues with the latest information and protection education, so that every employee practices the concept of personal information protection, and to avoid exposure to high-risk information environments.

**VII. Other Important Issues: None.**

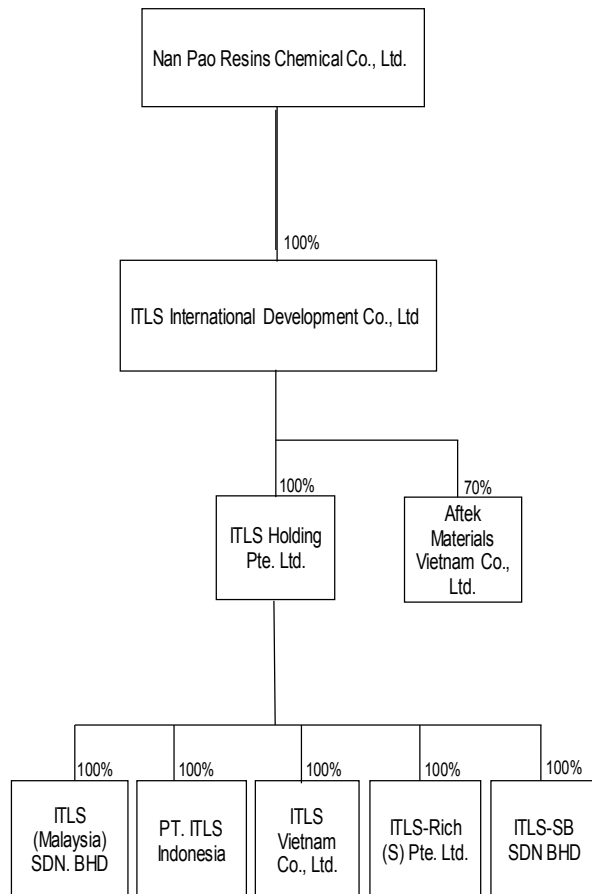
Chapter VIII SPECIAL NOTES

I. Information on Affiliates

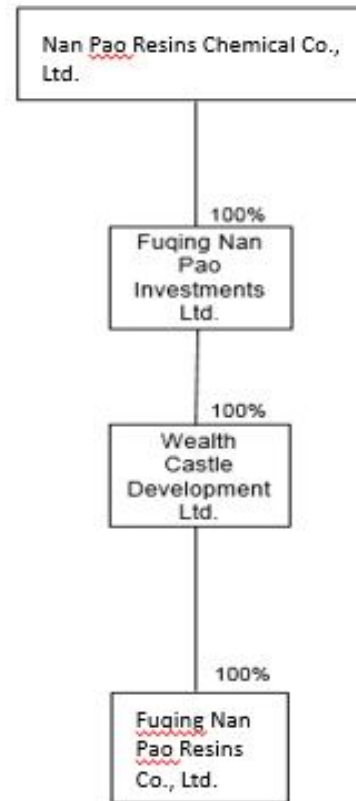
- (I) Consolidated Business Report of the Affiliates
  - 1. Organization structure of affiliated businesses



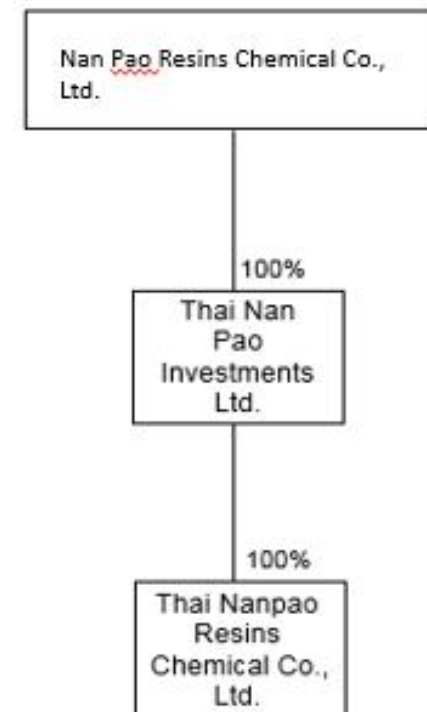
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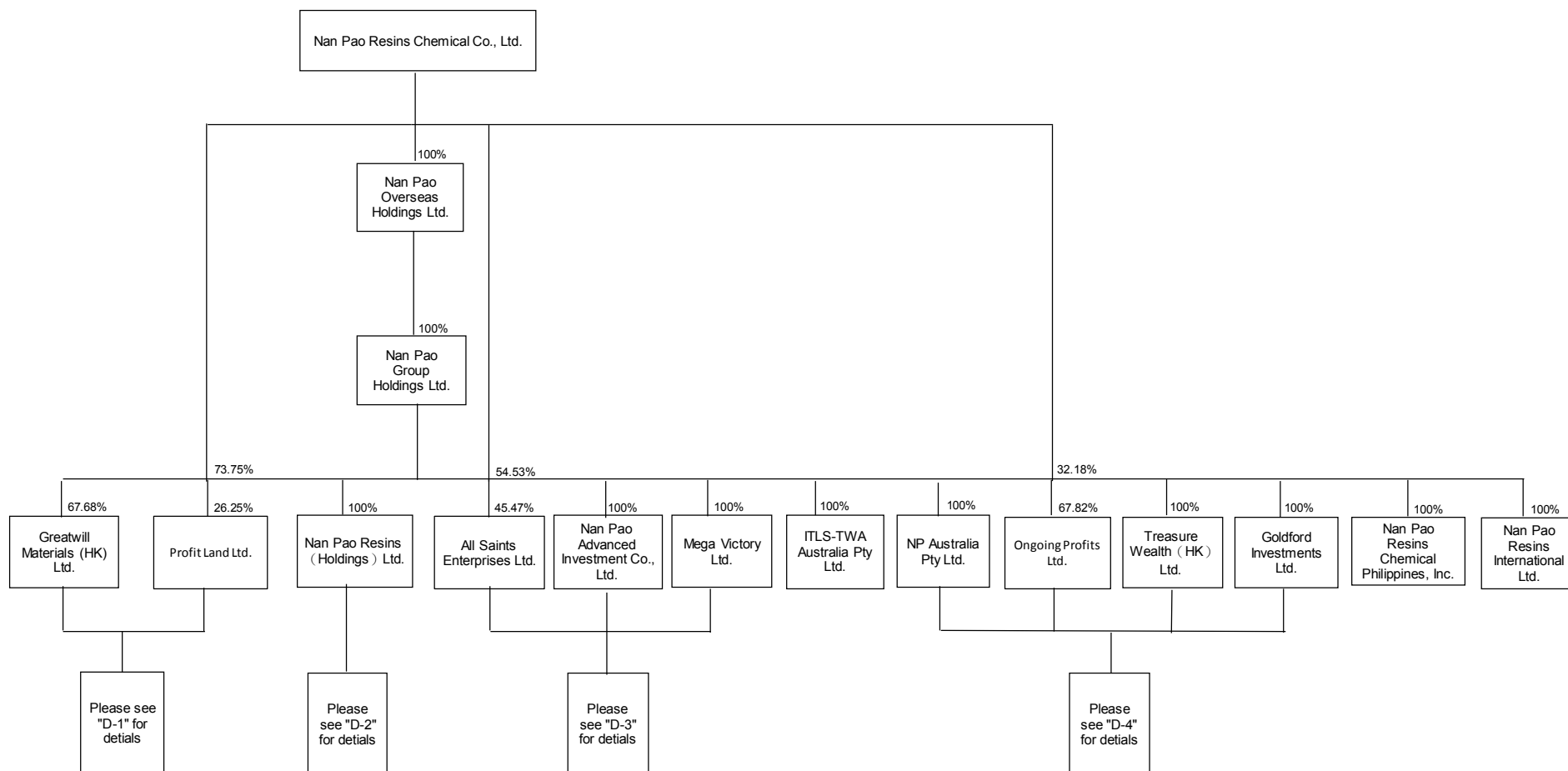
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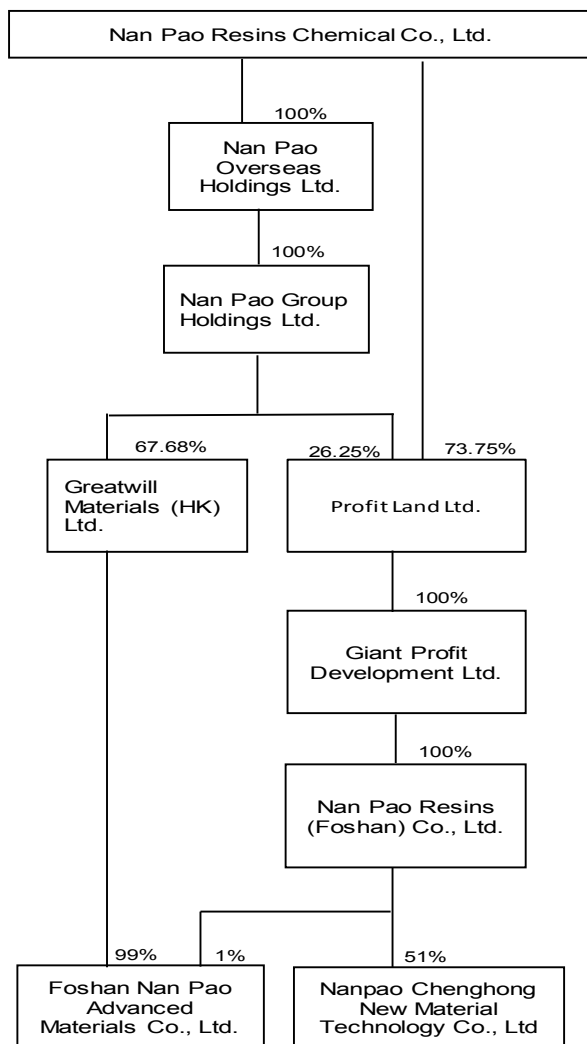
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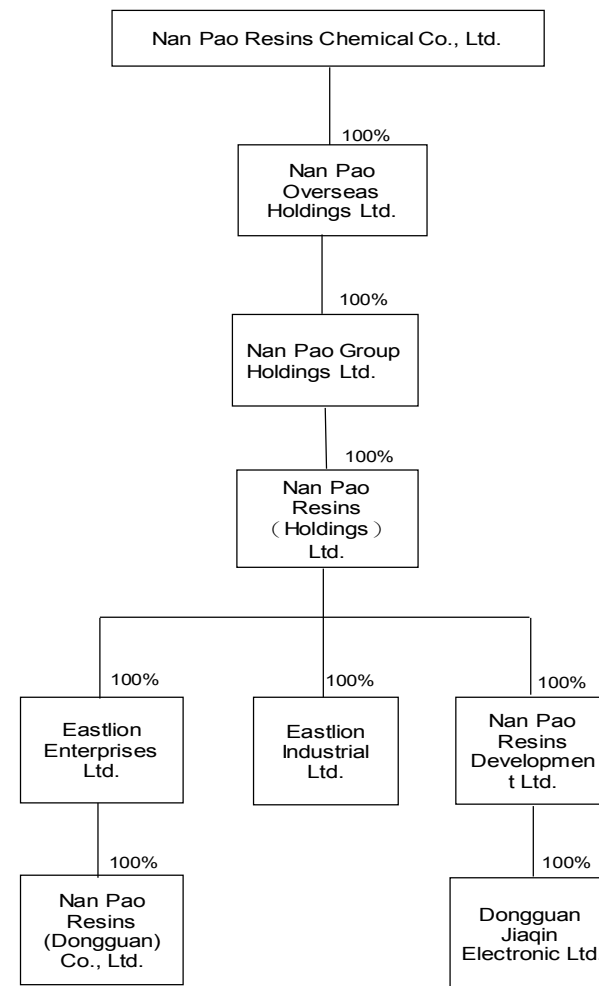
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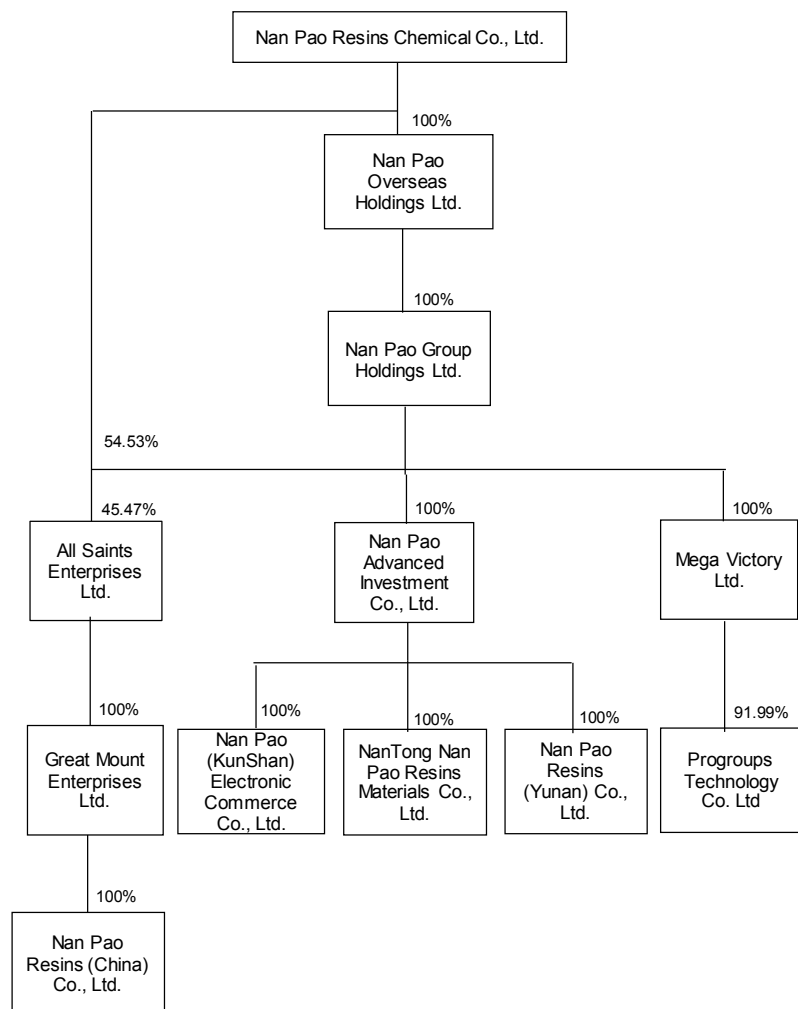


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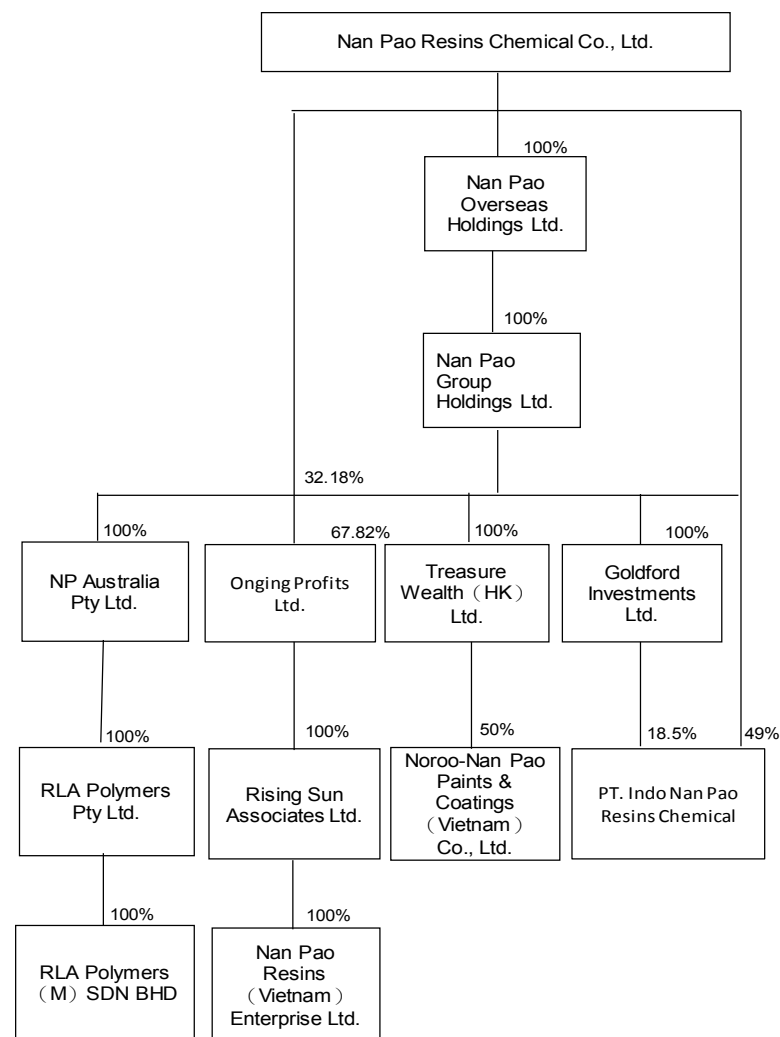




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## 2. Basic information of affiliated businesses

Name of business	Date established	Address	Actual paid-in capital		Primary business or products
Nan Pao Overseas Holdings Ltd.	2007.12.14	Palm Grove House, P.O. Box 438, Road Town, Tortola, British Virgin Islands	USD	67,284,333	General investment
Nan Pao Group Holdings Ltd.	2004.05.11	4th Floor, Willow House, Cricket Square, P.O. Box No. 2804, Grand Cayman KY1-1112, Cayman Islands	USD	67,284,333	General investment
Treasure Wealth (HK) Ltd.	2009.07.28	Flat 13, 10F., Building B Tong-li Industrial Center, 19 Lam Hing Street, Kowloon Bay, Hong Kong	USD	591	General investment
Noroo-NanPao Paints & Coatings (Vietnam) Co., Ltd.	2008.05.05	Khu Cong NghiepNhonTrach II, huyenNhonTrach, Tinh Dong Nai.	VND	179,610,063,600	Production and trading of coatings
Greatwill Materials (HK) Limited	2009.10.29	Flat 13, 10F., Building B Tong-li Industrial Center, 19 Lam Hing Street, Kowloon Bay, Hong Kong	USD	1,359	General investment
Foshan Nan Pao Advanced Materials Co., Ltd.	2010.03.16	No. 12, Kohler Boulevard, Leping Township, Sanshui Dist., Foshan City	CNY	10,240,337	Production and trading of adhesives
Ongoing Profits Ltd.	1999.07.08	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	USD	4,847,546	General investment
Rising Sun Associate Ltd.	1999.07.08	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	USD	3,000,000	General investment
Nan Pao Resins (Vietnam) Enterprise Ltd.	1999.09.24	Soá 10 Ñaĩ loã Thoáng Nhaát-KCN Soùng Thaàn II-Dó An-Binh Döông	USD	6,408,217	Production and trading of adhesives and coating
Mega Victory Ltd.	2010.01.04	Offshore Chambers, P.O. Box 217, Apia, Samoa	USD	2,367,155	General investment
Progroups Technology co. Ltd.	2010.03.08	No. 12, Nanhaipu, Nanhai Li, Xigang Dist., Tainan City	TWD	5,000,000	Trading of water-based Polyurethane resin
Nan Pao Resins Chemical Philippines, Inc.	2011.01.28	Road 22 Phase 11, Cogeo Village, Antipolo City , Philippines	PHP	9,000,000	Trading of adhesives
Goldford Investments Ltd.	1994.01.06	CREQUE BUILDING, P.O. BOX 116, ROAD TOWN, TORTOLA, BRITISH VIRGIN ISLANDS	USD	486,000	General investment

Name of business	Date established	Address	Actual paid-in capital		Primary business or products
Nan Pao Resins (Holdings) Ltd.	1995.09.26	P.O.BOX 71, CRAIGMUIR CHAMBERS, ROAD TOWN, TORTOLA, BRITISH VIRGIN ISLANDS	USD	100	General investment
Eastlion Enterprises Ltd.	1993.09.06	P.O.BOX 71, CRAIGMUIR CHAMBERS, ROAD TOWN, TORTOLA, BRITISH VIRGIN ISLANDS	USD	20,240	General investment
Nan Pao Resins (Dong-Guan) Co., Ltd.	2011.04.12	No. 2, Yue Yuen 2 Rd., Yue Yuen Industrial Estate, Huangjiang Town, Dongguan City	CNY	17,139,857	Processing of adhesives
Eastlion Industrial Ltd.	1994.08.30	P.O.BOX 71, CRAIGMUIR CHAMBERS, ROAD TOWN, TORTOLA, BRITISH VIRGIN ISLANDS	USD	100	General investment
Nan Pao Resins Development Ltd.	2002.02.12	P.O.BOX 71, CRAIGMUIR CHAMBERS, ROAD TOWN, TORTOLA, BRITISH VIRGIN ISLANDS	USD	3,000	General investment
Dongguan Jiaqin Electronic Ltd.	2007.02.08	No. 2, Yue Yuen 2 Rd., Yue Yuen Industrial Estate, Huangjiang Town, Dongguan City	CNY	19,881,120	Production and trading of coatings and high-functionality adhesives
NP Australia Pty. Ltd.	2013.03.04	215 Colchester Road (PO Box 147) Kilsyth VIC 3137 Australia	AUD	23,714,354	General investment
RLA Polymers Pty. Ltd.	1967.10.16	215 Colchester Road (PO Box 147) Kilsyth VIC 3137 Australia	AUD	21,422,003	Production and trading of construction materials and chemicals
RLA Polymers (M) SDN. BHD.	1992.04.23	No.2A & 2B, Jalan Canang Emas 7/KS10, Telok Gong, 42000 Pelabuhan Klang, Selangor D. E, Malaysia	MYR	18,415,500	Production and trading of construction materials and chemicals
Nan Pao Materials Vietnam Co., Ltd.	2014.12.25	Lot A4, A5, A10, A11, Dai Dang 3 Street	USD	23,000,000	Production and trading of adhesives and chemicals
Nan Pao Resins International Ltd.	1992.07.14	Flat 13, 10F., Building B Tong-li Industrial Center, 19 Lam Hing Street, Kowloon Bay, Hong Kong	HKD	10,000	Trading of chemical substances and related products
Nan Pao Advanced Investment Co., Ltd.	2017.04.14	2F., No. 600-2, Kunjia Rd., Kunshan Economic Technical Development Zone, Jiangsu Province	CNY	123,479,990	General investment
NanTong Nan Pao Resins Materials Co., Ltd.	2015.12.30	No. 1692-21, Xinghu Boulevard, Development Zone, Nantung City	CNY	35,853,078	Production and trading business of adhesives
Nan Pao (KunShan) Electronic Commerce Co., Ltd.	2017.08.09	2F., No. 600-2, Kunjia Rd., Kunshan Economic Technical Development Zone, Jiangsu Province	CNY	31,931,300	Online commerce agency and trading of common good

Name of business	Date established	Address	Actual paid-in capital		Primary business or products
Nan Pao Resins (Yunan) Co., Ltd.	2018.07.24	Room 311, Da-Wan Industrial Area, Da-Wan Township, Yu-Nan Xien, Yuen-Fu City	CNY	13,622,600	Adhesives manufacture and sales
Profit Land Ltd.	2004.09.17	Equity Trust Chambers, P.O.Box3269, Apia, Samoa	USD	1,333,333	General investment
Giant Profit Development Ltd.	2009.03.13	Flat 13, 10F., Building B Tong-li Industrial Center, 19 Lam Hing Street, Kowloon Bay, Hong Kong	USD	1,282	General investment
Nan Pao Resins (Foshan) Co., Ltd.	2004.08.26	No. 12, Kohler Boulevard, Leping Township, Sanshui Dist., Foshan City	CNY	63,153,850	Production and trading of adhesives
Nanpao Chenghong New Material Technology Co., Ltd	2016.05.25	Top Floor-103, No. 36-F2, Section A, Sanshui Center Technology Industrial Zone, Leping Township, Sanshui Dist., Foshan City	CNY	5,000,000	Trading of footwear material
PT. Indo Nan Pao Resins Chemical	1991.05.13	Jl. Pajajaran Raya No.44, Jatiuwung Tangerang 15137, Indonesia	IDR	5,625,000,000	Production and trading of adhesives
All Saints Enterprises Ltd.	1997.08.13	Tropic Isle Building, P.O.BOX 438, Road Town, Tortola, British Virgin Islands	USD	10,000,000	General investment
Great Mount Enterprises Ltd.	2009.07.31	Unit 2102, 21/F The Broadway, No. 54-62 Lockhart, Road, Wanchai, Hong Kong	USD	1,282	General investment
Nan Pao Resins (China) Co., Ltd.	1996.03.28	No. 600, Kunjia Rd., Kunshan Economic and Technological Development Zones, Jiangsu Province, China	CNY	82,209,938	Production and trading of adhesives and coatings
Fuqing Nan Pao Investment Ltd.	2004.08.20	Palm Grove House, P.O. Box 438, Road Town, Tortola, British Virgin Islands	USD	4,990,000	General investment
Wealth Castle Development Ltd.	2009.03.13	Room 13, 10/F., Block B, Tonnice Industrial Center, 19 Lam Hing Street, Kowloon Bay, Kowloon, Hong Kong	HKD	10,000	General investment
Fuqing Nan Pao Resins Co., Ltd.	1993.12.27	Hongkuan Industrial Village, Yangxia Township, Fuqing City	CNY	33,779,302	Production and trading of adhesives

Name of business	Date established	Address	Actual paid-in capital		Primary business or products
Thai Nan Pao Investments Ltd.	2004.08.20	P.O.BOX 438 Road Town, Tortola British Virgin Island	USD	5,282,000	General investment
Thai Nanpao Resins Chemical Co., Ltd.	1987.12.25	412 Kor Moo4 Praeksa Amphur Muang Samutprakarn 10280,Thailand	THB	211,970,000	Production and trading of adhesives
Phymed Bio-Tec Co., Ltd.	2009.06.30	No. 12, Nanhaipu, Nanhai Li, Xigang Dist., Tainan City	TWD	6,000,000	R&D and trading of health food
ITLS International Development Co., Ltd.	2009.01.22	3F., No. 356, Sec. 1, Neihu Rd., Neihu Dist., Taipei City	TWD	305,000,000	Trading of construction materials and chemicals
ITLS Holding Pte. Ltd.	2009.08.11	Blk 1049, Eunos Avenue 6, #01-132, Singapore 409628	SGD	24,064,549	General investment
ITLS-TWA Australia Pty Ltd.	2009.09.24	215 Colchester Road (PO Box 147) Kilsyth VIC 3137 Australia	AUD	6,000,000	Production and trading of hardware, construction material and chemicals
ITLS (Malaysia) SDN. BHD	2009.02.20	20C, Jalan 1/64, Off Jalan Kolam Air/Jalan Ipoh, 51200 Kuala Lumpur	MYR	3,250,000	Production and trading of construction materials
PT. ITLS Indonesia	2009.07.23	Jn. Pajajaran Raya No. 44, Kelurahan Gandasari, Kecamatan Jatiuwung Tangerang - 15137, Indonesia	IDR	26,515,745,920	Production and trading of construction materials
ITLS Vietnam Co., Ltd.	2010.03.04	Lot VIII.1 Thuan Thanh 3 Industrial Park, Thanh Khuong Commune, Thuan Thanh District, Bac Ninh Province	VND	95,047,269,805	Production and trading of construction materials
ITLS-Rich (S) Pte. Ltd.	2009.08.17	Blk 1049, Eunos Avenue 6, #01-132, Singapore 409628	SGD	250,000	Trading of hardware and construction materials
ITLS-SB SDN BHD	2009.08.19	Suite LP 02 &03, Menara TJB, Jalan Syed Mohamed Mufti,80000 Johor Bahru, Johor, Malaysia	MYR	2,000,000	Production and trading of hardware and construction materials
Aftek Materials Vietnam Co., Ltd.	2018.02.02	No. 16 Kim Dong Street, Ninh Xa Ward, Bac Ninh City, Bac Ninh Province	VND	54,480,000,000	Production and trading of constructional materials
Nan Pao Electronic Material Company	2006.06.21		TWD	40,000,000	

Name of business	Date established	Address	Actual paid-in capital		Primary business or products
		No. 510, Neighborhood 5, Zhongshan Rd., Xigang Li, Xigang Dist., Tainan City			Production and trading of electronic materials
Nan Pao Chemical Co., Ltd.	2007.05.14	No. 12, Nanhaipu, Nanhai Li, Xigang Dist., Tainan City	TWD	150,000,000	Trading of chemicals
Biorich Biotechnology Co., Ltd.	2001.12.04	3F., No. 356, Sec. 1, Neihu Rd., Neihu Dist., Taipei City	TWD	6,855,370	R&D, production, and trading of advanced high-protein business and health food
Nan Pao Application Material Co., Ltd.	2009.12.25	No. 12, Nanhaipu, Nanhai Li, Xigang Dist., Tainan City	TWD	2,000,000	Trading of chemicals
Nan Pao Resins India Pvt. Ltd.	2012.09.04	204-Abhishek , Near Monginis Factory , Off new Link Road , Andheri west , Mumbai 400053 , India	INR	30,000,000	Trading of adhesives
Prince Pharmaceutical Co., Ltd.	1962.07.31	9F., No. 107, Sec. 3, Chungxin Rd., Sanchung Dist., New Taipei City	TWD	290,580,000	Production, packaging, and processing of raw materials for various pharmaceutical and health food
Nan Pao Advanced Materials Co., Ltd.	2015.08.10	No. 521, Zhongshan Rd., Qing'an Li, Xigang Dist., Tainan City	TWD	5,000,000	Trading of adhesives and chemicals
Nan Pao Advanced Materials Vietnam Co., Ltd.	2016.04.22	No.16 Kim Dong Street, Ninh Xa Ward, Bac Ninh City, Bac Ninh Province	VND	338,979,500,000	Production and trading of adhesives and chemicals

3. Companies presumed to have a relationship of control and subordination according to Article 369-3 of the Company Act: None.

4. Overall business scope of all affiliated businesses

For the main business and products of each affiliated companies, please refer to (2) Basic Information on Affiliated Companies. Primary contents:

(1)Core business: production and trading of various adhesives and coating products.

(2)General investment.

(3)Biotechnology industry: R&D, production, and trading of health food and advanced high-protein business, and production, packaging, and processing of pharmaceutical and raw materials.

(4)Others: production and trading of construction materials and chemicals, electronic materials industry, and e-commerce industry.

5. Information on Directors and General Managers from affiliated companies

Name of business	Job Title	Name or representative	Shares held	Shareholding ratio (%)
Nan Pao Overseas Holdings Ltd.	Director	Wu, Cheng-Hsien	-	0.00%
Nan Pao Group Holdings Ltd.	Director	Wu, Cheng-Hsien	-	0.00%
Treasure Wealth (HK) Ltd.	Director	Wu, Cheng-Hsien	-	0.00%
Norro-Nan Pao Paints & Coatings (Vietnam) Co., Ltd.	Director	Li, Hsin-Ho	-	0.00%
	Director and General Manager	Chen, Yu-Jen	-	0.00%
	Director	Tsai, Yi-Fa	-	0.00%
	Director	Cho Chang Youn	-	0.00%
	Director	Yun Jeongkug	-	0.00%
	Director	Lee Myunghee	-	0.00%
	Supervisor	Liu, Chi-Lin	-	0.00%
Greatwill Materials (HK) Ltd.	Director	Wu, Cheng-Hsien	-	0.00%
	Director	Chang, Kuo-Jung	-	0.00%
	Director	Li, Chuan	-	0.00%
	Director	Hsu, Ming-Hsien	-	0.00%
Foshan Nan Pao Advanced Materials Co., Ltd.	Director	Sun, Te-Tsung	-	0.00%
	Director	Li, Chuan	-	0.00%
	Director and General Manager	Chung, He-Feng	-	0.00%
	Supervisor	Hsu, Ming-Hsien	-	0.00%
Ongoing Profits Ltd.	Director	Hsu, Ming-Hsien	-	0.00%
	Director	Wu, Cheng-Hsien	-	0.00%
	Director	Li, Hsin-Ho	-	0.00%
Rising Sun Associate Ltd.	Director	Wu, Cheng-Hsien	-	0.00%

Name of business	Job Title	Name or representative	Shares held	Shareholding ratio (%)
	Director	Hsu, Ming-Hsien	-	0.00%
	Director	Li, Hsin-Ho	-	0.00%
Nan Pao Resins (Vietnam) Enterprise Ltd.	Director	Li, Hsin-Ho	-	0.00%
Mega Victory Ltd.	Director	Lee, Juh-Shyong	-	0.00%
Progroups Technology Co. Ltd	Director	Juh-Shyong Lee	-	0.00%
	Director	Huang, Cheng-Yan	-	0.00%
	Director	Tsai, Chung-Lin	-	0.00%
	Supervisor	Chen, Wu-Hsiong	-	0.00%
Nan Pao Resins Chemical Philippines, Inc.	Director	Wu, Cheng-Hsien	-	0.00%
	Director	Hsu, Ming-Hsien	-	0.00%
	Director	Juh-Shyong Lee	-	0.00%
	Director	Reginald V. Mungcal	-	0.00%
	Director	Sen-Mao Kuo	-	0.00%
	Director	Hsu, Chi-Yuan	-	0.00%
Goldford Investments Ltd.	Director	Wu, Cheng-Hsien	-	0.00%
	Director	Chang, Kuo-Jung	-	0.00%
	Director	Hsu, Ming-Hsien	-	0.00%
Nan Pao Resins (Holdings) Ltd.	Director	Wu, Cheng-Hsien	-	0.00%
	Director	Chang, Kuo-Jung	-	0.00%
	Director	Hsu, Ming-Hsien	-	0.00%
Eastlion Enterprises Ltd.	Director	Wu, Cheng-Hsien	-	0.00%
	Director	Chang, Kuo-Jung	-	0.00%
	Director	Hsu, Ming-Hsien	-	0.00%
Nan Pao Resins (Dongguan) Co., Ltd.	Director	Sun, Te-Tsung	-	0.00%



Name of business	Job Title	Name or representative	Shares held	Shareholding ratio (%)
	Director	Wu, Cheng-Hsien	-	0.00%
	Director	Hsu, Ming-Hsien	-	0.00%
	Supervisor	Hung, Chung-Yuan	-	0.00%
Eastlion Industrial Ltd.	Director	Wu, Cheng-Hsien	-	0.00%
	Director	Chang, Kuo-Jung	-	0.00%
	Director	Hsu, Ming-Hsien	-	0.00%
Nan Pao Resins Development Ltd.	Director	Wu, Cheng-Hsien	-	0.00%
	Director	Chang, Kuo-Jung	-	0.00%
	Director	Hsu, Ming-Hsien	-	0.00%
Dongguan Jia Chin Electronics Co., Ltd.	Director	Sun, Te-Tsung	-	0.00%
	Director	Wu, Cheng-Hsien	-	0.00%
	Director	Chen, Bi-Hsiang	-	0.00%
	Supervisor	Hsu, Ming-Hsien	-	0.00%
NP Australia Pty. Ltd.	Director	Lord, Franklin Sidney	-	0.00%
	Director	Wu, Cheng-Hsien	-	0.00%
	Director	Kuo, Sen-Mao	-	0.00%
RLA Polymers Pty. Ltd.	Director	Lord, Franklin Sidney	-	0.00%
	Director	Wu, Cheng-Hsien	-	0.00%
	Director	Kuo, Sen-Mao	-	0.00%
	Director	Etches, Steven John	-	0.00%
	Director	Tong, Swee Seot	-	0.00%
RLA Polymers (M) SDN. BHD.	Director	Lord, Franklin Sidney	-	0.00%
	Director	Wu, Cheng-Hsien	-	0.00%
	Director	Lee, See Yoong	-	0.00%

Name of business	Job Title	Name or representative	Shares held	Shareholding ratio (%)
	Director	Kuo, Sen-Mao	-	0.00%
	Director	Tan Kay Inn		0.00%
Nan Pao Materials Vietnam Co.,Ltd.	Director	Li, Hsin-Ho	-	0.00%
Nan Pao Advanced Investment Co., Ltd.	Director	Liu, Chi-Lin	-	0.00%
	Director	Chang, Kuo-Jung	-	0.00%
	Director	Hsu, Ming-Hsien		0.00%
Nanpao Advanced Investment Co., Ltd.	Director	Sun, Te-Tsung	-	0.00%
	Director	Wu, Cheng-Hsien	-	0.00%
	Director	Hsu, Ming-Hsien	-	0.00%
	Supervisor	Tsai, Yi-Fa	-	0.00%
	General Manager	Lin, Yong-Cheng	-	0.00%
NanTong Nan Pao Resins Materials Co., Ltd.	Director	Sun, Te-Tsung	-	0.00%
	Director	Wu, Cheng-Hsien	-	0.00%
	Director	Hsu, Ming-Hsien	-	0.00%
	Supervisor	Tsai, Yi-Fa	-	0.00%
Nan Pao (KunShan) Electronic Commerce Co., Ltd.	Director	Sun, Te-Tsung	-	0.00%
	Director	Wu, Cheng-Hsien	-	0.00%
	Director	Hsu, Ming-Hsien	-	0.00%
	Supervisor	Tsai, Yi-Fa	-	0.00%
	General Manager	Lin, Yong-Cheng	-	0.00%
Nan Pao Resins (Yunan) Co., Ltd.	Director	Sun, Te-Tsung		0.00%
	Director	Wu, Cheng-Hsien		0.00%
	Director	Chung, He-Feng		0.00%
Profit Land Ltd.	Director	Chang, Kuo-Jung	-	0.00%
	Director	Wu, Cheng-Hsien	-	0.00%

Name of business	Job Title	Name or representative	Shares held	Shareholding ratio (%)
Giant Profit Development Ltd.	Director	Lee, Juh-Shyong	-	0.00%
	Director	Chang, Kuo-Jung	-	0.00%
	Director	Hsu, Ming-Hsien	-	0.00%
Nan Pao Resins (Foshan) Co., Ltd.	Director	Sun, Te-Tsung	-	0.00%
	Director	Wu, Cheng-Hsien	-	0.00%
	Director	Chung, He-Feng	-	0.00%
	Supervisor	Hsu, Ming-Hsien	-	0.00%
Nanpao Chenghong New Material Technology Co., Ltd	Director	Chung, He-Feng	-	0.00%
	Supervisor	Lin, Chun-Hui	-	0.00%
	Supervisor	Chen, Kuan-Ming	-	0.00%
PT. Indo Nan Pao Resins Chemical	Director	Ni, Wen-hung	-	0.00%
	Supervisor	Li, Tai-Kang	-	0.00%
	Supervisor	Wu, Cheng-Hsien	-	0.00%
	Supervisor	Tsai, Chao-Chian	-	0.00%
	Supervisor	Liu-Wen-Chen	-	0.00%
All Saints Enterprises Ltd.	Director	Wu, Cheng-Hsien	-	0.00%
	Director	Sun, Te-Tsung	-	0.00%
	Director	Hsu, Ming-Hsien	-	0.00%
Great Mount Enterprises Ltd.	Director	Chang, Kuo-Jung	-	0.00%
	Director	Sun, Te-Tsung	-	0.00%
Nan Pao Resins (China) Co., Ltd.	Director	Sun, Te-Tsung	-	0.00%
	Director	Wu, Cheng-Hsien	-	0.00%
	Director	Hsu, Ming-Hsien	-	0.00%
	Supervisor	Tsai, Yi-Fa	-	0.00%
	General Manager	Lin, Yong-Cheng	-	0.00%

Name of business	Job Title	Name or representative	Shares held	Shareholding ratio (%)
Fuqing Nan Pao Investment Ltd.	Director	Hsu, Ming-Hsien	-	0.00%
	Director	Chang, Kuo-Jung	-	0.00%
	Director	Wu, Cheng-Hsien	-	0.00%
Wealth Castle Development Ltd.	Director	Hsu, Ming-Hsien	-	0.00%
	Director	Chang, Kuo-Jung	-	0.00%
Fuqing Nan Pao Resins Co., Ltd.	Director	Sun, Te-Tsung	-	0.00%
	Director	Hsu, Ming-Hsien	-	0.00%
	Director	Wu, Cheng-Hsien	-	0.00%
	Supervisor	Tsai, Yi-Fa	-	0.00%
Thai Nan Pao Investments Ltd.	Director	Hsu, Ming-Hsien	-	0.00%
	Director	Wu, Cheng-Hsien	-	0.00%
	Director	Tsai, Chao-Chian	-	0.00%
Thai Nanpao Resins Chemical Co., Ltd.	Director	Hsu, Ming-Hsien	-	0.00%
	Director	Wu, Cheng-Hsien	-	0.00%
	Director	Huang, Chien-Ting	-	0.00%
Phymed Bio-Tec Co., Ltd.	Director	Lee, Juh-Shyong	-	0.00%
	Director	Hsu, Ming-Hsien	-	0.00%
	Director	Wu, Cheng-Hsien	-	0.00%
	Supervisor	Liu, Chi-Lin	-	0.00%
ITLS International Development Co., Ltd.	Director	Wu, Cheng-Hsien	-	0.00%
	Director	Tsai, Chao-Chian	-	0.00%
	Director	Hsu, Ming-Hsien	-	0.00%
	Supervisor	Lee, Juh-Shyong	-	0.00%
ITLS Holding Pte. Ltd.	Director	Wu, Cheng-Hsien	-	0.00%

Name of business	Job Title	Name or representative	Shares held	Shareholding ratio (%)
	Director	Liu, Chi-Lin	-	0.00%
	Director	Noraishah Binte Mohamed Sulaimi	-	0.00%
ITLS–TWA Australia Pty. Ltd.	Director	Lord, Franklin Sidney	-	0.00%
	Director	Wu, Cheng-Hsien	-	0.00%
	Director	Kuo, Sen-Mao	-	0.00%
ITLS (Malaysia) SDN. BHD.	Director	Wu, Cheng-Hsien	-	0.00%
	Director	Liu, Chi-Lin	-	0.00%
	Director	Lee See Yoong	-	0.00%
PT. ITLS Indonesia	Director	Liu, Chi-Lin	-	0.00%
	Supervisor	Wu, Cheng-Hsien	-	0.00%
ITLS Vietnam Co., Ltd.	Director	Liu, Chi-Lin	-	0.00%
ITLS-Rich (S) Pte. Ltd.	Director	Wu, Cheng-Hsien	-	0.00%
	Director	Liu, Chi-Lin	-	0.00%
	Director	Noraishah Binte Mohamed Sulaimi	-	0.00%
ITLS-SB SDN. BHD.	Director	Wu, Cheng-Hsien	-	0.00%
	Director	Liu, Chi-Lin	-	0.00%
	Director	Lee See Yoong	-	0.00%
Aftek Materials Vietnam Co., Ltd.	Director	Wu, Shun-Hsing	-	0.00%
	Director	Yang, Chiao-Lan	-	0.00%
	Director	Ou, Pi-Chuan	-	0.00%
	Supervisor	Liu, Chi-Lin	-	0.00%
Nan Pao Electronic Material Co., Ltd.	Director	Chang, Kuo-Jung	-	0.00%
	Director	Chen, Bi-Hsiang	-	0.00%
	Director	Tsai, Yi-Fa	-	0.00%

Name of business	Job Title	Name or representative	Shares held	Shareholding ratio (%)
	Supervisor	Hsu, Ming-Hsien	-	0.00%
Nan Pao Chemical Co., Ltd.	Director	Lee, Juh-Shyong	-	0.00%
	Director	Wu, Cheng-Hsien	-	0.00%
	Director	Tsai, Chao-Chian	-	0.00%
	Director	Lee, Hui-Fen	-	0.00%
	Supervisor	Tsai, Yi-Fa	-	0.00%
Biorich Biotechnology Co., Ltd.	Director	Wang, Kuo-Hua	-	0.00%
	Director	Tsai, Yi-Fa	-	0.00%
	Director	Lin, Ching-Ming	-	0.00%
	Director	Yang, Wen-Jen	-	0.00%
	Director	Cheng, Shao-Liang	-	0.00%
	Supervisor	Han, Shu-Wen	-	0.00%
Nan Pao Application Material Co., Ltd.	Director	Lee, Juh-Shyong	-	0.00%
	Director	Hsu, Ming-Hsien	-	0.00%
	Director	Wu, Cheng-Hsien	-	0.00%
	Supervisor	Tsai, Yi-Fa	-	0.00%
Nan Pao Resins India Pvt Ltd.	Director	Kuo, Sen-Mao	-	0.00%
	Director	Hsu, Chi-Yuan	-	0.00%
	Director	Mukesh Nautiyal	-	0.00%
Prince Pharmaceutical Co., Ltd.	Director	Lee, Chi-Ta	-	0.00%
	Director	Hsu, Ming-Hsien	-	0.00%
	Director and General Manager	Wang, Kuo-Hua	-	0.00%
	Director	Lee, Juh-Shyong	-	0.00%
	Director	Hsu, Po-Shan	-	0.00%

Name of business	Job Title	Name or representative	Shares held	Shareholding ratio (%)
	Supervisor	Lee, Hui-Fen	-	0.00%
	Supervisor	Lin, Kun-Chin	-	0.00%
Nan Pao Advanced Materials Co., Ltd.	Director	Tsai, Chao-Chian	-	0.00%
	Director	Chen, Hsing-Tsai	-	0.00%
	Director	Lin, Yi-Chang	-	0.00%
	Supervisor	Tsai, Yao-Cheng	-	0.00%
Nan Pao Advanced Materials Vietnam Co.,Ltd	Director	Chen, Hsing-Tsai	-	0.00%

#### 6. Operating status of affiliated enterprises

Unit: NT\$1,000

Name of business	Amount of capital	Total assets	Total liabilities	Net value	Operating revenue	Operating profit (Loss)	Net Gain (Loss) of the Investee (After tax)	Earnings per share (After tax)
Nan Pao Overseas Holdings Ltd.	2,071,057	3,628,373	21	3,628,352	-	(93)	171,651	2.55
Nan Pao Group Holdings Ltd.	2,066,638	3,757,788	83,090	3,674,698	-	(29,155)	171,733	2.55
Treasure Wealth (HK) Ltd.	18	142,887	-	142,887	-	(18)	(2,955)	-640.95
Noroo-Nanpao Paints & Coatings (Vietnam) Co., Ltd.	236,921	446,351	177,622	268,729	534,129	5,843	722	Note 2
Greatwill Materials (HK) Ltd.	42	433,932	19,120	414,812	64,977	295	74,732	Note 2
Foshan Nan Pao Advanced Materials Co., Ltd.	45,795	821,589	408,739	412,850	1,560,906	83,699	75,189	Note 2
Ongoing Profits Ltd.	148,892	974,890	-	974,890	-	(57)	121,839	25.13
Rising Sun Associates Ltd.	92,145	973,031	-	973,031	-	(58)	121,892	40.63
Nan Pao Resins (Vietnam) Enterprise Ltd.	196,828	1,554,619	584,614	970,005	2,683,826	198,741	121,940	Note 2
Mega Victory Ltd.	72,707	61,468	0	61,468	0	(6)	2,726	

Name of business	Amount of capital	Total assets	Total liabilities	Net value	Operating revenue	Operating profit (Loss)	Net Gain (Loss) of the Investee (After tax)	Earnings per share (After tax)
Progroups Technology Co. Ltd.	5,000	83,760	16,972	66,788	101,229	2,245	2,970	6.46
Nan Pao Resins Chemical Philippines, Inc.	5,194	96,352	57,039	39,313	149,392	266	4,489	Note 2
Goldford Investments Ltd.	17,963	78,717	-	78,717	-	(44)	12,068	24.83
Nan Pao Resins (Holdings) Ltd.	3	873,685	-	873,685	-	(1)	16,724	Note 2
Eastlion Enterprises Ltd.	622	975,093	213,853	761,240	1,126,123	(17,035)	15,623	Note 2
Nan Pao Resins (Dongguan) Co., Ltd.	76,649	147,295	26,306	120,989	311,779	47,771	41,595	Note 2
Eastlion Industrial Ltd.	3	1,080	-	1,080	-	(301)	(395)	Note 2
Nan Pao Resins Development Ltd.	92,145	104,049	-	104,049	-	(1)	1,503	Note 2
Dongguan Jiaqin Electronic Ltd.	88,908	131,385	27,354	104,031	124,070	(6,544)	1,504	Note 2
NP Australia Pty. Ltd.	513,771	645,430	-	645,430	-	(6,325)	23,241	0.98
RLA Polymers Pty. Ltd.	464,108	953,380	449,149	504,231	1,771,243	52,799	27,668	2.75
RLA Polymers (M) SDN. BHD.	136,035	317,928	125,712	192,216	223,603	4,079	1,921	0.10
Nan Pao Materials Vietnam Co.,Ltd.	706,445	1,112,566	383,450	729,116	681,407	70,690	62,203	Note 2
Nan Pao Resins International Ltd.	39	190,899	180,988	9,911	450,551	(13,440)	1,729	1,729.10
Nan Pao Advanced Investment Co., Ltd.	552,203	542,335	21	542,314	0	(354)	(4,266)	Note 2
NanTong Nan Pao Resins Materials Co., Ltd.	160,335	162,116	2,799	159,317	0	(5,857)	(537)	Note 2
Nan Pao (KunShan) Electronic Commerce Co., Ltd.	142,797	269,753	139,293	130,460	30,221	(3,017)	(9,144)	Note 2
Nan Pao Resins (Yunan) Co., Ltd.	60,920	61,439	-	61,439	-	-	483	Note 2
Profit Land Ltd.	39,720	1,008,972	-	1,008,972	-	(549)	56,314	Note 2



Name of business	Amount of capital	Total assets	Total liabilities	Net value	Operating revenue	Operating profit (Loss)	Net Gain (Loss) of the Investee (After tax)	Earnings per share (After tax)
Giant Profit Development Ltd.	39	913,288	-	913,288	-	(19)	53,529	Note 2
Nan Pao Resins (Foshan) Co., Ltd.	282,424	1,108,688	196,438	912,250	1,712,536	50,713	53,547	Note 2
Nanpao Chenghong New Material Technology Co., Ltd	22,360	34,440	9,375	25,065	33,830	2,162	1,754	Note 2
PT. Indo Nan Pao Resins Chemical	8,107	697,472	276,351	421,121	965,756	81,361	65,461	23.75
All Saints Enterprises Ltd.	307,150	405,595	0	405,595	0	(57)	(16,227)	Note 2
Great Mount Enterprises Ltd.	39	401,146	6	401,140	0	(19)	(16,178)	Note 2
Nan Pao Resins (China) Co., Ltd.	367,643	808,739	407,749	400,990	1,225,526	(23,117)	(16,159)	Note 2
Fuqing Nan Pao Investment Ltd.	153,268	198,610	-	198,610	-	(65)	10,739	Note 2
Wealth Castle Development Ltd.	39	198,382	196	198,186	-	(156)	10,804	Note 2
Fuqing Nan Pao Resins Co., Ltd.	151,061	244,051	47,070	196,981	356,952	14,454	10,949	Note 2
Thai Nan Pao Investments Ltd.	162,237	177,158	0	177,158	0	(57)	10,157	1.92
Thai Nanpao Resins Chemical Co., Ltd.	171,353	148,656	36,073	112,583	146,971	8,273	10,088	0.48
Phymed Bio-Tec Co., Ltd.	6,000	5,868	1,871	3,997	1,537	(1,537)	(1,544)	(2.57)
ITLS International Development Co., Ltd.	305,000	326,363	30,253	296,110	124,063	4,704	(12,683)	(0.42)
ITLS Holding Pte. Ltd.	540,971	156,293	126	156,167	-	(633)	(11,744)	(0.49)
ITLS–TWA Australia Pty. Ltd.	129,990	771	-	771	-	(21)	(3)	Note 2
ITLS (Malaysia) SDN. BHD.	31,547	18,227	237	17,990	-	(727)	(727)	(0.22)
PT. ITLS Indonesia	75,609	35,618	9,881	25,737	29,109	876	1,670	0.69
ITLS Vietnam Co., Ltd.	133,717	85,761	1,764	83,997	8,142	(11,236)	(9,362)	Note 2
ITLS-Rich (S) Pte. Ltd.	6,182	-	-	-	1,416	(1,682)	(5,157)	(20.63)

Name of business	Amount of capital	Total assets	Total liabilities	Net value	Operating revenue	Operating profit (Loss)	Net Gain (Loss) of the Investee (After tax)	Earnings per share (After tax)
ITLS-SB SDN. BHD.	20,876	20,518	1,614	18,904	-	(1,324)	(1,199)	(0.60)
Aftek Materials Vietnam Co., Ltd.	51,601	65,315	2,675	62,640	887	(9,318)	(9,160)	Note 2
Nan Pao Electronic Material Co., Ltd.	40,000	56,220	11,123	45,097	33,874	2,172	1,927	0.48
Nan Pao Chemical Company Ltd.	150,000	208,525	63,537	144,988	138,499	5,100	11,205	0.75
Biorich Biotechnology Co., Ltd.	6,855	18,041	8,864	9,177	36,039	2,361	2,434	3.55
Nan Pao Application Material Co., Ltd.	2,000	9,741	100	9,641	0	(368)	(255)	(1.27)
Nan Pao Resins India Pvt. Ltd.	14,497	43,904	17,228	26,676	67,352	7,323	5,755	Note 2
Prince Pharmaceutical Co., Ltd.	290,580	867,207	325,877	541,330	197,776	(9,651)	(3,843)	(0.13)
Nan Pao Advanced Materials Co., Ltd.	5,000	17,959	9,669	8,290	41,256	3,717	3,140	6.28
Nan Pao Advanced Materials Vietnam Co.,Ltd	447,143	436,317	1,149	435,168	-	(13,033)	(7,127)	Note 2

Note 1: the amount of balance for the aforementioned overseas companies are stated as of the exchange rate on December 31, 2018; income statement figures are stated as of the average exchange rate throughout 2018.

Note 2: Is not a shares limited company; hence EPS is not applicable.

(II) For Consolidated Financial Statement of Affiliated Companies: Please see Attachment 1.

(III) Affiliated Report: None

**II. Private placement of securities of the most recent year up to the publication date of this Report: None.**

**III. Holding or disposal of this company's shares by a subsidiary company in the last year, up to the publication date of this Report: None.**

**IV. Other items that must be included: None.**

**Chapter IX EVENTS IN THE MOST RECENT YEAR TILL THE PUBLICATION DATE OF THIS REPORT WHICH HAVE MATERIAL IMPACT ON SHAREHOLDERS' RIGHTS AND INTERESTS OR SECURITIES PRICES ACCORDING TO ITEM 3-2, ARTICLE 36 OF THE SECURITIES AND EXCHANGE ACT : None.**

## **Appendix 1 : Consolidated Financial Statements**

### Declaration on Consolidated Financial Statements of Affiliated Companies

For Fiscal Year 2018 (January 1 - December 31 2018), the affiliated companies of this Company that shall be included in the consolidated financial statements of affiliated companies are the same as those included in the consolidated financial statements of parent company and subsidiaries prescribed by the International Financial Reporting Standards No. 10 in accordance with the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises. In addition, relevant information has already been disclosed in previous consolidated financial statements of parent company and subsidiaries. Hence, the consolidated financial statements of affiliated companies are not prepared separately.

As hereby declared:

Company Name: Nan Pao Resins Chemical Co., Ltd.

Chairman: Wu Cheng-Hsien

## Independent Auditors' Report

To Nan Pao Resins Chemical Co., Ltd.:

### **Audit Opinion**

We have audited the consolidated balance sheet of Nan Pao Resins Chemical Co., Ltd. and its subsidiaries (Nan Pao Resins Group) as of December 31, 2017 and 2018, the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the Notes to consolidated financial statements (including a summary on significant accounting policies).

In our opinion and based on our and other independent auditors reports (see Other), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Nan Pao Resins Group as of December 31, 2017 and 2018, and the consolidated financial performance and cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards ("IFRS"), International Accounting Standards ("IAS"), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed by the Financial Supervisory Commission of the Republic of China with the effective dates.

### **Basis for Opinion**

We conducted our audits in accordance with Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and Generally Accepted Auditing Standards (GAAS). 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 Company in accordance with The Norm of Professional Ethics for Certified Public Accountant Code of the Republic of China and we have fulfilled our other ethical responsibilities in accordance with these requirements. With the results of our auditing and other independent auditors reports, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinions.

### **Key Audit Matters**

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

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

#### **Key Audit Matters: Authenticity of Revenue Recognition**

The main sources of revenue for Nan Pao Resins Group come from the sale of adhesives, paint, and building material. As market demand rises, the revenue of 2018 increased compared to the same period last year. Given the effects on materiality of consolidated financial statements and significant risks of predetermined revenue recognition in auditing standards, we included the authenticity of revenue recognition as a key audit matter.

The key audit procedures conducted in regard to the aforementioned matter are as follows:

- I. Understand and sample test the effectiveness of internal control designs related to revenue recognition
- II. Obtain basic information on the Group's major customers, cross reference with publicly available information, analyze loan conditions and company scale, and check for errors on the number of days for receivables turnover.
- III. Select appropriate samples from sales revenue receipts, inspect sales invoices, commercial invoices, export declarations signed off by external personnel using revenue recognition criteria, and confirm the names for receipt and for trade items.

For accounting policies and income segmentation on income recognition, please refer to Note 4 (15) and 27.

## **Other Matters**

In the 2018 consolidated financial statements, certain subsidiaries were not audited by us but by other CPAs. Accordingly, for our findings on the aforementioned consolidated financial statements, the dollar amount and information related to the subsidiaries in the statements were based on audit reports from other CPAs. As of December 31, 2018, the total assets of the subsidiaries were NT\$ 1,677,057,000 and accounted for 10% of the consolidated total assets. The net revenue of 2018 was NT\$2,191,566,000, accounting for 14% of the consolidated net revenue.

Nan Pao Resins Chemical Co., Ltd. has already prepared individual financial statements for the year 2017 and 2018 on which we have issued an unqualified opinion with other matter paragraph and unqualified opinion as references.

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

Management is responsible for the preparation and fair representation 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 consolidated 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 intends to liquidate the Company or terminate the business, or no practicable measure other than liquidation or termination of the business can be taken.

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

## **Auditor's 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 Generally Accepted Auditing Standards (GAAS) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error. If it can be reasonably expected that misstatements in individual amounts or aggregates could influence the economic decisions of users taken on the basis of these consolidated financial statements, then the misstatements are deemed to as material.

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 implement the following tasks:

- I. Identify and assess the risks of material misstatements of the consolidated financial statements, whether due to fraud or error, design and implement appropriate countermeasures to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis

for our opinion. Since irregularities can involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control, the risks of failing to detect material misstatements resulting from fraud is higher than for one resulting from errors.

- II. 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 Company's internal control.
- III. Evaluate the appropriateness of accounting policies adopted by management as well as reasonableness of its accounting estimates and related disclosures.
- IV. Conclude on the appropriateness of the management's use of the going concern basis of accounting, 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 consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on audit evidence obtained up to the date of our audit report. However, future events or circumstances may cause the Company to lose its capacity to function as a going concern.
- V. Evaluate the overall presentation, structure, and contents of 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.
- VI. Obtain sufficient and appropriate audit evidence regarding the financial information of entities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and implementation 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 significant internal control deficiencies identified during our audit).

We have also provided a declaration to the governing bodies stating that the personnel of our affiliated firm has followed the item of independence in the CPA code of professional ethics. We have also communicated with the governing bodies on all relationships that may possibly be deemed to impair our independence as well as other matters (including relevant protective measures).

From the matters communicated with the governing body, we determined the key audit matters that were of most significance within the audit of the Company's Consolidated Financial Statements for the year ended in December 31, 2017. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Deloitte & Touché  
CPA Liao, Hung-Ju  
Approval No. from Financial Supervisory  
Commission R.O.C. (Taiwan)  
No. 0990031652 in FSC  
March 21, 2019

CPA Kung, Chun-Chi  
Approval No. from the Securities and Futures  
Commission  
No. 0920123784 in TWSE

Nan Pao Resins Chemical Co., Ltd. and Subsidiaries

Consolidated Financial Statements

December 31, 2017 and 2018

Unit: NT\$1,000

Code	Asset	December 31, 2018		December 31, 2017		Code	Liabilities and Shareholders' Equity	December 31, 2018		December 31, 2017	
		Amount	%	Amount	%			Amount	%	Amount	%
	Current Assets						Current Liabilities				
1100	Cash and Cash Equivalents (Note 4 and 6)	\$ 3,679,348	21	\$ 3,866,587	25	2100	Short-Term Loans (Note 22 and 38)	\$ 1,308,539	8	\$ 1,306,649	9
1136	Financial Assets at Amortized Cost - Current					2110	Short-Term Notes Payable (Note 22)	-	-	119,923	1
	(Note 4, 8, 9 and 38)	196,068	1	-	-	2130	Contract Liabilities - Current (Note 4 and 27)	41,499	-	-	-
1150	Notes Receivable (Note 4 and 12)	293,405	2	298,490	2	2150	Notes Payable (Note 23)	35,908	-	52,334	-
1170	Accounts Receivable (Note 4, 12 and 27)	3,112,385	18	2,653,921	18	2170	Accounts Payable (Note 23 and 37)	1,923,206	11	1,948,306	13
1180	Accounts Receivable - Affiliate (Note 4, 12, 27 and 37)	357,724	2	331,830	2	2200	Other Payables (Note 37)	788,396	5	789,681	5
1200						2230	Current Income Tax Liabilities (Note 29)	169,036	1	224,170	2
	Other Receivables (Note 4 and 12)	201,967	1	37,861	-	2320	Long-Term Liability - Current portion (Note 22 and 38)	252,428	1	33,553	-
1220	Current Income Tax Assets (Note 29)	13,197	-	19,763	-	2399	Other Current Liabilities (Note 24, 27 and 37)	185,889	1	32,302	-
130X						21XX	Total Current Liabilities	4,704,901	27	4,506,918	30
	Inventory (Note 4 and 13)	2,347,224	13	2,251,781	15		Non-Current Liabilities				
1412	Prepaid Rent (Note 20)	15,335	-	14,044	-	2540	Long-Term Debt (Note 22 and 38)	1,392,070	8	1,604,339	11
1476	Other Financial Assets - Current (Note 4, 11 and 38)	-	-	263,565	2	2570	Deferred Income Tax Liabilities (Note 4, 5 and 29)	705,380	4	751,050	5
1479	Other Current Assets (Note 4 and 21)	453,097	3	399,662	3	2640	Net Defined Benefit Liabilities - Non-Current (Note 4 and 25)	149,410	1	179,041	1
11XX						2670	Other Non-Current Liabilities (Note 24)	56,622	-	41,999	-
	Total Current Assets	10,669,750	61	10,137,504	67	25XX	Total Non-Current Liabilities	2,303,482	13	2,576,429	17
	Non-Current Assets					2XXX	Total Liabilities	7,008,383	40	7,083,347	47
1517	Financial Assets Measured at FVTOCI						Equity Attributable to Company Shareholders (Note 26)				
	Financial Assets - Non-Current (Note 4 and 7)	1,210,580	7	-	-		Equity				
1543	Financial Assets Carried at Cost - Non-current					3110	Ordinary Shares	1,205,707	7	1,086,207	7
	(Note 4 and 10)	-	-	183,580	1	3200	Capital Reserve	2,108,235	12	1,290,212	9
1535	Financial Assets at Amortized Cost - Non-Current						Retained Earnings				
	Current (Note 4, 8, 9 and 38)	53,194	-	-	-	3310	Statutory Surplus Reserve	988,725	6	900,538	6
1550	Investments Accounted for Using Equity Method (Note 4 and 15)	292,180	2	278,451	2	3320	Special Surplus Reserve	313,321	2	313,321	2
1600	Property, Plant & Equipment (Note 4, 16) and 38)	3,959,992	23	3,346,729	22	3350	Retained Earnings	4,207,525	24	4,158,679	27
1760	Investment Property (Note 4 and 17)	17,760	-	17,760	-		Total Reserved Earnings	5,509,571	32	5,372,538	35
1805	Goodwill (Note 4, 18 and 31)	86,766	1	91,978	1	3400	Other Equity	804,110	5	( 291,717 )	( 2 )
1821	Other Intangible Assets (Note 4 and 19)	43,874	-	49,301	-	31XX	Total Owner's Equity	9,627,623	56	7,457,240	49
1840	Deferred Income Tax Assets (Note 4 and 29)	251,359	1	247,094	2	36XX	Non-Controlling Interests	727,447	4	658,555	4
1980	Other Financial Assets - Non-Current (Note 4, 11) and 38)	-	-	10,221	-	3XXX	Total Equity	10,355,070	60	8,115,795	53
1985	Prepaid Rent - Non-Current (Note 20)	662,223	4	598,033	4		Total Liabilities and Equity	\$ 17,363,453	100	\$ 15,199,142	100
1990	Other Non-Current Assets (Note 4 and 21)	115,775	1	238,491	1						
15XX	Total Non-Current Assets	6,693,703	39	5,061,638	33						
1XXX	Total Assets	\$ 17,363,453	100	\$ 15,199,142	100						

The attached Notes are part of the consolidated financial statements.  
(Please refer to Audit Report of Deloitte & Touche on March 21, 2019)

Chairman: Wu, Cheng-Hsien

Manager: Hsu, Ming-Hsien

Accounting Manager: Lin, Kun-Chin

Nan Pao Resins Chemical Co., Ltd. and Subsidiaries

Consolidated Comprehensive Balance Sheet

For the Years Ended December 31, 2018 and 2017

Unit: NT\$1,000

(except earnings per share, which is denoted in NT\$)

Code		2018		2017	
		Amount	%	Amount	%
4000	Operating Revenue (Note 4, 27, and 37)	\$ 16,022,220	100	\$ 14,615,008	100
5000	Operating Cost (Note 13, 25, 28 and 37)	<u>12,214,806</u>	<u>76</u>	<u>10,692,017</u>	<u>73</u>
5900	Gross Profit	<u>3,807,414</u>	<u>24</u>	<u>3,922,991</u>	<u>27</u>
	Operating Expenses (Note 25 and 28)				
6100	Selling Expenses	1,677,805	10	1,496,022	10
6200	General and Administrative Expenses	780,891	5	847,335	6
6300	Research and Development Expenses	419,850	3	386,662	3
6450	Estimated Credit Impairment Loss or Gain	<u>27,858</u>	<u>-</u>	<u>-</u>	<u>-</u>
6000	Total Operating Expenses	<u>2,906,404</u>	<u>18</u>	<u>2,730,019</u>	<u>19</u>
6900	Net Operating Profit	<u>901,010</u>	<u>6</u>	<u>1,192,972</u>	<u>8</u>
	Non-Operating Income and Expenses (Note 4, 15 and 28)				
7010	Other Income	156,813	1	85,967	1
7020	Other Gains and Losses	18,454	-	( 92,272 )	( 1 )
7050	Financing Cost	( 61,694 )	-	( 49,312 )	-
7060	Share of Profit or Loss of Associates Accounted for Using Equity Method	<u>21,229</u>	<u>-</u>	<u>23,398</u>	<u>-</u>
7000	Total Non-Operating Income and Expenses	<u>134,802</u>	<u>1</u>	<u>( 32,219 )</u>	<u>-</u>
7900	Pre-Tax Profit	1,035,812	7	1,160,753	8
7950	Income Tax Expenses (Note 4 and 29)	<u>319,182</u>	<u>2</u>	<u>243,750</u>	<u>2</u>
8200	Net Profit of the Year	<u>716,630</u>	<u>5</u>	<u>917,003</u>	<u>6</u>

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Code		2018		2017	
		Amount	%	Amount	%
	Other Comprehensive Gain or Loss (Note 25, 26 and 29)				
8310	Items that will not be reclassified to profit or loss:				
8311	Remeasurement of Defined Benefit Plans	\$ 11,598	-	\$ 49,092	-
8316	Unrealized Valuation Loss (gain) on Investments in an Equity Instrument Measured at FVTOCI	( 349,496 )	( 2 )	-	-
8349	Income Tax Related to Items that will not be Reclassified	( 4,204 ) ( 342,102 )	- ( 2 )	( 8,452 ) 40,640	- -
8360	Items that may be Reclassified to Profit or Loss:				
8361	Exchange differences on translation of foreign financial statements	78,242	-	( 359,901 )	( 2 )
8399	Income Tax Related to Items that may be Reclassified	( 4,026 ) 74,216	- -	58,679 ( 301,222 )	- ( 2 )
8300	Total Other Comprehensive Income for the Year (net of tax)	( 267,886 )	( 2 )	( 260,582 )	( 2 )
8500	Total comprehensive income for the year	\$ 448,744	3	\$ 656,421	4
	Profit Attributable to:				
8610	Owners	\$ 672,775	4	\$ 881,874	6
8620	Non-Controlling Interests	43,855	-	35,129	-
8600		\$ 716,630	4	\$ 917,003	6
	Total Comprehensive Income Attributable to:				
8710	Owners	\$ 400,327	3	\$ 635,626	4
8720	Non-Controlling Interests	48,417	-	20,795	-
8700		\$ 448,744	3	\$ 656,421	4
	Earnings per Share (Note 30)				
9710	Base	\$ 6.15		\$ 8.22	
9810	Diluted	6.12		8.16	

The attached Notes are part of the consolidated financial statements.

(Please refer to Audit Report of Deloitte & Touche on March 21, 2019)

Chairman: Wu, Cheng-Hsien

Manager: Hsu, Ming-Hsien

Accounting Manager: Lin, Kun-Chin

Nan Pao Resins Chemical Co., Ltd. and Subsidiaries  
Consolidated Statement of Changes in Equity  
For the Years Ended December 31, 2018 and 2017

Unit: NT\$1,000

(except earnings per share and share issuance price, which are denoted in NT\$)

		Equity Attributable to Owners										
		Retained Earnings					Other Equity					
							Exchange Difference on Conversion of Foreign Operations	Financial Assets Measured at FVTOCI Unrealized Gain or Loss	Subtotal	Total	Non-Controlling Interests	Total Equity
Code		Capital	Capital Reserve	Statutory Surplus Reserve	Special Surplus Reserve	Undistributed Earnings	( \$					
A1	Balance as of January 1, 2017	\$ 1,034,909	\$ 778,977	\$ 768,016	\$ 313,321	\$ 3,902,903	( \$ 5,229 )	\$ -	( \$ 5,229 )	\$ 6,792,897	\$ 337,219	\$ 7,130,116
	2016 Earnings Distribution (Note 26)											
B1	Statutory Surplus Reserve	-	-	132,522	-	( 132,522 )	-	-	-	-	-	-
B5	Cash Dividend - NT\$5 per share	-	-	-	-	( 532,455 )	-	-	-	( 532,455 )	-	( 532,455 )
C13	Distribution of Capital Surplus in Stock Dividend - NT\$0.2 per share (Note 26)	21,298	( 21,298 )	-	-	-	-	-	-	-	-	-
D1	Net Profit for 2017	-	-	-	-	881,874	-	-	-	881,874	35,129	917,003
D3	Other Comprehensive Income after Tax for 2017	-	-	-	-	40,240	( 286,488 )	-	( 286,488 )	( 246,248 )	( 14,334 )	( 260,582 )
D5	Total Comprehensive Income for 2017	-	-	-	-	922,114	( 286,488 )	-	( 286,488 )	635,626	20,795	656,421
E1	Capital Increase on June 16, Issued at NT\$180 per Share (Note 26)	30,000	510,000	-	-	-	-	-	-	540,000	-	540,000
M3	Disposition of Subsidiaries (Note 32)	-	-	-	-	-	-	-	-	-	( 7,097 )	( 7,097 )
M5	Book Value Differences in Acquisition or Disposal of Shares from Subsidiaries (Note 33)	-	22,926	-	-	( 1,361 )	-	-	-	21,565	( 27,556 )	( 5,991 )
M7	Changes in Subsidiary Shares (Note 33)	-	( 393 )	-	-	-	-	-	-	( 393 )	393	-
O1	Increase in Non-Controlling Interests	-	-	-	-	-	-	-	-	-	334,801	334,801
Z1	Balance as of December 31, 2017	1,086,207	1,290,212	900,538	313,321	4,158,679	( 291,717 )	-	( 291,717 )	7,457,240	658,555	8,115,795
A3	Impact of Retrospective Application (Note 3)	-	-	-	-	-	-	1,376,496	1,376,496	1,376,496	-	1,376,496
A5	Adjusted Balance as of January 1, 2018	1,086,207	1,290,212	900,538	313,321	4,158,679	( 291,717 )	1,376,496	1,084,779	8,833,736	658,555	9,492,291
	Appropriation of Net Income in 2017 (Note 26)											
B1	Statutory Surplus Reserve	-	-	88,187	-	( 88,187 )	-	-	-	-	-	-
B5	Cash Dividend - NT\$5 per share	-	-	-	-	( 543,104 )	-	-	-	( 543,104 )	-	( 543,104 )
C17	Cost of Share-based Payment	-	358	-	-	-	-	-	-	358	-	358
D1	Net Profit for 2018	-	-	-	-	672,775	-	-	-	672,775	43,855	716,630
D3	Other Comprehensive Income after Tax in 2018	-	-	-	-	8,221	68,827	( 349,496 )	( 280,669 )	( 272,448 )	4,562	( 267,886 )
D5	Total Comprehensive Income in 2018	-	-	-	-	680,996	68,827	( 349,496 )	( 280,669 )	400,327	48,417	448,744
E1	Capital Increase - November 26, Issued at NT\$76.8 to 79.56 per Share (Note 26)	119,500	817,663	-	-	-	-	-	-	937,163	-	937,163
M5	Book Value Differences in Acquisition or Disposal of Shares from Subsidiaries (Note 33)	-	2	-	-	( 859 )	-	-	-	( 857 )	( 811 )	( 1,668 )
O1	Increase in Non-Controlling Interests	-	-	-	-	-	-	-	-	-	21,286	21,286
Z1	Balance as of December 31, 2018	\$ 1,205,707	\$ 2,108,235	\$ 988,725	\$ 313,321	\$ 4,207,525	( \$ 222,890 )	\$ 1,027,000	\$ 804,110	\$ 9,627,623	\$ 727,447	\$ 10,355,070

The attached Notes are part of the consolidated financial statements.  
(Please refer to Audit Report of Deloitte & Touche on March 21, 2019)

Chairman: Wu, Cheng-Hsien

Manager: Hsu, Ming-Hsien

Accounting Manager: Lin, Kun-Chin

Nan Pao Resins Chemical Co., Ltd. and Subsidiaries  
Consolidated Cash Flow Statement  
For the Years Ended December 31, 2018 and 2017

Unit: NT\$1,000

C o d e		2018	2017
	Cash flow from operating activities		
A10000	Net Profit before Tax for the Year	\$ 1,035,812	\$ 1,160,753
A20010	Gains and Losses:		
A20100	Depreciation	279,946	238,965
A20200	Amortization	28,432	25,011
A20300	Bad Debt Expenses	-	7,682
A20400	Estimated Credit Impairment Loss	27,858	-
A20900	Financing Costs	61,694	49,312
A21200	Interest Income	( 35,318 )	( 24,430 )
A21300	Dividend Income	( 98,176 )	( 46,338 )
A21900	Employee Stock Option Costs	358	-
A22300	Associates' Share of Profit (Loss)		
	Accounted for Using Equity Method	( 21,229 )	( 23,398 )
A22500	Loss on Disposal of Properties, Plants, and Equipment	4,650	25,909
A23200	Loss of Investments on Disposal of Assets Using Equity Method	-	17,131
A23700	Allowance for Inventory Valuation and Obsolescence Loss	14,677	68,531
A23800	Compensation Paid	-	34,715
A23900	Goodwill Impairment Loss	3,048	-
A29900	Loss on Disposal of Subsidiaries	-	8,180
A30000	Net Variable in Operational Assets/Liabilities		
A31130	Notes Receivable	5,091	( 39,851 )
A31150	Accounts Receivable	( 462,436 )	( 102,184 )
A31160	Accounts Receivable - Stakeholders	11,346	89,996
A31180	Other Receivables	( 162,489 )	442
A31200	Inventory	( 112,351 )	( 530,138 )
A31240	Other Current Assets	( 58,056 )	( 26,970 )
A31990	Other Non-Current Assets	( 2,509 )	4,370
A32125	Contract Liabilities	18,716	-
A32130	Notes Payable	( 16,819 )	( 19,663 )
A32150	Accounts Payable	( 15,220 )	207,967
A32180	Other Payables	7,669	( 20,738 )
A32230	Other Current Liabilities	98,705	( 14,453 )
A32240	Net Defined Benefit Liabilities	( 18,034 )	( 7,104 )
A32990	Other Non-Current Liabilities	13,714	( 7,682 )
A33000	Cash Flow from Operating Activities	609,079	1,076,015
A33100	Interest Income Received	33,390	23,289
A33300	Interest Paid	( 60,634 )	( 51,156 )
A33500	Income Tax Paid	( 425,915 )	( 280,496 )
AAAA	Net Cash Inflow from Operating Activities	155,920	767,652
	Cash Flow from Investment Activities		
B00040	Acquisition of Financial Assets Measured at Amortized Cost	( 255,737 )	-
B00050	Disposal of Financial Assets Measured at Amortized Cost	330,305	-

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C o d e		2018	2017
B00300	Acquisition of Financial Assets Measured at Cost	\$ -	( \$ 20,000 )
B02200	Acquisition of Net Cash Inflow from Subsidiaries	-	66,258
B02300	Net Cash Outflow from Disposal of Subsidiaries	-	( 12,822 )
B02700	Purchase of Properties, Plants, and Equipment	( 812,970 )	( 912,024 )
B02800	Disposition of PPE	15,904	8,749
B03700	Increase in Refundable Deposits	-	( 24,577 )
B03800	Decrease in Refundable Deposits	-	19,103
B04500	Purchased Intangible Assets	( 12,266 )	( 5,775 )
B06500	Increase in Other Financial Assets	-	( 301,638 )
B06600	Decrease in Other Financial Assets	-	181,206
B07300	Increase in Prepaid Rent	( 59,186 )	( 184,102 )
B07600	Dividends Received	<u>105,676</u>	<u>53,838</u>
BBBB	Net Cash Flow from Investing Activities (out)	( <u>688,274</u> )	( <u>1,131,784</u> )
	Cash Flow from Financing Activities		
C00100	Increase in Short-Term Loans	4,660,487	4,883,551
C00200	Decrease in Short-Term Loans	( 4,652,123 )	( 5,279,246 )
C00500	Increase in Short-Term Notes and Bills Payable	259,509	469,049
C00600	Decrease in Short-Term Notes and Bills Payable	( 379,432 )	( 499,012 )
C01600	Long-Term Loans Borrowed	3,226,780	2,689,227
C01700	Long-Term Loans Repaid	( 3,222,707 )	( 2,199,202 )
C03000	Increase in Guarantee Deposits	1,928	531
C03100	Decreases in Guarantee Deposits	( 996 )	( 1,864 )
C04500	Cash Dividends	( 543,104 )	( 532,455 )
C04600	Capital Cash Increase	937,163	540,000
C05400	Acquisition of Subsidiary Shares	( 1,668 )	( 5,991 )
C05800	Changes in Non-Controlling Equity	<u>21,286</u>	<u>215,127</u>
CCCC	Net Cash Inflow from Financing Activities	<u>307,123</u>	<u>279,715</u>
DDDD	Impacts of Exchange Rate Fluctuation on Cash and Cash Equivalents	<u>37,992</u>	( <u>326,076</u> )
EEEE	Net Decrease in Cash and Cash Equivalents	( 187,239 )	( 410,493 )
E00100	Cash and Cash Equivalents at Beginning of Year	<u>3,866,587</u>	<u>4,277,080</u>
E00200	Cash and Cash Equivalents at End of Year	<u>\$ 3,679,348</u>	<u>\$ 3,866,587</u>

The attached Notes are part of the consolidated financial statements.

(Please refer to Audit Report of Deloitte & Touche on March 21, 2019)

Chairman: Wu, Cheng-Hsien

Manager: Hsu, Ming-Hsien

Accounting Manager: Lin, Kun-Chin

Nan Pao Resins Chemical Co., Ltd. and Subsidiaries  
Notes on Consolidated Financial Statements  
For the Years Ended December 31, 2018 and 2017  
(In NT\$ '000, unless otherwise specified)

I. Company History

Nan Pao Resins Chemical Co., Ltd. (hereinafter referred to as "the Company") was founded in October 1963. Our main business operations are in manufacturing, wholesale, and retail of synthetic resins, synthetic plastics, adhesives, resin coatings, dyes, and pigments.

The Company was permitted to undertake public share issuance in May 2017, and in July of the same year, the Company's shares was traded and sold as an emerging stock at the Taipei Exchange (GreTai Securities Market). The Company went public at the Taiwan Stock Exchange in November 2018.

The Consolidated Financial Report will be shown in New Taiwan Dollars (NT\$), the Company's functional currency.

II. Date and Procedure of Financial Statement Ratification

The consolidated financial statements were released on March 21, 2019, after receiving approval from the board of directors.

III. Applicability of New Announcements, Amendment Standards and Interpretations

- (I) The first application of the amended Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), International Financial Reporting Interpretations Committee (IFRIC), and Standard Interpretations Committee (SIC) (hereinafter referred to as "IFRSs") endorsed by Financial Supervisory Commission (hereinafter referred to as "FSC").

With the exception of the following, applicability of the aforementioned amended Regulations Governing the Preparation of Financial Reports by Securities Issuers, as well as IFRSs endorsed and announced by FSC should not result in major changes in the Company's accounting policies:

1. IFRS 9 "Financial Instruments" and Related Amendments

IFRS 9 - "Financial Instruments" supersedes IAS 39 "Financial Instruments: Recognition and Measurement", and amended other standards such as IFRS 7 "Financial Instruments: Disclosures". New requirements of IFRS 9 cover the classification, measurement, impairment of financial assets, and general hedge accounting. For related accounting policies, please refer to Note 4.

## Measurement Types, Valuation, and Impairment of Financial Assets

Based on existing facts and conditions of financial assets carried at cost on January 1, 2018, the Company made assessments on the measurement types of existing financial assets and made adjustments accordingly and chose not to restate the comparison periods. The summarized measurement types, carrying amount and changes determined by IAS 39 and IFRS 9 as of January 1, 2017 are as follows:

Category of Financial Assets	Types of measurement		Book Value		Details
	IAS 39	IFRS 9	IAS 39	IFRS 9	
Cash and Cash Equivalents	Loans and Receivables	Measured at Amortized Cost	\$ 3,866,587	\$ 3,866,587	(2)
Stock Investments	Financial Assets Measured at Cost	Investments in Equity Instruments Measured at FVTOCI	183,580	1,560,076	(1)
Fixed Deposit with Original Maturity Date over 3 Months	Loans and Receivables	Measured at Amortized Cost	273,037	273,037	(2)
Restricted Bank Deposits	Loans and Receivables	Measured at Amortized Cost	749	749	(2)
Notes Receivable, Accounts Receivable (including related parties), and Other Receivables	Loans and Receivables	Measured at Amortized Cost	3,322,102	3,322,102	(2)
Refundable Deposits	Loans and Receivables	Measured at Amortized Cost	49,285	49,285	(2)

	2018 January 1 Carrying amount (IAS 39)	Reclassificati on	Remeasuremen t	2018 January 1 Book Value (IFRS 9)	2018 January 1 Other Equity Effects	Details
<u>Financial Assets Measured at FVTOCI - Equity Instrument</u>						
Add: Reclassification of Financial Assets Measured at Cost (IAS 39)	\$ -	\$ 183,580	\$1,376,496			(1)
	-	183,580	1,376,496	\$ 1,560,076	\$ 1,376,496	
<u>Financial Assets Measured at Amortized Cost</u>						
Add: Reclassification of Loans and Receivables (IAS 39)	-	7,511,760	-			(2)
	-	7,511,760	-	7,511,760	-	
	<u>\$ -</u>	<u>\$ 7,695,340</u>	<u>\$1,376,496</u>	<u>\$ 9,071,836</u>	<u>\$ 1,376,496</u>	

(1) Unlisted stock investments originally measured at cost by IAS 39, are classified as financial assets measured at FVTOCI based on IFRS 9, and should be re-measured at fair value. Therefore, financial assets and other equity measured at FVTOCI, have increased by NT\$1,376,496,000 through the adjustment of unrealized gains and losses from financial assets measured at FVTOCI on January 1, 2018.

(2) Cash and cash equivalents, notes receivable, accounts receivable (including related parties), other receivables, other financial assets (current and non-current), and refundable deposits (other recognized current and non-current assets) were classified as loans and receivables by IAS 39. Under IFRS 9, they are classified as financial assets measured at FVTOCI and assessed for expected credit loss.

## 2. IFRS 15 "Revenue from Contracts with Customers" and Related Amendments

IFRS 15 stipulates the principles for recognizing revenue from customer contracts. The standard supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts", and relevant interpretations. For relevant accounting policies, please refer to Note 4.

The net result of recognized revenue, amounts received, and receivables are recognized as contract assets (liabilities). Prior to the application of IFRS 15, contracts under IAS 18 recognize the decrease in receivables or revenue

collected in advance.

Sales allowances that may occur are recognized as a refund liability when income is recognized (other current liabilities accounted for). Prior to the application of IFRS 15, this was recognized as a deduction from accounts receivable.

The Company has chosen to only apply IFRS 15 retrospectively to contracts not completed before January 1, 2018.

The following is a summary of adjusted item in assets, liabilities and equity after the first-time application of IFRS 15 on January 1, 2018:

	2018 January 1 Amount Before Restatement	Adjustment for First-time Application	2018 January 1 Amount After Restatement
Accounts Receivable	\$ 2,653,921	\$ 37,112	\$ 2,691,033
Accounts Receivable - Stakeholders	<u>331,830</u>	<u>40,411</u>	<u>372,241</u>
Effects on Assets	<u>\$ 2,985,751</u>	<u>\$ 77,523</u>	<u>\$ 3,063,274</u>
Other Current Liabilities	\$ 32,302	\$ 54,740	\$ 87,042
Contract Liability - Current	<u>-</u>	<u>22,783</u>	<u>22,783</u>
Effects on Liabilities	<u>\$ 32,302</u>	<u>\$ 77,523</u>	<u>\$ 109,825</u>

The effects of applying IAS 18 as opposed to adjusting to IFRS 15 on relevant single items and balances in 2018 are as follows:

	December 31, 2018
Accounts Receivable - Increase in Affiliates	\$ 78,443
Accounts Receivable - Increase in Non-Affiliates	<u>23,478</u>
Increase in Assets	<u>\$ 101,921</u>
Increase in Other Current Liabilities	\$ 60,422
Contract Liabilities - Increase in liquidity	41,499
Increase in Liabilities	<u>\$ 101,921</u>

(II) Regulations Governing the Preparation of Financial Reports by Securities Issuers for 2019 and IFRSs endorsed by FSC

New announcements/revisions/standards and interpretations of amendments	Effective Date of Publication by IASB (Note 1)
"Annual Improvements cycle 2015-2017"	January 1, 2019
Amendments to IFRS 9, "Prepayment Features for Negative Compensation"	January 1, 2019 (Note 2)
IFRS 16 "Leases"	January 1, 2019
Amendments to IAS 19, "Plan Amendment, Curtailment, or Settlement"	January 1, 2019 (Note 3)
Amendments to IAS 28, "Long-Term Equity from Associates and Joint Ventures"	January 1, 2019
IFRIC 23, "Uncertainty over Income Tax Treatments"	January 1, 2019

Note 1: Unless otherwise stated, the aforementioned New Publication/Amendment/Standards and Interpretations of Amendments are effective from the fiscal year after their respective dates.

Note 2: FSC allows the Company to elect an early application of such amendments beginning on January 1, 2018.

Note 3: Plan amendments, curtailment, or settlement occurring after January 1, 2019, shall be applicable to this amendment.

1. IFRS 16 "Leases"

IFRS 16 regulates the recognition of lease agreements, as well as lessor and lessee accounting. The standard supersedes IAS 17 "Leases" and IFRIC 4 "Determining Whether an Arrangement Contains a Lease".

Definition of "Leases"

For the first-time application of IFRS 16, the Company will choose whether to conform to (or include) the lease based on IFRS 16 for the contract signed or changed after January 1, 2019. Contracts currently considered to be leasing contracts according to IAS 17 and IFRIC 4 will not be re-evaluated and will be processed in accordance with the transitional provisions of IFRS 16.

The Company as the Lessee

For the first-time application of IFRS 16, except for the low-value target asset leases and short-term leases, the leases are recognized on a straight-line basis, and other leases will recognize the right-of-use assets and lease liabilities on the Consolidated Balance Sheet. The Consolidated Statements of Comprehensive Income will state clearly and separately the depreciation expense of the right-of-use assets and the interest expenses accrued on the lease liabilities. The interest should be calculated using the effective interest rate method. In the Consolidated Statements of Cash Flows, cash payments for the principle of lease liabilities will be is classified under financing activities, whereas cash payments for interest of lease liabilities will be classified under operating activities. Prior to the application of IFRS 16, expense for contracts classified as operating lease were recognized on a straight-line basis, and prepaid leases for obtaining the right-of-use for land were recognized as lease prepaid rent. Cash flow from operating leases is shown under operating activities in the Consolidated Statement of Cash Flow. Contracts classified as financial leases are recognized



as lease assets and lease payables in the consolidated balance sheet.

The Company is expected to adjust the cumulative impact of the retrospective application of IFRS 16 to the retained earnings on January 1, 2019 without recompiling comparative information.

Based on current operating lease agreements under IAS 17, remaining lease payments will be discounted at the lessee's incremental borrowing rate on January 1, 2019. All right-of-use assets will be measured as lease liabilities on that day (and the amount of the prepaid or rent payable previously recognized will be adjusted). Except for the following practical expedient (2), recognized right-of-use assets will be subject to IAS 36 to assess for impairment.

The Company is expected to apply the following practical expedients:

- (1) A single discount rate is used to measure the lease liability for a lease combination with reasonably similar characteristics.
- (2) Lease contract liabilities recognized at the end of 2018 will be adjusted for right-of-use assets as of January 1, 2019, and will not be assessed for impairment according to IAS 36.
- (3) Lease terms that end before December 31, 2019, will be treated as short-term leases.
- (4) Original direct cost is not included in right-of-use asset measurement on January 1, 2019.
- (5) When measuring lease liabilities, lease terms are decided at a later date.

For the leases classified as finance leases under IAS 17, the carrying amount of lease assets and liabilities on December 31, 2018 will be used as the carrying amount for right-of-use assets and lease liabilities on January 1, 2019.

#### The Company as the Lessor

No adjustments will be made to lessor's leases during the transition, and IFRS 16 will be applied from January 1, 2019.

#### Expected Effects on Assets, Liabilities and Equity - January 1, 2019

	2018 December 31 Carrying amount	Adjustments for First-time Application	January 1, 2019 After Adjustment Carrying amount
Prepaid rent - Current	\$ 15,335	( \$ 15,335 )	\$ -
Prepaid rent - Non-Current	662,223	( 662,223 )	-
Right-of-Use Assets	-	1,146,065	1,146,065
Other Current Assets	266	( 266 )	-
Effects on Assets	<u>\$ 677,824</u>	<u>\$ 468,241</u>	<u>\$ 1,146,065</u>
Lease Liability - Current	\$ -	\$ 52,899	\$ 52,899
Lease Liability - Non-Current	-	467,361	467,361
Effects on Liabilities	<u>\$ -</u>	<u>\$ 520,260</u>	<u>\$ 520,260</u>
Retained Earnings	\$ -	( \$ 52,019 )	( \$ 52,019 )
Effects on Equity	<u>\$ -</u>	<u>( \$ 52,019 )</u>	<u>( \$ 52,019 )</u>

2. Amendments to IAS 19, "Plan Amendment, Curtailment or Settlement"

The amendment provides that when the plan is amended, curtailed, or settled, the current service cost and net interests for the remainder of the year shall be determined on the basis of actuarial assumptions used to remeasure the net defined benefit liabilities (assets). In addition, the amendment clarifies the impact of the plan's amendment, curtailment, or settlement on asset cap-related regulations. The Company will defer the application of the aforementioned amendments.

Besides the aforementioned impacts, as of the date of authorization of the Consolidated Financial Statements, the Company's revised assessment of other standards and interpretations shall not cause material effects on financial status and performance.

(III) IFRSs announced by IASB but not yet approved by the FSC nor in effect

New announcements/revisions/standards and interpretations of amendments	Effective Date of Publication by IASB (Note 1)
Amendments to IFRS 3, "Business Combinations"	January 1, 2020 (Note 2)
Amendments to IFRS 10 and IAS 28, "Sale or Contribution of Assets between an Investor and its Associates or Joint Venture"	To be Determined
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8, "Definition of Materiality"	January 1, 2020 (Note 3)

Note 1: Unless otherwise stated, the aforementioned New Publication/Amendment/Standards and Interpretations of Amendments are effective from the fiscal year after their respective dates.

Note 2: this amendment applies to business combinations, as well as other subsequent asset acquisitions, with acquisition dates after January 1, 2020 or the start of the annual reporting period.

Note 3: application of this amendment is postponed to the fiscal year after January 1, 2020.

Until the passage of the Consolidated Financial Statements, the Company will continue to assess the impact of the amendment of other standards and interpretations on the financial condition and performance. The related impact will be disclosed after the assessment.

#### IV. Description of Material Accounting Policies

##### (I) Statement of Compliance

The consolidated financial statements are prepared in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers, and IFRSs endorsed and announced by the FSC.

##### (II) Basis of Preparation

In addition to assessment of financial instruments based on their fair value and the present value of defined benefit obligations minus net defined benefit liabilities recognized at fair value, the Consolidated Financial Report is prepared on a historical basis.

Fair value measurement is divided into three levels based on observability and materiality of the related input:

1. Level 1 Input Value: The offer price (unadjusted) of similar assets or liabilities available in the market on day of assessment.
2. Level 2 Input Value: refers to market inputs other than Level 1 inputs as directly observable (i.e., the price) or indirectly observable (i.e., deduced from the price) assets or liabilities.
3. Level 3 Input Value: refers to unobservable inputs of assets or liabilities.

##### (III) 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 of the balance sheet date; and
3. Cash and Cash Equivalent (excluding assets restricted from being exchanged or used to settle a liability for at least 12 months after the balance sheet date).

Current liabilities include:

1. Liabilities held primarily for the purpose of trading;
2. Liabilities with settlement in the 12 months after the balance sheet date;
3. Liabilities for which settlement date cannot be extended unconditionally to more than 12 months after the balance sheet date.

Other types of assets or liabilities are classified as non-current assets.

##### (IV) Basis of the Merger

The Consolidated Financial Statement includes the Company and entities it controls (subsidiaries). The Consolidated Income Statement has been included in operating loss and profit for acquisition or disposal of subsidiaries from the date of acquisition or up until the date of disposal. The financial statements of subsidiaries have been adjusted to align its accounting policies with those of the Company. All transactions, account balances, income, and expenses between the entities have been written off. The comprehensive income of a subsidiary belongs to the owners of the Company as also its non-controlling interests, even if the latter becomes a deficit balance.

When a change affecting the ownership of the subsidiary does not cause the Company to lose control of the subsidiary, it will be treated as equity transactions. The carrying amount of the Company and its non-controlling interests have been adjusted to reflect the relative changes in the equity of the subsidiary. The difference between the

adjusted non-controlling interest amount and its paid or received fair value consideration will be considered as equity belonging to the owners of the Company.

When the Company loses control of a subsidiary, gain and loss distribution is the difference between the following: (1) fair value of consideration received and (2) total carrying amount of subsidiary assets, liabilities, and non-controlling interests from loss of control date. For the amount belonging to the subsidiary of the Company recognized in other comprehensive income, the accounting practices shall follow the same basis as that followed by the Company for direct disposal of related assets or liabilities.

For details on subsidiaries, shareholding ratio, and business items, please refer to Note 14 and table 7 and 8.

(V) Business Combination

The acquisition method is applied to business combinations. Acquisition costs are listed in the period of its incurrence and service.

Goodwill is measured by adding the fair value of consideration transferred and fair value of the acquirer's previously owned acquiree equity on acquisition date minus the net value of identifiable assets and assumed liabilities on acquisition date.

Acquirees have current ownership interests and non-controlling interests based on ratios for net assets during settlement. It is measured by the fair value of each consolidated transaction, or by the proportionate share of identifiable net assets that have been recognized. Other non-controlling interests are measured at fair value.

(VI) Foreign Currency

In preparing each individual financial statement, transactions denominated in a currency other than the entity's functional currency (i.e. foreign currency) are converted into the entity's functional currency using the exchange rate on the date of transaction.

Monetary items denominated in foreign currencies are converted using the closing rates on the balance sheet date. Differences in delivery or conversion of monetary items are recognized in profit or loss in its period of occurrence.

Non-monetary items denominated in foreign currencies measured at fair value are converted using exchange rate on date of fair value determination. The differences are recognized under profit and loss of the period. For changes in fair value recognized in other comprehensive income, the differences arising from the exchange are recognized in other comprehensive income.

Non-monetary items denominated in foreign currencies and measured at historical cost are converted using exchange rates on date of transaction, and are not re-converted.

When preparing Consolidated Financial Statements, assets and liabilities of overseas entities (including currency of the country or subsidiaries with different currency and associates) are converted into New Taiwan Dollars with the exchange rates on each balance sheet date. Income and expense items are converted at the average exchange rate for the period. The exchange differences are recognized in other comprehensive income, and are attributed to the owners of the Company and non-controlling interests respectively.

If the Company dispose all interests of overseas entities, the cumulative exchange differences will be reclassified under gain or loss.

(VII) Inventories

Inventories include raw materials, merchandise, work in progress, finished goods and semi-finished products and inventory in transit. Inventories are measured by taking the lower value between cost and net realizable value. When comparing the two, individual items are used as the basis except for same-category inventory. The NRV is the estimated selling price under normal circumstances less estimated costs for completion and estimated costs necessary to make the sale. Cost of inventory is calculated using the weighted-average method.

(VIII) Investment in the Associates

Affiliate enterprises (referred to as "associate" in IFRS 10) are companies in which the Company has major influence in but they are neither its subsidiaries nor joint ventures.

The Company follows the equity method for investment in associates.

Under the equity method, investments are initially recognized at cost. The carrying amount of such investments after acquisition date changes in accordance with the Company's share of associates' gain or loss and other comprehensive income, as well as profit allocation. In addition, equity changes in associates are recognized based on shareholding ratio.

Acquisition cost is listed as goodwill when it exceeds the net fair value of the associates' identifiable assets and liabilities on date of acquisition. The goodwill includes the investment's carrying amount and shall not be amortized. The net fair value of the Company's identifiable assets and liabilities from the associates' on date of acquisition, if it exceeds acquisition cost, is listed under profit and loss for the period.

When the Company assesses impairment, the investment's entire carrying amount (including goodwill) is treated as a single asset and is compared to recoverable and carrying amount as impairment testing. Recognized impairment loss is not allocated to any component of the investment carrying amount, including goodwill. Any reversal of impairment loss is recognized within the increasing scope of the investment's recoverable amount.

The Company will no longer apply the equity method when its associates' investment ceases. The retained equity is measured at fair value. The difference in carrying value between the fair value, disposal proceeds, and investment carrying value on date of cessation is recognized under profit and loss. For any amount related to associates recognized in other comprehensive income, the accounting basis is the same as that followed by the Company for direct disposal of related assets or liabilities.

Gain or loss arising from reverse, downstream and cross-stream transactions between the Company and associates are only recognized in the Consolidated Financial Statements if it does not regard the scope of the Company's equity in the associate.

(IX) Property, Plant, and Equipment

Property, plant and equipment (including assets held under financial leases) are recognized at cost, and subsequently calculated at cost less accumulated depreciation and accumulated impairment loss.

PP&E in construction is recognized at cost less accumulated impairment loss. The cost includes professional service expenses and borrowing costs eligible for capitalization. When these assets are completed and ready for use, they are classified as property, plant or equipment, and listed for depreciation.

Each material section of property, plant and equipment is depreciated using the straight-line method over its useful life. The Company reviews estimated useful life,

residual value, and depreciation methods at least at the end of each year, and extend the effects of changes from accounting estimates.

Upon derecognition of property, plant and equipment, the difference between net disposal proceeds and the asset's carrying value is recognized as gain or loss.

(X) Investment Property

Investment property is land whose future use is not yet determined.

Investment property is measured initially at cost (including transaction costs), and subsequently at cost less accumulated impairment loss.

Property, plant and equipment are listed under investment property with carrying amount at end of use.

Upon derecognition of investment property, the difference between net disposal proceeds and the asset's carrying value is recognized under gain or loss.

(XI) Goodwill

Goodwill acquired through business combination uses the amount on the day of acquisition as its cost, and is subsequently measured at cost less accumulated impairment loss.

For the purpose of impairment testing, goodwill is allocated to each cash-generating unit or group ("CGU") that is expected to benefit from the synergies of business combination.

The cash-generating unit to which goodwill has been allocated is tested for impairment annually (also when the unit shows signs of impairment) by comparing the carrying amount with goodwill and recoverable amount. If the goodwill of cash-generating unit is acquired through the year's business combination, the unit is tested for impairment before the end of the same year. If the recoverable amount of cash-generating unit to which goodwill is allocated is less than its carrying value, then impairment loss is the carrying value and the carrying value of other assets is reduced based on its ratio. Any impairment loss is recognized directly as profit and loss. Loss in impairment of goodwill cannot be reversed subsequently.

(XII) Intangible assets

1. Separate Acquisition

The intangible assets acquired separately are measured at cost, and subsequently at cost less accumulated amortization and impairment loss. Intangible assets are amortized on a straight-line basis over their useful life. They are reviewed at least once at the end of the fiscal year to assess its useful life, residual value, amortization methods, and to extend the effects of changes in accounting estimates.

2. Acquired in a Business Combination

Intangible assets acquired through business combinations are recognized at fair value on the date of acquisition and separately from goodwill. They are subsequently measured in the same way as separately-acquired intangible assets.

3. Derecognition

When derecognizing intangible assets, the difference between net disposal proceeds and asset's carrying value is recognized under profit and loss of the period.

(XIII) Impairment of Tangible and Intangible Assets (other than goodwill)

The Company assesses on each balance sheet date for possible impairment of tangible and intangible assets (other than goodwill). If there is any sign of impairment, the asset's recoverable amount is estimated. If the recoverable amount for an individual asset cannot be determined, the Company will estimate the recoverable amount from its cash-generating unit.

The recoverable amount is defined as the higher value between "fair value less costs to sell" and "value in use." If the recoverable amount of an individual asset or cash-generating unit is lower than the carrying value, the carrying value of the asset or cash-generating unit is reduced to its recoverable amount with impairment loss recognized in gain and loss.

When impairment loss is reversed subsequently, carrying value of the asset or cash-generating unit is increased to the recoverable amount after amendment, provided the carrying value is less than the one recognized in impairment loss from previous years (less amortization or depreciation). Reversed impairment loss is recognized under gain or loss.

(XIV) Financial Instruments

Financial assets and liabilities are recognized in the consolidated balance sheet when they become part of the instrument contract clauses in the Company.

While recognizing financial assets and liabilities, if their fair value is not evaluated based on gain or loss, they will be measured using fair value plus transaction costs directly attributable to the acquisition or issuance of the financial asset or liability. Transaction costs directly attributable to the acquisition or issuance of financial assets or liabilities at fair value through profit or loss are recognized as gain or loss.

1. Financial Assets

The customary trading of financial assets is recognized and derecognized on the trading day.

(1) Measurement Types

2018

Financial assets held by the Company are measured at amortized cost and equity instrument investments are measured at fair value through other comprehensive income.

A. Financial assets measured at amortized cost

When the Company's investments in financial assets satisfy the following two conditions simultaneously, they are classified as financial assets measured at amortized cost:

- (a) Held under a certain business model of which the objective of holding the financial assets is to collect contractual cash flows; and
- (b) Cash flow generated on specific dates of contractual terms, that are solely payments of principal and interests on principal amount outstanding.

After initial recognition, financial assets measured at amortized cost (including cash and cash equivalents, receivables, other receivables, and debt instrument investments) become the total carrying value through the effective interest method less any impairment loss at amortized cost. Any gain or loss from foreign currency exchange are recognized as gain or loss.

Except for the following two circumstances, interest revenue is calculated by multiplying effective interest rates and total carrying value of financial assets:

- (a) For purchased or originated credit-impaired financial assets, interest revenue is calculated by multiplying the credit-adjusted effective rates to the financial assets at amortized cost.
- (b) For credit impairment not from purchase or origin, but becomes credit impaired financial assets subsequently, interest revenue is calculated by multiplying effective rates from the next reporting period to the financial assets at amortized cost.

Cash equivalents include fixed deposits acquired for less than 3 months, which are highly liquid, and can be easily converted into cash, fixed deposits or bank's acceptance bill at any time with minimum price fluctuation and can be used to satisfy short-term cash commitments.

**B. Investments in equity instruments measured at FVTOCI**

The Company may, at initial recognition, make an irrevocable election to designate an equity instrument that is neither held for trading nor recognized by acquiree's contingent consideration to be measured at FVTOCI.

Investments in an equity instrument measured at FVTOCI are measured at fair value, and any subsequent changes in fair value are recognized under other comprehensive income and accumulated in other equities. Upon disposal of investment, accumulated loss and profit are directly transferred to retained earnings and are not reclassified to profit or loss.

Dividends from investments in equity instruments measured at FVTOCI are recognized under gain or loss when the Company's right to receive payment is established, unless such dividends clearly represent the recovery of a part of certain investment costs.

**2017**

Financial assets of the Company are available-for-sale financial assets, loans and receivables.

**A. Available-for-Sale Financial Assets**

Available-for-sale financial assets are non-derivative financial assets designated as available for sale, uncategorized into loans and receivables, held-to-maturity investments, or financial assets at fair value through profit or loss.

These available-for-sale financial assets are measured at fair value; changes in the carrying amount of these assets that have profit or loss in foreign currencies, interest revenue calculated using effective interest method, and dividends from available-for-sale equity investments are recognized in profit or loss account. Changes in the carrying value of the remaining available-for-sale financial assets are recognized in other comprehensive income, and reclassified as profit or loss on the disposal of the investment or on the confirmation of impairment.

Dividends from available-for-sale equity investments are recognized when receivable rights of the Company are established.

If available-for-sale financial assets are equity instrument investments



that are not quoted in an active market, and whose fair value cannot be reliably measured, they are evaluated at cost less impairment loss and listed as "financial assets carried at cost". When these assets can be reliably evaluated at fair value, they will be reevaluated. The differences between carrying amount and fair value are recognized under other comprehensive income. In case of impairment, they are recognized under profit or loss account.

B. Loans and Receivables

Loans and receivables (including cash and cash equivalents, accounts receivable, other receivables, other financial assets and refundable deposits) are measured at amortized cost after deducting impairment loss using effective interest methods, except when the interest on short-term account receivables are not material.

Cash equivalents include fixed deposits acquired for less than 3 months, which are highly liquid, and can be easily converted into cash, fixed deposits or bank's acceptance bill at any time with minimum price fluctuation and can be used to satisfy short-term cash commitments.

- (2) Cash equivalents include fixed deposits acquired for less than 3 months, which are highly liquid, and can be easily converted into cash, fixed deposits or bank's acceptance bill at any time with minimum price fluctuation and can be used to satisfy short-term cash commitments.

2018

The Company assesses impairment loss of financial assets (including accounts receivable) measured at amortized cost on the balance sheet date based on estimated credit loss.

Accounts receivable are recognized as allowance loss based on expected credit loss during the duration of the period. Other assets are assessed for significant increase in credit risk since initial recognition. If credit risk has not increased significantly, they are recognized for 12-month loss allowance from expected credit loss. If credit risk has increased significantly, they are recognized for loss allowance from expected credit loss during the duration of the period.

The expected credit loss is the weighted average of credit loss with the risk of a default occurring as weightings. The 12-month expected credit loss represents the expected credit loss from possible default events within 12 months of reporting date, whereas the full lifetime expected credit loss represents the expected credit loss from possible default events over the life of the financial instruments.

The impairment loss on all financial assets is accounted for by reducing the carrying amount of the allowance account.

2017

The Company assesses at each balance sheet date whether there is any objective evidence of impairment for other financial assets. If single or multiple events occur after recognition of financial assets and leads to the loss of estimated future cash flow, the financial assets are deemed to be impaired.

Financial assets measured at amortized cost, such as accounts receivable, are collectively assessed for impairment if no objective impairment evidence exists after individual assessment. Objective impairment

evidence for collective existence of receivables can include the Company's past experience with receivables, observable changes in national or regional economic situations associated with the arrears of receivables.

Impairment loss of financial assets measured at amortized cost is the difference between asset carrying amount and the discounted present value of estimated future cash flow based on original effective interest rate of financial assets.

The decrease in the impairment loss of amortized financial assets is objectively determined as related to that which occurred after the impairment. Then the previously recognized impairment loss is either directly or by adjusting the allowance account for reversal recognized as profit or loss. Of course, provided the reversal of the carrying amount of the financial assets does not exceed the amortized cost of the financial assets in the event of an impairment loss not reported as of the reversal date.

Objective impairment evidence of other financial assets includes material financial difficulties from issuer or debtor, breach of contract (e.g. delay or non-payment of interest or principal), increased likelihood of debtor going bankrupt or seeking financial reorganization, or the disappearance of financial assets from the market due to financial difficulties.

Impairment loss of financial assets measured at cost is the difference between asset's carrying amount and the discounted present value of estimated future cash flow based on present market rate of return of similar financial assets. Such impairment loss cannot be reversed in subsequent periods.

All impairment loss of financial assets is directly deducted from the carrying amount of financial assets. However, the carrying amount of accounts receivable is adjusted through the use of an allowance account. When it is determined a receivable is not collectible, it is written off via the allowance account. Receivables that have been written off and subsequently collected would be recorded as credits to the allowance account. Except when receivables are not collectible and written off to the allowance account, changes in the carrying amount of the allowance account shall be recognized in profit or loss.

### (3) Derecognition of Financial Assets

The Company derecognizes the financial assets when the contractual rights to the cash inflow from the assets expire or when the Company transfers all the risks and rewards of ownership of the financial assets to other enterprises substantially.

Until 2017, when derecognizing an entire financial asset, any difference in accumulated interest or loss between carrying amount and additional consideration collected that has been recognized under other comprehensive income has to be recognized in the profit or loss account. Since 2018, for derecognition of entire financial assets amortized at cost, the difference between carrying amount and the consideration received is recognized under profit or loss. For derecognition of entire equity instrument investments measured at FVTOCI, accumulated loss and profit is transferred directly to retained earnings and not reclassified to profit or loss.

## 2. Financial Liabilities

### (1) Subsequent Measurement

Financial liabilities are measured at amortized cost by effective interest methods.

### (2) Derecognition of Financial Liabilities

When derecognizing financial liabilities, the difference between its carrying value and paid consideration (including any transferred non-cash assets or liabilities) is recognized in the profit or loss account.

## (XV) Revenue Recognition

### 2018

After the Company has identified the performance obligations of the customer's contact, the Company shall distribute the transaction price to each performance obligation and recognize revenue when the performance obligations are met.

#### 1. Sales Revenue from Commodities

Sales revenue from commodities comes from total sales of adhesives, coatings, and building materials. For adhesives, coatings, and building materials, the customer has the right to set the price and usage of the commodity after the terms of trade are fulfilled or the counterparty has inspected and accepted the commodities. The customer is liable for the reselling of the goods and assumes risk of product obsolescence. The Company will recognize revenue and accounts receivable at that time. Advance payments are recognized as contract liabilities before the terms of trade of the products are fulfilled.

When supplying materials for processing, control of the processed goods is not transferred, in which case it is not recognized as revenue.

#### 2. Service revenue

For commodity purchase services, no guarantees are made by the Company before ordering. Therefore, there is no inventory risk. The Company acts as an intermediary for purchasing commodities with no subsequent obligations and recognizes net revenue when product is transferred to the customer.

### 2017

Revenue is measured at fair value of the received or receivable consideration, then deducted from estimated return or discounts for customers, and other similar forms of allowance. The recognition of the return on sales is based on past experience and other factors that could reasonably provide an estimation of the future return.

#### 1. Sales of Merchandise

Sales of merchandise are recognized as revenue when the following conditions are satisfied:

- (1) The Company has transferred material risks and returns of commodity ownership to the customer
- (2) The Company does not maintain management nor effective control over commodities sold
- (3) Revenue amount can be reliably measured.
- (4) Economic benefits related to the transactions will likely flowing to the Company and
- (5) Costs related to transactions, whether incurred or anticipated, can be reliably measured.

When supplying material for processing, the significant risk and rewards of

ownership of the processed goods are not transferred, in which case sales processing is not undertaken at the time.

2. Dividend and Interest Revenue

Dividend revenue from investments is recognized when shareholders' rights to collect payments are established.

Interest revenue is recognized on an accrual basis based on outstanding principal and applicable effective interest rates.

(XVI) Leases

When lease terms transfer most risks and rewards of asset ownership to the lessee, they are classified as finance leases. All other leases are classified as operating leases.

1. Company as the Lessor

Revenue from operating leases is recognized as revenue on a straight-line basis over relevant lease terms.

2. The Company as the Lessee

Finance leases are listed as cost using the lower value between total present value of leases or fair value of lease assets on date of inception. They are also recognized as liabilities under financial leases.

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

3. Land and Building Leases

When leases include land and building elements, the Company classifies them as finance or operating leases based on whether most risks and rewards from ownership of the elements have been transferred to the lessee.

If lease payments can be allocated reliably between these two elements, then each element is classified under relevant lease. If lease payments cannot be allocated reliably between the two elements, the entire lease is classified under finance lease. If both elements clearly meet the standards of operating leases, the entire lease is classified under operating lease.

(XVII) Borrowing Costs

Borrowing costs of loans directly attributable to acquisition, construction, or production of assets that meet requirements is considered part of the asset's cost until it reaches the stage of functional use or is ready for sale.

Certain loans such as eligible capital expenditure that generates revenue from temporary investments are deducted from borrowing costs that meet capitalization conditions.

Except for the above, all other borrowing costs are recognized under profit and loss during period of incurrence.

(XVIII) Employee Benefits

1. Short-Term Employee Benefits

Short-term employee benefit-related liabilities are measured as non-discounted cash that is expected to be paid in exchange for employee services.

2. Post-Employment Benefits

Pension from defined contribution plans is based on the amount of pension that should be paid during the period in which the employee provides the service and shall be recognized as an expense.

Defined benefit cost (including service cost, net interest and remeasurements) of

defined pension plans is determined using projected unit credit method. Service cost (including current and previous service costs) and net interests from net defined benefit liabilities (assets) are recognized as employee benefit expense when they incur, or during amendment or curtailment of the plan. Remeasurement (including actuarial loss and profit as well as return on plan assets after interest deduction) is recognized under other comprehensive income and is listed in retained earnings. It will not be reclassified under profit and loss in subsequent periods.

Net defined benefit liabilities (assets) are shortfall (surplus) for defined benefit pension plans. Net defined benefit assets cannot exceed present value of the plan's returned contributions or possible decrease in future contributions.

(XIX) Share-Based Payment Arrangement

Employee stock options are based on the fair value of equity instruments on grant day and the best estimate of the expected value. The expenses are recognized on a straight-line basis over the vested period, and the capital reserve-employee stock options are adjusted at the same time. If vested at grant date, expense is recognized in full at the same date. The Company establishes cash replenishment and retains employee subscription, which is the date on which the underwriting price is determined.

(XX) Income Tax

Income tax expense is the sum of current income tax and deferred income tax.

1. Current Income Tax

The surtax on unappropriated earnings calculated in accordance with the Income Tax Act is recognized annually at the shareholder's meeting.

Adjustments to income tax payable in prior years are listed under current income tax.

2. Deferred Tax

Deferred income tax is calculated at the temporary differences between carrying value of assets and liabilities, and tax base used to determine the taxable income.

Deferred income tax liabilities are generally recognized for taxable temporary differences, whereas deferred tax assets are recognized when taxable income is likely available for deducting temporary differences, impairments and other expenditures.

Taxable temporary differences from associates and subsidiaries are recognized under deferred tax liabilities, except when the Company is able to control reversal of temporary difference which is not likely to be reversed in the foreseeable future. Deferred tax assets are recognized for deductible temporary differences related to such investments only to the extent that it is likely that taxable income will be used to achieve temporary differences within the foreseeable future.

The carrying value of deferred tax assets is reviewed on each balance sheet date, and reduced when taxable income is not likely to be sufficient to recover all or part of the assets. Unrecognized deferred tax assets are reviewed on each balance sheet date, and the carrying amount is increased when taxable income is likely to be sufficient to recover all or part of the assets.

Deferred tax assets and liabilities are measured at tax rates expected for liability settlement or asset realization of the same period. Tax rates are based on tax laws enacted or substantively enacted on the balance sheet date. Measurement of deferred tax liabilities and assets reflects tax results on the balance sheet date when the Company is expected to recover or settle the carrying amount of its

assets and liabilities.

3. Current and Deferred Income Tax

Current and deferred income tax is recognized in profit and loss, except when recognized respectively in other comprehensive income or in equity.

If current income or deferred tax arises from business combination, tax effects are included in combined accounting.

V. Significant accounting assumptions and judgments, and major sources of estimation uncertainty

When the Company adopts accounting policies, the management must make judgements, estimates, and assumptions based on past experiences and other relevant factors from other sources that are not readily accessible. The actual results may differ from original estimates.

Management will continue to review estimates and basic assumptions. If an amendment of estimates only affects the current period, it shall be recognized in the current period of amendment; if an amendment of accounting estimates affects the current year and future periods, it shall be recognized in the current year and future periods.

Income Tax

To continue to expand the scales of operation of the Company and support the working capital needs of overseas joint venture companies, the management level has decided that the retained earnings as of the end of 2017 from certain Mainland China subsidiaries will be first attributed to permanent investment (resolution passed by the Company's Board of Directors on June 6, 2018). The deferred income tax liabilities are not estimated based on the retained earnings of the above subsidiaries. If the surplus is remitted in the future, it may give rise to material deferred income tax liabilities, which will be recognized in profit or loss at time of incurrence.

VI. Cash and Cash Equivalents

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Cash on Hand and Petty Cash	\$ 8,843	\$ 5,091
Bank Check and Demand Deposit	3,308,965	3,377,495
Cash Equivalents (investments with original maturity date of less than three months)		
Bank's Acceptance Bill	10,189	18,562
Bank Fixed Deposit	<u>351,351</u>	<u>465,439</u>
	<u>\$ 3,679,348</u>	<u>\$ 3,866,587</u>

The interest rate interval of bank fixed deposits on the Balance Sheet date is as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Bank Fixed Deposit	0.66% - 5.5%	0.14% - 5%

VII. Financial Assets Measured at FVTOCI - Non-Current

	<u>December 31, 2018</u>
Domestic Investment	
Unlisted Stocks	<u>\$ 1,210,580</u>

The Company invests in the aforementioned equity instruments based on medium and long-term strategic purposes and expects to make a profit through long-term investments. The

Company's management believes that it is not consistent with the aforementioned long-term investment planning if short-term fair value changes of such investments are listed in profit and loss. Therefore, the Company elects to designate such investment as to be measured at FVTOCI. These investments were originally classified as financial assets under IAS 39. Please refer to Note 3 and 10 for reclassification and 2017 information.

The equity instruments held by the Company measured at FVTOCI are not pledged.

#### VIII. Financial Assets Measured at Amortized Cost

	<u>December 31, 2018</u>
<u>Current</u>	
Fixed Deposit with Original Maturity Date over 3 months (I)	\$ 193,177
Refundable Deposit	<u>2,891</u>
	<u>\$ 196,068</u>
<u>Non-Current</u>	
Fixed Deposit with Original Maturity Date over 3 Months (I)	\$ 7,134
Refundable Deposit	<u>46,060</u>
	<u>\$ 53,194</u>

- (I) As of December 31, 2018, the annual interest rate interval of fixed deposits with original maturity date of over 3 months is from 0.66% to 6.75%. These deposits were classified as other financial assets using IAS 39. Please see Note 3 and 11 for their reclassification and 2017 information.
- (II) For information on credit risk management regarding financial assets measured at amortized cost, as well as impairment assessment, please refer to Note 9.
- (III) For information on pledge of financial assets measured at amortized cost, please refer to Note 38.

#### IX. Credit Risk Management for Debt Instruments

	<u>December 31, 2018</u>
Measured at Amortized Cost - Current	\$ 196,068
Measured at Amortized Cost - Non-Current	<u>53,194</u>
	<u>\$ 249,262</u>

The Company's policy is to invest only in debt instruments with low credit risks as determined by impairment assessment. The Company takes into account historical default loss rate, current financial status of debtors and industry prospects. The Company measures 12-month expected credit loss or expected lifetime credit loss of debt instruments. Due to low credit risk of debtors and sufficient cash flow for contract settlement, expected credit loss for financial assets measured at amortized cost has not been listed as of December 31, 2018.

X. Financial Assets Measured at Cost - Non-Current

	<u>December 31, 2017</u>
Domestic Unlisted Stocks	<u>\$ 183,580</u>

The Company's unlisted stock investments mentioned above are measured at cost less impairment loss on the balance sheet date. Management believes fair value cannot be reliably measured due to material probability of not able to reasonably estimate fair value interval.

The Company's financial assets measured at cost have not been pledged.

XI. Other Financial Assets

	<u>December 31, 2017</u>
<u>Current</u>	
Fixed Deposit with Original Maturity Date over 3 Months	<u>\$ 263,565</u>
<u>Non-Current</u>	
Fixed Deposit with Original Maturity Date over 3 Months	\$ 9,472
Fixed Deposit from Restricted Banks	<u>749</u>
	<u>\$ 10,221</u>

Interval of interest rates for bank fixed deposits on balance sheet date is as follows:

	<u>December 31, 2017</u>
Bank Fixed Deposit	<u>0.94% - 2.75%</u>

For information on the pledge of other financial assets, please refer to Note 38.

XII. Notes Receivable, Accounts Receivable (including affiliates), and Other Receivables

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Notes Receivable</u>		
Measured at Amortized Cost		
Total carrying amount	\$ 293,405	\$ 298,496
Less: Allowance for Bad Debts	<u>-</u>	<u>6</u>
	<u>\$ 293,405</u>	<u>\$ 298,490</u>
Arising from Operations	<u>\$ 293,405</u>	<u>\$ 298,490</u>
<u>Accounts Receivable (including affiliates)</u>		
Measured at Amortized Cost		
Total carrying amount	\$ 3,516,825	\$ 3,018,225
Less: Allowance for Impairment/Bad Debts	<u>46,716</u>	<u>32,474</u>
	<u>\$ 3,470,109</u>	<u>\$ 2,985,751</u>
<u>Other Receivables</u>		
Gross carrying amount	<u>\$ 201,967</u>	<u>\$ 37,861</u>



## 2018

Average credit period for commodity sales from the Company ranges from 30 to 180 days. Interest is not calculated for accounts receivable. To lower credit risks, management of the Company has delegated teams to handle credit limits, credit approval, and other monitoring procedures to ensure appropriate actions have been taken to recover overdue receivables. In addition, the Company reviews recoverable amount of each receivable on the balance sheet date to ensure impairment loss is recognized for unrecoverable receivables. Accordingly, management of the Company believes that credit risk has been significantly reduced.

The Company takes into account customer's default history and current financial status, industry economic situation, and considers industry outlook as basis for expected lifetime credit loss assessment. Since the Company's historical experience of credit loss indicates no significant difference in the loss patterns between the various customer segments, the Company does not group customers into different segments but determines the expected credit loss rate based on the overdue days of accounts receivables.

If evidence indicates that the counterparty is facing severe financial difficulty and recoverable amounts cannot be reliably anticipated, as in the case of the counterparty undergoing liquidation, the Company will directly write off relevant accounts receivable. Nevertheless, recourse will continue and the recovered amounts will be recognized in the profit or loss accounts.

### Notes Receivable

As of December 31, 2018, the Company has no overdue notes receivable and no loss from notes receivable has not been listed.

### Accounts Receivable (including affiliates)

As of December 31, 2018, allowance loss for the Company's accounts receivable is as follows:

	Not Overdue	Overdue 1 - 90 days	Overdue 91 - 180 days	Overdue 181 - 270 days	Overdue 271 - 365 days	Overdue Over 365 days	Total
Total carrying amount	\$ 2,862,518	\$ 563,446	\$ 39,736	\$ 8,935	\$ 7,067	\$ 35,123	\$ 3,516,825
Loss from Allowance (expected lifetime credit loss)	( 36)	( 392)	( 2,040)	( 4,945)	( 5,855)	( 33,448)	( 46,716)
Amortized Cost	<u>\$ 2,862,482</u>	<u>\$ 563,054</u>	<u>\$ 37,696</u>	<u>\$ 3,990</u>	<u>\$ 1,212</u>	<u>\$ 1,675</u>	<u>\$ 3,470,109</u>

Information on changes in allowance for accounts receivables is as follows:

	2018
Balance at Beginning of Year	\$ 32,480
Add: Listing of the Year	27,858
Less: Write-Offs of the Year	( 13,877)
Difference in Foreign Currency Conversion	<u>255</u>
Year-End Balance	<u>\$ 46,716</u>

For reasons of the customer's own settlement or unrecoverability of enforcement, write-off of related accounts receivable and allowance amounted to NT\$ 13,877.

## 2017

Credit policy of the Company in 2017 is the same as 2018. Allowance for bad debts in accounts receivable, along with unrecoverable amount, are estimated using counterparty's past default records and current financial situation.

For accounts receivable overdue on balance sheet date but not recognized in bad debt allowance by the Company, no material credit changes have taken place and management still considers the amount recoverable. The Company does not hold any collaterals or other credit protection for these accounts.

#### Notes Receivable

As of December 31, 2017, the Company has no overdue notes receivable using the number of days overdue as a base and did not list any bad debt allowance for notes receivable.

#### Accounts Receivable (including affiliates)

Aging analysis of accounts receivable is as follows:

	<u>December 31, 2017</u>
Not Overdue	\$ 2,406,104
Less than 60 Days	493,992
61 to 180 Days	72,956
181 to 365 Days	9,728
More than 365 Days	<u>2,971</u>
	<u>\$ 2,985,751</u>

Above is the aging analysis based on the balance of the overdue days after deducting the balance of the allowance for bad debts.

Information on changes in the allowance for receivables is as follows:

	Impairment Loss by Individual Assessment	Impairment Loss by Group Assessment	Total
Balance at Beginning of Year	\$ 16,888	\$ 27,978	\$ 44,866
Add: Acquisition from Business Combination	-	7,501	7,501
Add: Listing of the Year	3,130	4,552	7,682
Less: Write-Offs of the Year	( 15,139)	( 12,909)	( 28,048)
Difference in Translation of foreign currency	( 33)	512	479
Year-End Balance	<u>\$ 4,846</u>	<u>\$ 27,634</u>	<u>\$ 32,480</u>

### XIII. Inventory

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Commodity	\$ 196,799	\$ 159,442
Finished goods and partly-finished goods	873,028	783,051
Work-in-process	78,174	77,371
Raw material	996,733	1,036,380
Inventories in Transit	<u>202,490</u>	<u>195,537</u>
	<u>\$ 2,347,224</u>	<u>\$ 2,251,781</u>

Cost of sales related to inventories in 2017 and 2018 are NT\$ 12,210,959,000 and NT\$10,666,108,000 respectively, of which, cost of sales in the two years including obsolescence and loss from bad debts are NT\$14,677,000 and \$68,531,000 respectively.

#### XIV. Subsidiaries

Entities in the consolidated financial statements are as follows:

Investor Company	Name of Subsidiaries	Business activities	Shareholding Ratio (%)		Details
			2018	2017	
			December 31	December 31	
Nan Pao Resins Chemical Co.	Nan Pao Chemical Co. Ltd.	Trading of chemical substances	100	100	
	Nan Pao Application Material Co.	Trading of chemical substances	100	100	
	Nan Pao Electronic Material Co.	Production and Trading of Electronic Materials	100	100	
	ITLS International Development Co. Ltd.	Trading of construction materials and chemical substances	100	100	
	Prince Pharmaceutical Co.	Manufacturing, packaging, and processing of raw materials for various pharmaceutical and health food	49.9	49.9	Note 1
	Phymed Bio-Tec Co.	R&D and Trading of Health Food	100	100	
	Biorich Biotechnology Co.	R&D, Production, Trading of New High Protein Business and Health Food	57.1	57.06	Note 2
	Nan Pao Advanced Materials Co.	Trading of Adhesives and Chemicals	70	70	
	Fuqing Nan Pao Investments Ltd.	General Investment	100	100	
	Thai Nan Pao Investments Ltd.	General Investment	100	100	
	Nan Pao Resins India Pvt. Ltd.	Trading of Adhesives	100	100	
	Nan Pao Materials Vietnam Co., Ltd.	Production and Trading of Adhesives and Chemicals	100	100	
	Nan Pao Advanced Materials Vietnam Co., Ltd.	Production and Trading of Adhesives and Chemicals	100	100	
	Nan Pao Overseas Holdings Ltd.	General Investment	100	100	
	Profit Land Ltd.	General Investment	73.75	73.75	Note 3
	All Saints Enterprises Ltd.	General Investment	54.53	54.53	Note 3
	Ongoing Profits Ltd.	General Investment	32.18	32.18	Note 3
	PT. Indo Nan Pao Resins Chemical	Production and Trading of Adhesives	49	49	Note 4
	ITLS International Development Co. Ltd.	ITLS Holding Pte. Ltd.	100	100	
	Aftek Materials Vietnam Co., Ltd.	Production and Trading of Construction Materials	70	-	Note 5
ITLS Holding Pte. Ltd.	ITLS ( Malaysia ) SDN BHD	Production and Trading of Construction Materials	100	100	
	PT. ITLS Indonesia	Production and Trading of Construction Materials	100	100	
	ITLS Vietnam Co., Ltd.	Production and Trading of Construction Materials	100	100	
	ITLS-Rich (S) Pte. Ltd.	Trading of Hardware and Construction Materials	100	80	Note 6
	ITLS-SB SDN BHD	Production and Trading of Hardware and Construction Materials	100	100	Note 7
Fuqing Nan Pao Investments Ltd.	Wealth Castle Development Ltd.	General Investment	100	100	
Wealth Castle Development Ltd.	Fuqing Nan Pao Resins Co., Ltd	Production and Trading of Adhesives	100	100	
Thai Nan Pao Investments Ltd.	Thai Nanpao Resins Chemical Co., Ltd.	Production and Trading of Adhesives	100	100	
Nan Pao Overseas Holdings Ltd.	Nan Pao Group Holdings Ltd.	General Investment	100	100	

Investor Company	Name of Subsidiaries	Business activities	Shareholding Ratio (%)		Details
			2018 December 31	2017 December 31	
Nan Pao Group Holdings Ltd.	Greatwill Materials (HK) Ltd.	General Investment	67.68	67.68	
	Profit Land Ltd.	General Investment	26.25	26.25	Note 3
	Nan Pao Resins (Holdings) Ltd.	General Investment	100	100	
	All Saints Enterprises Ltd.	General Investment	45.47	45.47	Note 3
	Qang Yi Electronic Factory Company Ltd.	General Investment	-	-	Note 8
	Mega Victory Ltd.	General Investment	100	100	
	ITLS – TWA Australia Pty. Ltd.	Production and Trading of Hardware, Construction Materials, and Chemicals	100	100	
	NP Australia Pty. Ltd.	General Investment	100	100	
	Ongoing Profits Ltd.	General Investment	67.82	67.82	Note 3
	Treasure Wealth (HK) Ltd.	General Investment	100	100	
	Goldford Investments Ltd.	General Investment	100	100	
	Nan Pao Resins Chemical Philippines, Inc.	Trading of Adhesives	100	100	
	Nan Pao Resins International Ltd.	Trading of chemicals substances and Related Products	100	100	
	Nanpao Advanced Investment Co., Ltd.	General Investment	100	100	Note 9
Greatwill Materials (HK) Ltd.	Foshan Nan Pao Advanced Materials Co., Ltd.	Production and Trading of Adhesives	99	99	Note 3
Profit Land Ltd.	Giant Profit Development Ltd.	General Investment	100	100	
Giant Profit Development Ltd.	Nan Pao Resins (Foshan) Co., Ltd.	Production and Trading of Adhesives	100	100	
Nan Pao Resins (Foshan) Co., Ltd.	Dongguan Bao Jing Chemical Engineering Co., Ltd.	Trading of Chemicals	-	-	Note 10
	Nanpao Chenghong New Material Technology Co., Ltd.	Trading of footwear materials	51	51	
	Foshan Nan Pao Advanced Materials Co., Ltd.	Production and Trading of Adhesives	1	1	Note 3
	Foshan Nan Pao Hung Hou New Materials Co., Ltd.	Trading of Chemicals	-	-	Note 11
Nan Pao Resins (Holdings) Ltd.	Eastlion Enterprises Ltd.	General Investment	100	100	
	Eastlion Industrial Ltd.	General Investment	100	100	
	Nan Pao Resins Development Ltd.	General Investment	100	100	
Eastlion Enterprises Ltd.	Nan Pao Resins (Dongguan) Co., Ltd.	Processing of Adhesives	100	100	
Nan Pao Resins Development Ltd.	Dongguan Jia Chin Electronics Co., Ltd.	Production and Trading of Coatings and Advanced Resins	100	100	
All Saints Enterprises Ltd.	Great Mount Enterprises Ltd.	General Investment	100	100	
Great Mount Enterprises Ltd.	Nan Pao Resins (China) Co., Ltd.	Production and Trading of Adhesives and Coatings	100	100	
Qang Yi Electronic Factory Company Ltd.	Gangyi Electronic (Dongguan) Co., Ltd.	Production and Trading of Magnetic Covers, Magnetic Rings, Iron Cores and Electronic Components	-	-	Note 12
Mega Victory Ltd.	Progroup Technology Co., Ltd.	Trading of Water-Based PU Resin	91.99	91.99	
NP Australia Pty. Ltd.	RLA Polymers Pty Ltd.	Production and Trading of Construction Materials and Chemicals	100	100	

Investor Company	Name of Subsidiaries	Business activities	Shareholding Ratio (%)		Details
			2018 December 31	2017 December 31	
RLA Polymers Pty. Ltd.	RLA Polymers (M) SDN BHD	Production and Trading of Construction Materials and Chemicals	100	100	
Ongoing Profits Ltd.	Rising Sun Associates Ltd.	General Investment	100	100	
Rising Sun Associates Ltd.	Nan Pao Resins (Vietnam) Enterprise Ltd.	Production and Trading of Adhesives and Coatings	100	100	
Goldford Ltd.	Investments PT. Indo Nan Pao Resins Chemical	Production and Trading of Adhesives	18.5	18.5	Note 4
Treasure Wealth Ltd.	(HK) Noroo-Nan Pao Paints & Coatings (Vietnam) Co., Ltd.	Production and Trading of Coatings	50	50	Note 13
Nanpao Investment Co., Ltd.	Advanced Nan Pao (Kunshan) Electronic Commerce Co., Ltd.	Online Business Agency and General Merchandise Trading	100	100	Note 14
	Nantong Nan Pao Resins Materials Co., Ltd.	Production and Trading of Adhesives	100	100	Note 15
	Nan Pao Resins (Yunan) Co., Ltd	Production and Trading of Adhesives	100	-	Note 16

- Note 1: In February 2017, the Company's subscription for the NT\$100,000,000 new issuances from Prince Pharmaceutical Co., Ltd. was not undertaken according to shareholding ratio. Prince Pharmaceutical Co., Ltd. issued executive stock option and some employees executed the subscription right, causing the shareholding ratio to decrease to 49.9%.
- Note 2: The Company acquired fractional shares of Biorich Biotechnology Co. in October 2018, increasing shareholding ratio from 57.06% to 57.1%.
- Note 3: Total direct and indirect shareholding account is 100%.
- Note 4: Total direct and indirect shareholding account is 67.50%.
- Note 5: ITLS International Development Co., Ltd. established and invested in Aftek Materials Vietnam Co., Ltd. in February 2018 with 70% shareholding ratio.
- Note 6: The Company acquired remaining shares of ITLS-Rich (S) Pte. Ltd. in March 2018, increasing shareholding ratio from 80% to 100%.
- Note 7: The Company acquired remaining shares of ITLS-SB SDN BHD in April 2017, increasing shareholding ratio from 80% to 100%.
- Note 8: Qang Yi Electronic Factory Company Ltd. completed liquidation and cancellation in December 2017.
- Note 9: Nan Pao Group Holdings Ltd. established and invested in Nanpao Advanced Investment Co., Ltd. in Mainland China in July 2017 with 100% shareholding ratio.
- Note 10: Nan Pao Resins (Foshan) Co., Ltd. disposed of all shares of Dongguan Bao Jing Chemical Engineering Co., Ltd. for CNY 1,820,000 in December 2017. Therefore, it is no longer included in the consolidated entity.
- Note 11: Nan Pao Resins (Foshan) Co., Ltd. established and invested in Foshan Nanpao Hung Hou Advanced Materials Co., Ltd. in Mainland China in May 2018 with 80% shareholding ratio, and was liquidated and cancelled in November 2018.
- Note 12: Gangyi Electronic (Dongguan) Co., Ltd. completed liquidation and cancellation in October 2017.
- Note 13: Treasure Wealth (HK) Ltd. purchased 1% share from non-related party Naroo-Nan Pao Paints & Coatings (Vietnam) Co., Ltd. for US\$180,000 in April 2017,

increasing shareholding ratio from 49% to 50%. Primary management is designated by the Company and exercises effective control on Naroo-Nan Pao Paints & Coatings (Vietnam) Co., Ltd. Therefore, it has been included in the compilation of the consolidated report since April 2017.

Note 14: Nanpao Advanced Investment Co., Ltd. established and invested in Nan Pao (Kunshan) Electronic Commerce Co., Ltd. in Mainland China in August 2017 with 100% shareholding ratio.

Note 15: Nanpao Advanced Investment Co., Ltd. established and invested in Nantong Nanpao Resins Materials Co., Ltd. in Mainland China in July 2017 with 100% shareholding ratio.

Note 16: Nanpao Advanced Investment Co., Ltd. established and invested in Nanpao Resins Materials (Yunan) Co., Ltd. in Mainland China in August 2018 with 100% shareholding ratio.

#### XV. Investment Using Equity Methods

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Investment in Associates</u>		
Individual Non-Material Associates	<u>\$ 292,180</u>	<u>\$ 278,451</u>

Compilation of Information for Individual Non-Material Associates is as follows:

	<u>2018</u>	<u>2017</u>
Shares from the Company		
Net Income and Total Comprehensive Income of the Year	<u>\$ 21,229</u>	<u>\$ 23,398</u>

Shares of loss and profit and other comprehensive income of associates under equity methods are recognized in financial statements audited by CPA in the same period.

#### XVI. Properties, Plants, and Equipment

	<u>Land</u>	<u>Land Improvement</u>	<u>Building</u>	<u>Machinery Equipment</u>	<u>Transportation Equipment</u>	<u>Other Equipment</u>	<u>Unfinished Constructions and Equipment to be Tested</u>	<u>Total</u>
<u>Cost</u>								
Balance as of January 1, 2018	\$ 1,179,025	\$ 5,625	\$ 1,621,156	\$ 2,334,664	\$ 204,299	\$ 694,247	\$ 170,477	\$ 6,209,493
Additions	-	831	131,704	100,540	7,342	36,998	390,261	667,676
Disposals	-	-	( 8,496 )	( 80,570 )	( 9,462 )	( 24,579 )	-	( 123,107 )
Reclassification	-	-	146,471	182,154	32,235	39,740	( 182,110 )	218,490
Net Exchange Difference	416	( 22 )	19,207	( 16,250 )	( 254 )	( 655 )	11,733	14,175
Balance as of December 31, 2018	<u>\$ 1,179,441</u>	<u>\$ 6,434</u>	<u>\$ 1,910,042</u>	<u>\$ 2,520,538</u>	<u>\$ 234,160</u>	<u>\$ 745,751</u>	<u>\$ 390,361</u>	<u>\$ 6,986,727</u>
<u>Accumulated Depreciation and Impairment</u>								
Balance as of January 1, 2018	\$ -	\$ 5,625	\$ 626,257	\$ 1,568,788	\$ 146,487	\$ 515,607	\$ -	\$ 2,862,764
Depreciation Expense	-	42	56,089	152,566	17,879	53,370	-	279,946
Disposal	-	-	( 4,649 )	( 67,579 )	( 6,945 )	( 23,380 )	-	( 102,553 )
Reclassification	-	-	-	-	( 129 )	501	-	372
Net Exchange Difference	-	( 22 )	3,204	( 15,568 )	( 593 )	( 815 )	-	( 13,794 )
Balance as of December 31, 2018	<u>\$ -</u>	<u>\$ 5,645</u>	<u>\$ 680,901</u>	<u>\$ 1,638,207</u>	<u>\$ 156,699</u>	<u>\$ 545,283</u>	<u>\$ -</u>	<u>\$ 3,026,735</u>
Balance as of December 31, 2018	<u>\$ 1,179,441</u>	<u>\$ 789</u>	<u>\$ 1,229,141</u>	<u>\$ 882,331</u>	<u>\$ 77,461</u>	<u>\$ 200,468</u>	<u>\$ 390,361</u>	<u>\$ 3,959,992</u>

	Land	Land Improvement	Building	Machinery Equipment	Transportation Equipment	Other Equipment	Unfinished Constructions and Equipment to be Tested	Total
<u>Cost</u>								
Balance as of January 1, 2017	\$ 995,878	\$ 5,665	\$ 1,052,950	\$ 2,231,119	\$ 214,514	\$ 668,440	\$ 317,887	\$ 5,486,453
Addition	200,747	-	73,755	181,544	7,450	51,312	345,537	860,345
Disposal	-	-	( 16,232 )	( 137,937 )	( 21,561 )	( 60,483 )	-	( 236,213 )
Acquired from Business Combination	-	-	34,180	30,321	5,989	9,263	5,835	85,588
Loss of control due to disposal of subsidiary	-	-	-	( 273 )	-	( 140 )	-	( 413 )
Reclassification	( 17,760 )	-	509,541	53,591	2,371	38,419	( 483,366 )	102,796
Net Exchange Difference	160	( 40 )	( 33,038 )	( 23,701 )	( 4,464 )	( 12,564 )	( 15,416 )	( 89,063 )
Balance as of December 31, 2017	<u>\$ 1,179,025</u>	<u>\$ 5,625</u>	<u>\$ 1,621,156</u>	<u>\$ 2,334,664</u>	<u>\$ 204,299</u>	<u>\$ 694,247</u>	<u>\$ 170,477</u>	<u>\$ 6,209,493</u>
<u>Accumulated Depreciation and Impairment</u>								
Balance as of January 1, 2017	\$ -	\$ 5,665	\$ 594,097	\$ 1,561,423	\$ 146,049	\$ 517,344	\$ -	\$ 2,824,578
Depreciation	-	-	41,074	128,872	17,230	51,789	-	238,965
Disposal	-	-	( 9,181 )	( 119,993 )	( 17,295 )	( 55,086 )	-	( 201,555 )
Acquired from Business Combination	-	-	7,208	12,826	3,478	5,727	-	29,239
Loss of control due to disposal of subsidiary	-	-	-	( 7 )	-	( 43 )	-	( 50 )
Reclassification	-	-	5,386	-	-	4,299	-	9,685
Net Exchange Difference	-	( 40 )	( 12,327 )	( 14,333 )	( 2,975 )	( 8,423 )	-	( 38,098 )
Balance as of December 31, 2017	<u>\$ -</u>	<u>\$ 5,625</u>	<u>\$ 626,257</u>	<u>\$ 1,568,788</u>	<u>\$ 146,487</u>	<u>\$ 515,607</u>	<u>\$ -</u>	<u>\$ 2,862,764</u>
Balance as of December 31, 2017	<u>\$ 1,179,025</u>	<u>\$ -</u>	<u>\$ 994,899</u>	<u>\$ 765,876</u>	<u>\$ 57,812</u>	<u>\$ 178,640</u>	<u>\$ 170,477</u>	<u>\$ 3,346,729</u>

Depreciation expense is calculated using the straight-line basis based on the below useful years:

Land Improvement	4 to 20 Years
Building	2 to 60 Years
Machinery Equipment	2 to 30 Years
Transportation Equipment	2 to 20 Years
Other Equipment	2 to 20 Years

The Company has shown no indication of impairment in 2017 and 2018, and was not assessed for impairment.

For PP&E amount considered as collateral, please refer to Note 38.

## XVII. Investment Property

	Land
Balance as of January 1, 2017	\$ -
Outflow from property, plant and equipment	<u>17,760</u>
Balance as of December 31, 2017	<u>\$ 17,760</u>
Balance as of December 31, 2018	<u>\$ 17,760</u>

Fair values of investment property for December 31, 2017 and 2018 were NT\$ 159,657,000 and NT\$97,923,000 respectively. They were not assessed by any appraisers and only by management was using actual transaction prices in nearby areas for the past year as reference.

The investment property of the Company is self-owned and no mortgage condition exists.

# XVIII. Goodwill

	2018	2017
<u>Cost</u>		
Balance at Beginning of the Year	\$ 91,978	\$ 89,291
Acquisition of Business Combination in the year (Note 31)	-	3,075
Acquisition of the Year	2,997	-
Net Exchange Difference	( 5,104 )	( 388 )
Year-End Balance	<u>\$ 89,871</u>	<u>\$ 91,978</u>
 <u>Accumulated Impairment Loss</u>		
Balance at Beginning of the Year	\$ -	\$ -
Recognized Impairment of the Year	3,048	-
Net Exchange Difference	57	-
Year-End Balance	<u>\$ 3,105</u>	<u>\$ 91,978</u>
 Year-End Net Amount	 <u>\$ 86,766</u>	 <u>\$ 91,978</u>

The Company tests for impairment on recoverable amount of goodwill at year-end, using value-in-use as basis for calculation of recoverable amount. Calculation of value-in-use is based on the cash flows of the Company's future financial projections as an estimate to reflect specific risks of relevant cash generating units.

Subsidiary production was less than expected. The Company evaluated recoverable goodwill on December 31, 2018, and recognized goodwill impairment of NT\$ 3,048,000 related to subsidiaries.

Recoverable amount is decided based on value-of-use, estimated using management's cash flow projection in the next five years. and calculated with weighted average capital cost rate of 7.22%. These assumptions are based on past operations of CGU and management's expectations for the market.



## XIX. Other Intangible Assets

	Customer Relations	Computer Software	Others	Total
<u>Cost</u>				
Balance as of January 1, 2017	\$ 58,912	\$ 32,941	\$ 7,289	\$ 99,142
Separate Acquisition	-	5,013	762	5,775
Disposal	-	( 4,661 )	-	( 4,661 )
Reclassification	-	2,055	( 15 )	2,040
Net Exchange Difference	( <u>254</u> )	( <u>283</u> )	( <u>317</u> )	( <u>854</u> )
Balance as of December 31, 2017	<u>\$ 58,658</u>	<u>\$ 35,065</u>	<u>\$ 7,719</u>	<u>\$ 101,442</u>
<u>Accumulated Amortization and Impairment</u>				
Balance as of January 1, 2017	\$ 20,468	\$ 17,189	\$ 6,019	\$ 43,676
Amortization Expense	6,084	4,811	1,244	12,139
Disposal	-	( 4,661 )	-	( 4,661 )
Reclassification	-	1,684	( 2 )	1,682
Net Exchange Difference	( <u>125</u> )	( <u>254</u> )	( <u>316</u> )	( <u>695</u> )
Balance as of December 31, 2017	<u>\$ 26,427</u>	<u>\$ 18,769</u>	<u>\$ 6,945</u>	<u>\$ 52,141</u>
Balance as of December 31, 2017	<u>\$ 32,231</u>	<u>\$ 16,296</u>	<u>\$ 774</u>	<u>\$ 49,301</u>
<u>Cost</u>				
Balance as of January 1, 2018	\$ 58,658	\$ 35,065	\$ 7,719	\$ 101,442
Separate Acquisition	5,859	3,175	235	9,269
Disposal	-	( 335 )	( 2,795 )	( 3,130 )
Reclassification	-	-	( 1,061 )	( 1,061 )
Net Exchange Difference	( <u>4,071</u> )	<u>16</u>	<u>108</u>	( <u>3,947</u> )
Balance as of December 31, 2018	<u>\$ 60,446</u>	<u>\$ 37,921</u>	<u>\$ 4,206</u>	<u>\$ 102,573</u>
<u>Accumulated Amortization and Impairment</u>				
Balance as of January 1, 2018	\$ 26,427	\$ 18,769	\$ 6,945	\$ 52,141
Amortization Expense	6,244	5,645	7	11,896
Disposal	-	( 335 )	( 2,795 )	( 3,130 )
Reclassification	-	-	( 371 )	( 371 )
Net Exchange Difference	( <u>1,972</u> )	<u>14</u>	<u>121</u>	( <u>1,837</u> )
Balance as of December 31, 2018	<u>\$ 30,699</u>	<u>\$ 24,093</u>	<u>\$ 3,907</u>	<u>\$ 58,699</u>
Balance as of December 31, 2018	<u>\$ 29,747</u>	<u>\$ 13,828</u>	<u>\$ 299</u>	<u>\$ 43,874</u>

The amortization cost is calculated based on the straight-line basis for the following useful life:

Customer Relations	9 to 11 years
Computer Software	3 to 10 years
Others	2 to 15 years

XX. Prepaid Lease

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Current	\$ 15,335	\$ 14,044
Non-Current	<u>662,223</u>	<u>598,033</u>
	<u>\$ 677,558</u>	<u>\$ 612,077</u>

As of December 31, 2017 and 2018, prepaid lease payments are in the following regions:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Vietnam	\$ 414,724	\$ 398,438
China	199,099	206,471
Malaysia	61,608	4,872
Indonesia	<u>2,127</u>	<u>2,296</u>
	<u>\$ 677,558</u>	<u>\$ 612,077</u>

The right-of-use for land for the above range from 30 to 89 years, and terms will expire between 2023 and 2107.

XXI. Other Assets

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Current</u>		
Input tax amount	\$ 160,692	\$ 218,186
Prepaid cost of goods	208,413	90,522
Prepaid Expense	57,799	37,396
Tax Overpaid Retained for Offsetting the Future Tax Payable	15,515	20,622
Refundable Deposits	-	4,621
Other	<u>10,678</u>	<u>28,315</u>
	<u>\$ 453,097</u>	<u>\$ 399,662</u>
<u>Non-Current</u>		
Prepaid Equipment	\$ 107,815	\$ 188,376
Refundable Deposits	-	44,664
Other	<u>7,960</u>	<u>5,451</u>
	<u>\$ 115,775</u>	<u>\$ 238,491</u>

## XXII. Loans

### (I) Short-Term loans

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Secured loans from banks (Note 38)	\$ 88,963	\$ 60,000
Bank Credit Loans	<u>1,219,576</u>	<u>1,246,649</u>
	<u>\$ 1,308,539</u>	<u>\$ 1,306,649</u>

Annual rates for short-term loans are as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Secured loans from banks	1.52%	1.52%
Bank Credit Loans	0.91% - 5.6%	0.9% - 5.11%

### (II) Short-Term Notes Payable - December 31, 2017

Guarantee / Accepting Institution	Face Value	Discount	Carrying amount	Interest Rate Interval (%)	Name of Collateral
<u>Commercial paper payable</u>					
International Bills Finance Corp.	\$ 60,000	\$ 6	\$ 59,994	1.058	None
China Bills Finance	10,000	14	9,986	1.038	None
Dah Chung Bills Finance Corp	<u>50,000</u>	<u>57</u>	<u>49,943</u>	1.038	None
	<u>\$ 120,000</u>	<u>\$ 77</u>	<u>\$ 119,923</u>		

### (III) Long-Term Debts

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Unsecured Loans</u>		
1. Mizuho Bank	\$ 500,000	\$ 500,000
2. O-Bank	60,000	150,000
3. O-Bank	30,000	30,000
4. Yuanta Commercial Bank	140,000	140,000
5. CTBC Bank	181,000	210,000
6. E.Sun Commercial Bank	-	130,000
7. Taipei Fubon Commercial Bank	230,000	-
8. KGI Bank	140,000	300,000
9. Mega International Commercial Bank	155,498	175,269
10. Mega International Commercial Bank	-	2,623
11. Taiwan Cooperative Bank	<u>208,000</u>	<u>-</u>
	1,644,498	1,637,892
Less: portion recognized as maturing within one year	<u>252,428</u>	<u>33,553</u>
	<u>\$ 1,392,070</u>	<u>\$ 1,604,339</u>

- The Company entered into a 2-year loan contract with Mizuho Bank in December 2016 with a credit line of NT\$500,000,000. An extension was applied to the bank up to December 2020. The credit will be cyclically within the credit line. Annual interest rates were 1% and 1.1%, respectively for December 31,

2017 and 2018.

2. The Company signed a three-year loan agreement with O-Bank in June 2016 with a credit line of NT\$150,000,000. The loan principal will be repaid at once. Changes in application conditions were applied to the Bank in September 2018, and expiration date was extended to September 2021. NT\$90,000,000 was repaid early. The principle will be amortized with every 3 months as 1 term, starting from September 2019. The next repayment in June 2020. Annual interest rates for December 31, 2017 and 2018 are both 1.1998%.
3. The Company signed a five-year loan agreement with O-Bank in June 2017 with a credit line of NT\$300,000,000. The principle is amortized with every 3 months as 1 term, starting from September 2020. Annual interest rates for December 31, 2017 and 2018 are both 1.1839%.
4. The Company signed a three-year loan agreement with Yuanta Commercial Bank in June 2015 with a credit line of NT\$300,000,000. In August 2017, the Company applied for an extension to August 2020. The credit will be used cyclically within the credit line. Annual interest rates were 1.15% and 1.18% respectively for December 2017 and 2018.
5. The Company signed a two-year loan agreement with CTBC Bank in September 2016 with a credit line of NT\$260,000,000. The Company applied for an extension until August 2019. The credit will be used cyclically within the credit line. Annual interest rates for December 2017 and 2018 were 1.0493% - 1.0494% and 1.1863% - 1.2464% respectively.
6. The Company entered into a 2-year loan contract with E.Sun Commercial Bank in April 2016 with a credit line of NT\$200,000,000. In May 2018, the Company applied for a credit line extension to May 2020. The credit line increased to NT\$300,000,000, and will be used cyclically. Annual interest rate was 1.15% as of December 31, 2017.
7. The Company entered into a 2-year loan contract with Taipei Fubon Commercial Bank in December 2017 with a credit line of NT\$300,000,000. However, the Company has applied for an extension until December of 2020. The credit will be used cyclically within the credit line. Annual interest rate was 1.0442% - 1.0571% for 2018.
8. The Company entered into a two-year loan contract with KGI Bank in August 2017 with a credit line of NT\$500,000,000. The Company has applied for an extension up to August 2020. The credit will be used cyclically within the credit line. Annual interest rates for 2018 and December 31, 2017 were 1.03778% - 1.03933% and 1.036% respectively.
9. The Company signed a five-year loan agreement with Mega International Commercial Bank in June 2017 with a credit line of US\$ 15,000,000. The credit will be repaid in 17 installments starting from June 2018, where each installment is for every 3 months. In July 2018, the Bank amended the contract with the bank and reduced credit line to US\$6,200,000. Annual interest rates were for 2018 and December 31, 2017 were 3.336% - 3.69% and 2.7% respectively.
10. The Company signed a four-year loan agreement with Mega International Commercial Bank in December 2014 with a credit line of US\$ 1,000,000. The credit will be repaid in installments starting from December 2015, where each installment is for every 6 months. The loan principal was settled in December 2018. Annual interest rate was 7% as of December 31, 2017.

11. The Company signed a two-year loan agreement with Taiwan Cooperative Bank in August 2017 with a credit line of NT\$320,000,000. The loan shall be allocated in accordance with 80% coverage according to the progress of the construction project through verifying invoices or relevant transaction payment certificates. Loan principal repayment will be paid at once or the loan will be changed into a long-term guarantee loan of NT\$320,000,000. Annual interest rate was 1.6% as at 31 December 2018.

#### XXIII. Notes Payable and Accounts Payable

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Bill Payable</u>		
Arising from Operations	\$ <u>35,908</u>	\$ <u>52,334</u>
<u>Accounts Payable</u>		
Arising from Operations	\$ <u>1,923,206</u>	\$ <u>1,948,306</u>

The Company has formulated a set of financial risk management policies to ensure that all payables are repaid within agreed term of credit.

#### XXIV. Other Liabilities

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Current</u>		
Other Liabilities		
Refund Liabilities	\$ 101,921	\$ -
Revenue Received in Advance	-	22,783
Others	<u>83,968</u>	<u>9,519</u>
	\$ <u>185,889</u>	\$ <u>32,302</u>
<u>Non-Current</u>		
Other Liabilities		
Guarantee Deposits	\$ 2,050	\$ 1,141
Others	<u>54,572</u>	<u>40,858</u>
	\$ <u>56,622</u>	\$ <u>41,999</u>

#### XXV. Post-Retirement Benefit Plan

##### (I) Defined Contribution Plans

The pension system from "Labor Pension Act" applicable to domestic consolidated entities in the Company is a defined contribution plan under government administration. The Company contributes 6% of the employee's monthly salary to the account at Bureau of Labor Insurance.

The Company's subsidiaries in Mainland China and other regions will contribute a specified percentage of salary to retirement benefit plan in accordance with local laws and regulations.

##### (II) Defined Benefit Plans

The Company's pension system conducted in accordance with "Labor Standards Act" is a defined benefit pension plan managed by government. Employee pension payments are based on years of service and average salary for the first six months prior to retirement. The Company contributes 2% to 15% of total employee salary to the pension fund at the end of each month. The pension fund committee makes deposits

in its name to the designated account at Bank of Taiwan. Before year-end, for employees whose account balance is not sufficient for payments until reaching retirement within the following year, contribution for the difference will be allocated in the following March. The Bureau of Labor Funds, Ministry of Labor is assigned to administer the account. The Company retains no rights that may influence its investment and administration strategies.

The employees belonging to subsidiaries in Indonesia are part of the retirement benefit plans of the Indonesian government. The subsidiaries are required to contribute a specified percentage of salary to the retirement benefit plans as funding.

Amounts included in defined benefit plans listed in the consolidated balance sheet are as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Present Value of Defined Benefit Obligations	\$ 436,747	\$ 456,404
Fair Value of Plan Assets	( <u>287,337</u> )	( <u>277,363</u> )
Net Defined Benefit Liabilities	<u>\$ 149,410</u>	<u>\$ 179,041</u>

Changes in net defined benefit liabilities are as follows:

	<u>Present Value of Defined Benefit Obligations</u>	<u>Fair Value of Plan Assets</u>	<u>Net Defined Benefit Liabilities</u>
Balance as of January 1, 2017	<u>\$ 519,478</u>	( <u>\$ 284,241</u> )	<u>\$ 235,237</u>
Service Cost			
Current Service Cost	9,630	-	9,630
Interest Expense (income)	<u>7,443</u>	( <u>3,654</u> )	<u>3,789</u>
Recognized in Profit and Loss	<u>17,073</u>	( <u>3,654</u> )	<u>13,419</u>
Remeasurement			
Return on Plan Assets (excluding amounts with net interests)	-	1,328	1,328
Actuarial Gains – Changes in Demographic Assumptions	( 1 )	-	( 1 )
Actuarial Losses – Changes in Financial Assumptions	10,056	-	10,056
Actuarial Gains – Experience Adjustments	( 59,139 )	-	( 59,139 )
Actuarial Gains – Others	( <u>1,336</u> )	-	( <u>1,336</u> )
Recognized in Other Comprehensive Income	( <u>50,420</u> )	<u>1,328</u>	( <u>49,092</u> )
Contribution from Employer	-	( 18,891 )	( 18,891 )
Benefits Paid	( 28,326 )	28,095	( 231 )
Net Exchange Difference	( <u>1,401</u> )	-	( <u>1,401</u> )
Balance as of December 31, 2017	<u>456,404</u>	( <u>277,363</u> )	<u>179,041</u>
Service Cost			
Current Service Cost	7,868	-	7,868
Past Service Cost and Loss from Settlement	122	-	122
Interest Expense (income)	<u>5,486</u>	( <u>2,909</u> )	<u>2,577</u>

	Present Value of Defined Benefit Obligations	Fair Value of Plan Assets	Net Defined Benefit Liabilities
Recognized in Profit and Loss	<u>13,476</u>	<u>( 2,909)</u>	<u>10,567</u>
Remeasurement			
Return on Plan Assets (excluding amounts with net interests)	-	( 8,403)	( 8,403)
Actuarial Losses – Changes in Financial Assumptions	\$ 3,515	\$ -	\$ 3,515
Actuarial Gains – Experience Adjustments	( 4,095)	-	( 4,095)
Actuarial Gains – Others	( <u>2,615</u> )	<u>-</u>	( <u>2,615</u> )
Recognized in Other Comprehensive Income	( <u>3,195</u> )	( <u>8,403</u> )	( <u>11,598</u> )
Employer Contribution	-	( 23,747)	( 23,747)
Benefits Paid	( 29,183)	25,085	( 4,098)
Net Exchange Difference	( <u>755</u> )	<u>-</u>	( <u>755</u> )
Balance as of December 31, 2018	<u>\$ 436,747</u>	<u>( \$ 287,337)</u>	<u>\$ 149,410</u>

The amount of defined benefit plans recognized in profit and loss according to function is summarized below:

	2018	2017
Operating Cost	\$ 5,527	\$ 6,121
Selling Expense	1,986	3,004
Administrative Expense	2,222	3,127
Research and Development Expense	<u>832</u>	<u>1,167</u>
	<u>\$ 10,567</u>	<u>\$ 13,419</u>

The Company has exposed the following risks in pension system of "Labor Standards Act":

1. Investment Risk: Bureau of Labor Funds, by itself or through an intermediary, invests pension fund in foreign/domestic equity securities, debt securities, and bank deposits, provided the distributed amount of the Company's plan assets are higher than 2-year fixed deposit rates of local banks domestic.
2. Interest Rate Risk: decrease in government bond interest rate will increase present value of defined benefit obligation. However, return on debt investments of plan assets will also increase. Effects of the two on net defined benefit obligations will partially offset each other.
3. Salary Risk: present value of defined benefit obligations is calculated with reference to future salaries of plan members. Salary increase of plan members will increase present value of defined benefit obligations.

Present value of the Company's defined benefit obligation is determined by a qualified actuary. Material assumptions on the measurement date are as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Discount Rate	1% - 8.5%	1% - 7%
Expected Salary Growth Rate	2.5% - 10%	2% - 10%

If reasonably possible changes occur in material actuarial assumptions while all other assumptions remain unchanged, the present value of defined benefit obligations will increase (decrease) as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Discount Rate		
0.25% Increase	( \$ 10,085 )	( \$ 10,995 )
0.25% Decrease	<u>\$ 10,489</u>	<u>\$ 11,459</u>
Expected Salary Growth Rate		
0.25% Increase	<u>\$ 10,005</u>	<u>\$ 11,229</u>
0.25% Decrease	( <u>\$ 9,941</u> )	( <u>\$ 10,845</u> )

As actuarial assumptions may be related to one another, changes in a single assumption is not likely, and actual change in present value of defined benefit obligations may not be reflected in the analysis above.

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Expected Contribution within 1 Year	<u>\$ 22,925</u>	<u>\$ 26,810</u>
Average Maturity Period of Defined Benefit Obligations	9 to 18.11 Years	9 to 17.89 Years

## XXVI. Equity

### (I) Capital

#### Ordinary Shares

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Authorized Shares (thousand shares)	<u>200,000</u>	<u>200,000</u>
Authorized Capital	<u>\$ 2,000,000</u>	<u>\$ 2,000,000</u>
Number of Issued and Paid-For Shares (thousand shares)	<u>120,570</u>	<u>108,621</u>
Issued Capital	<u>\$ 1,205,707</u>	<u>\$ 1,086,207</u>

Ordinary shares are issued with the par value of NT\$10 per share, and each ordinary share represents the right to vote and receive dividends.

The Company's board of directors passed a resolution to issue 3,000,000 shares on March 2, 2017 at a premium of NT\$180 per share for a total of NT\$540,000,000. The date of capital increase is June 16, 2017, and registration was completed on June 27,



2017.

The shareholders' meeting passed a resolution to issue NT\$21,298,000 in ordinary shares from capital surplus to capital increase on May 16, 2017, with a total of 2,130,000 new shares issued. The par value of each share is NT\$10 and is calculated from the capital increase date of August 2, 2017.

In anticipation of underwriting of pre-IPO listing, the board of directors passed a resolution on September 26, 2018 to issue 11,950,000 shares at NT\$10 per share at par value and issued at a premium of NT\$76,8 - NT\$79,56. Actual share capital is NT\$1,205,707,000 after capital increase. The above cash capital increase was approved by TWSE on October 9, 2018. The board of directors passed a resolution authorizing the chairman to set November 9, 2018 at capital increase date, and registration of the changes was completed on December 18, 2018.

(II) Capital Surplus

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>May be used to make up for</u> <u>loss, cash distribution, or</u> <u>for capital replenishment</u>		
(1)		
Stock Issuance Premium	\$ 2,040,204	\$ 1,222,541
Difference Between Share Price Acquired from Subsidiaries and Book Value	2	-
<u>Only to Offset Loss</u>		
Recognized value of changes in equity of ownership of subsidiaries (2)	23,811	23,811
Employee Stock Options Exercised	44,083	43,860
Expired Stock Options	135	-
	<u>\$ 2,108,235</u>	<u>\$ 1,290,212</u>

1. The capital surplus from stock issuance premium may be used to cover loss and may also be used to issue cash or capital when the Company has no loss, but the capital replenishment is restricted to a certain ratio of paid-in capital every year.
2. The capital surplus of the recognized value of changes in the equity of ownership of subsidiaries is the value of affected equity transactions recognized for change in the equity of subsidiaries, or the adjustment value of the capital surplus of the subsidiary recognized by the Company through the equity method.

(III) Retained Earnings and Dividend Policy

Pursuant to the policy on allocation of surplus in the Company's Articles of Association, the Company shall first pay taxes and cover for loss from previous years if the surplus is found after closing the accounts for the year. Subsequently, 10% shall be appropriated as a legal capital reserve, and after which the surplus could be appropriated based on other legal regulations or regulations of the competent authority, or appropriated as a special capital reserve. A distribution motion regarding the earnings left over shall be prepared by the Board of Directors, and submitted to the shareholders for a resolution. The Company's Articles of Association has stipulated policy on employee remuneration and directorial compensations. Please see (6)

Employee Remuneration and Directorial Compensations in Note 28.

As the Company is in a period of robust growth, in order to cope with future operational expansion plan, dividend distribution should be no less than 10% of the year's remaining profit. Shareholder dividend shall be paid in a combination of cash and stock dividend, in which cash dividend will account for 20% to 100%, and the stock dividend 0% to 80%.

Legal capital reserve may be used to cover loss. When the Company has no loss, the portion of legal capital reserve that exceeds 25% of total paid-in capital may be used to pay in cash, in addition to capital replenishment.

The Company distributes and appropriates special capital reserve pursuant to Letter No. 1010012865 and Letter No. 1030006415 from the FSC, and "Q&A of the Application of the Special Capital Reserve After Adopting the International Financial Reporting Standards (IFRSs)."

The Company held Shareholders' Meetings on June 14, 2018, and May 16, 2017, during which the 2017 and 2016 appropriation of earnings passed, respectively, were as follows:

	Earnings appropriation proposal		Dividends per share (NT\$)	
	2017	2016	2017	2016
Legal Capital Reserve	\$ 88,187	\$ 132,522		
Cash Dividend	543,104	532,455	\$ 5	\$ 5

On May 16, 2017, the Company's shareholders' meeting resolved to increase capital from NT\$21,298,000 of surplus.

The Company's proposal for distribution of earnings for 2018 was proposed by the board of directors on March 21, 2019:

	Earnings appropriation proposal	Dividends per share (NT\$)
Legal Capital Reserve	\$ 67,277	
Cash Dividend	602,854	\$ 5

The distribution of earnings for 2018 is still pending resolution from annual shareholders' meeting on June 14, 2019.

(IV) Special Capital Reserve

For the first-time adoption of IFRSs, unrealized write-ups, accumulated revaluation adjustment, and retained earnings appropriated from surplus were listed at a total of NT\$313,213,000. Special capital reserve of the same amount has been appropriated.

(V) Other Equity Items

1. Exchange differences on translation of foreign financial statements

	2018	2017
Balance at Beginning of Year	(\$ 291,717)	(\$ 5,229)
Changes in Tax Rates From Current Year	10,544	-
Currency translation differences from overseas operations	72,853	( 345,167 )
Relevant Income Tax	( 14,570 )	58,679
Year-End Balance	( \$ 222,890 )	( \$ 291,717 )

2. Unrealized Financial Asset Gains and Losses Measured at FVTOCI

	2018
Balance at Beginning of the Year (IAS 39)	\$ -
Effects of Retrospective IFRS 9 Application	1,376,496
Balance at Beginning of the Year (IFRS 9)	1,376,496
From Current Year	
Unrealized Gains and Losses – Equity Instruments	( 349,496 )
Year-End Balance	<u>\$ 1,027,000</u>

(VI) Non-Controlling Interests

	2018	2017
Balance at Beginning of the Year	\$ 658,555	\$ 337,219
Net Profit of the Year	43,855	35,129
Other Comprehensive Income of the Year		
Exchange differences on translation of foreign financial statements	5,389	( 14,734 )
Remeasurement of Defined Benefit Plans	( \$ 964 )	\$ 524
Related Income Tax	137	( 124 )
Increase in Non-Controlling Interests from Acquisition of Subsidiaries (Note 31)	-	119,674
Disposal of Subsidiary Equity (Note 32)	-	( 7,097 )
Acquisition of Non-Controlling Interest in	( 811 )	( 4,630 )

	2018	2017
Subsidiaries (Note 33)		
Difference in Book Value and Price of Equity Acquisition from Subsidiaries (Note 33)	-	( 22,533 )
Dividend Payout from Subsidiaries	( 404 )	( 8,697 )
Share Return from Subsidiary Liquidation	( 8,787 )	( 13 )
Cash Capital Increase in Subsidiaries	-	200,000
Others	30,477	23,837
Year-End Balance	<u>\$ 727,447</u>	<u>\$ 658,555</u>

## XXVII. Revenue

- (I) Please refer to Note 42 for details on customer contract revenue.
- (II) Contract Balance

	<u>December 31, 2018</u>
Accounts Receivable (including affiliates, Note 12)	<u>\$ 3,516,825</u>
Contract Liability - Current Commodity Sales	<u>\$ 41,499</u>
Refund Liability - Current (listed in other current liabilities) Commodity Sales	<u>\$ 101,921</u>

Changes in contract liabilities are caused mainly by difference of timing between obligation fulfillment and customers' payments.

## XXVIII. Net Profit for the Year

- (I) Other Revenues

	2018	2017
Dividend Income	\$ 98,176	\$ 46,338
Revenue from Subsidies	23,045	14,909
Interest Income	35,318	24,430
Rental Income	274	290
	<u>\$ 156,813</u>	<u>\$ 85,967</u>

(II) Other gain and loss

	2018	2017
Net Foreign Exchange Profit (loss)	\$ 19,090	( \$ 46,578 )
Loss from Disposal of Properties, Plants, and Equipment	( 803 )	-
Compensation Paid	-	( 34,715 )
Disposal of loss on investments	-	( 25,311 )
Others	167	14,332
	<u>\$ 18,454</u>	<u>( \$ 92,272 )</u>

(III) Financial Costs

	2018	2017
Interest of bank loans	\$ 61,707	\$ 48,949
Loan interest payable	1,058	363
Less: amount included in cost of required assets	( 1,071 )	-
	<u>\$ 61,694</u>	<u>\$ 49,312</u>

Information on capitalization of interest is as follows:

	2018
Capitalization of Interest Amount	\$ 1,071
Rates from Capitalization of Interest	1.6%

(IV) Depreciation and Amortization

	2018	2017
Properties, Plants, and Equipment	\$ 279,946	\$ 238,965
Intangible Assets and prepaid rent	28,432	25,011
	<u>\$ 308,378</u>	<u>\$ 263,976</u>
Depreciation Summarized by Functions		
Operating Costs	\$ 211,165	\$ 178,601
Operating Expense	68,781	60,364
	<u>\$ 279,946</u>	<u>\$ 238,965</u>
Amortization Summarized by functions		
Operating Costs	\$ 1,989	\$ 2,266
Operating Expense	26,443	22,745
	<u>\$ 28,432</u>	<u>\$ 25,011</u>

(V) Employee Benefit Expense

	2018	2017
Short-Term Employee Benefits		
Salaries	\$ 1,690,311	\$ 1,610,431
Labor and Health Insurance	172,133	104,601
Others	<u>127,272</u>	<u>148,865</u>
	<u>1,989,716</u>	<u>1,863,897</u>
Post-Retirement Benefits		
Defined Contribution Plan	84,939	72,034
Defined Benefit Plan (Note 25)	<u>10,567</u>	<u>13,419</u>
	<u>95,506</u>	<u>85,453</u>
	<u>\$ 2,085,222</u>	<u>\$ 1,949,350</u>
Summarized by Functions		
Operating Costs	\$ 697,570	\$ 678,388
Operating Expense	<u>1,387,652</u>	<u>1,270,962</u>
	<u>\$ 2,085,222</u>	<u>\$ 1,949,350</u>

(VI) Employee Remuneration and Director Compensations

The Company's remuneration for employees and directors shall be 2 to 6% and under 3% of the earnings before tax and before deducting remuneration for employees and directors. Remuneration of employees, directors and supervisors for 2017 and 2018 were resolved by the board of directors on March 21, 2019 and April 12, 2018, respectively.

1. Estimated Ratio

	2018	2017
Employee Remuneration	3.7%	3.1%
Remuneration for Directors and Supervisors	1.5%	1.6%

2. Amount

	2018	2017
	C a s h	C a s h
Employee Rewards	\$ 33,000	\$ 35,000
Remuneration for Directors and Supervisors	13,322	18,000

If changes are made to the amount after the publication of the Consolidated Annual Financial Report, they apply in accordance with accounting estimation changes and will be included in the financial statements of the following year.

Actual employee compensation and remuneration for directors in 2017 and 2016 were consistent with amounts recognized in the consolidated financial statements.

Please refer to "Market Observation Post System" of Taiwan Stock Exchange for information on the Company's employee and director remunerations.

(VII) Currency Exchange Gain or loss

	2018	2017
Total currency exchange gain	\$ 221,313	\$ 93,690
Total currency exchange loss	( 202,223 )	( 140,268 )
Net Profit (loss)	<u>\$ 19,090</u>	<u>( \$ 46,578 )</u>

XXIX. Income tax

(I) Main composition of income tax expense recognized in profit or loss

	2018	2017
Current Income Tax		
Generated during the Year	\$ 282,735	\$ 339,806
Surtax on Unappropriated Retained Earnings	29,110	68,553
Adjustments from Previous Years	73,088	( 58,404 )
R&D Deduction	( 1,756 )	( 13,915 )
	<u>383,177</u>	<u>336,040</u>
Deferred Income Tax		
Changes in Tax Rates	58,299	-
Generated during the Year	( 122,294 )	( 92,290 )
	( 63,995 )	( 92,290 )
	<u>\$ 319,182</u>	<u>\$ 243,750</u>

Reconciliation between accounting income and income tax expense is as follows:

	2018	2017
Profit before tax	<u>\$ 1,035,812</u>	<u>\$ 1,160,753</u>
Profit before tax calculated using income tax expense at the statutory rate	\$ 296,617	\$ 328,140
Expense not Deductible for Tax	3,708	6,872
Tax-Exempt Income	( 19,635 )	( 7,877 )
Unrecognized Temporary Difference	( 99,434 )	( 482 )
Changes in Tax Rates	58,299	-
Permanent Difference	( 3,202 )	( 63,068 )
Surtax on Unappropriated Retained Earnings	29,110	68,553
Adjustments in Prior Years	73,088	( 58,404 )
Tax Relief	( 17,613 )	( 16,069 )
R&D Deduction	( 1,756 )	( 13,915 )
	<u>\$ 319,182</u>	<u>\$ 243,750</u>

Based on tax laws in the Republic of China, the applicable tax rate to the Company is 17% in 2017. The tax rate for operating income tax is adjusted from 17% to 20% after tax law amendments in February 2017 and is applicable from 2018. In addition, the tax rate applicable to undistributed earnings for 2018 will decrease from 10% to 5%. The tax rate applicable to subsidiaries in the Mainland China is 25%. Tax arising from other jurisdictions is calculated using tax rates applicable to the respective jurisdictions.

As shareholders meeting on distribution of earnings in 2019 is still uncertain, potential income tax consequences for undistributed earnings of 2018 are not yet determined.

(II) Income Tax Expense Recognized in Other Comprehensive Income

	2018	2017
<u>Deferred Income Tax</u>		
Changes in Tax Rates	\$ 8,817	\$ -
Accrued in the Current Year		
Translations from Overseas Operations	( 14,570 )	58,679
Remeasurement of Defined Benefit Plans	( 2,477 )	( 8,452 )
	( \$ 8,230 )	\$ 50,227

(III) Current Income Tax Assets and Liabilities

	December 31, 2018	December 31, 2017
<u>Current Income Tax Assets</u>		
Tax Refund Receivable	\$ 13,197	\$ 19,763
<u>Current Income Tax Liabilities</u>		
Income Tax Payable	\$ 169,036	\$ 224,170

(IV) Deferred Income Tax Assets and Liabilities

Changes in deferred income tax assets and liabilities are as follows:

2018

	Balance at Beginning of Year	Recognized in Profit and Loss	Recognized in Other Comprehensive Income	Exchange Difference	Year-End Balance
<u>Deferred Income Tax Assets</u>					
Temporary Difference					
Currency Translation Difference from Overseas Operations	\$ 59,750	\$ -	( \$ 4,026 )	\$ -	\$ 55,724
Defined Benefit Retirement Plan	31,818	3,220	( 4,204 )	( 202 )	30,632
Loss on Inventory Write-Down	28,076	5,279	-	( 3,442 )	29,913
Loss Allowance	2,240	644	-	3	2,887
Accrued Leave Benefits	2,858	967	-	( 68 )	3,757
Unrealized Gross Profit	12,972	1,777	-	-	14,749
Others	30,414	( 2,540 )	-	7,859	35,733
	168,128	9,347	( 8,230 )	4,150	173,395
Impairment Credit	78,966	9,002	-	( 10,004 )	77,964
	<u>\$ 247,094</u>	<u>\$ 18,349</u>	<u>( \$ 8,230 )</u>	<u>( \$ 5,854 )</u>	<u>\$ 251,359</u>
<u>Deferred Income Tax Liabilities</u>					
Temporary Difference					
Foreign Investment Income	\$ 515,752	( \$ 45,590 )	\$ -	( \$ 16 )	\$ 470,146
Provision for Land Appreciation Tax	235,087	-	-	-	235,087
Others	211	( 56 )	-	( 8 )	147
	<u>\$ 751,050</u>	<u>( \$ 45,646 )</u>	<u>\$ -</u>	<u>( \$ 24 )</u>	<u>\$ 705,380</u>



## 2017

	Balance at Beginning of Year	Recognized in Loss and Profit	Recognized in Other Comprehensiv e Income	Exchange Difference	Year-End Balance
<u>Deferred Income Tax Assets</u>					
Temporary Difference					
Currency Translation Difference from Overseas Operations	\$ 1,071	\$ -	\$ 58,679	\$ -	\$ 59,750
Defined Benefit Retirement Plan	41,520	( 897)	( 8,452)	( 353)	31,818
Loss on Inventory Write-Down	15,455	12,794	-	( 173)	28,076
Allowance for Bad Debts	4,987	( 2,745)	-	( 2)	2,240
Accrued Leave Benefits	1,959	922	-	( 23)	2,858
Unrealized Gross Profit	18,449	( 5,477)	-	-	12,972
Others	32,594	( 2,351)	-	171	30,414
	116,035	2,246	50,227	( 380)	168,128
Impairment Credit	16,261	63,084	-	( 379)	78,966
	<u>\$ 132,296</u>	<u>\$ 65,330</u>	<u>\$ 50,227</u>	<u>( \$ 759)</u>	<u>\$ 247,094</u>
<u>Deferred Income Tax Liabilities</u>					
Temporary Difference					
Foreign Investment Income	\$ 540,230	( \$ 24,473)	\$ -	( \$ 5)	\$ 515,752
Provision for Land Appreciation Tax	235,087	-	-	-	235,087
Others	2,587	( 2,487)	-	111	211
	<u>\$ 777,904</u>	<u>( \$ 26,960)</u>	<u>\$ -</u>	<u>\$ 106</u>	<u>\$ 751,050</u>

### (V) Unused Impairment Credit

As of December 31, 2018, the relevant information is set out below:

<u>Unused Credit Balance</u>	<u>Final Deduction</u>
\$ 9,847	108
13,404	109
27,055	110
36,192	111
23,780	112
20,885	113
195	114
1,135	115
71,451	116
9,641	117
181,634	-
<u>\$ 395,219</u>	

### (VI) Aggregate amount of temporary differences associated with investments and unrecognized deferred income tax liabilities

As of December 31, 2018, taxable temporary differences of NT\$ 117,603,000 were not recognized as deferred income tax liabilities for investment subsidiaries.

### (VII) Income Tax Approval Status

The Company's business income tax filing cases for 2015, in addition to business income tax filing cases of domestic subsidiaries for 2016 and 2017, are approved by the tax authority.

### XXX. Earnings per Share

The profits and weighted average number of ordinary shares used for the calculation of earnings per share (EPS) are as follows:

#### Net Profit of the Year

	2018	2017
Net Profit Attributable to Company Owners	\$ <u>672,775</u>	\$ <u>881,874</u>

#### Shares

Unit: 1,000 shares

	2018	2017
Weighted average number of ordinary shares used for calculation of basic EPS	109,469	107,225
Dilutive Effects of Potential Ordinary Shares:		
Employee Remuneration	<u>411</u>	<u>787</u>
Weighted average number of ordinary shares used for calculation of diluted EPS	<u>109,880</u>	<u>108,012</u>

If the Company chooses to offer employees cash or stock remuneration, while calculating diluted earnings per share and assuming that remuneration is paid in stocks, the dilutive potential ordinary shares will include weighted average number of outstanding shares to calculate diluted earnings per share. While determining diluted earnings per share before distributing shares to employees as remuneration in the following year, the dilutive effects of such potential ordinary shares should still be considered.

### XXXI. Business Consolidation

#### (I) Acquisition of Subsidiaries

	Primary Operating Activities	Acquisition Date	All Ownership Interest with Voting Rights Acquisition Ratio (%)	Transfer Price
Noroo-Nan Pao Paints & Coatings ( Vietnam ) Co., Ltd.	Production and Trading of Coatings	April 1, 2017	50/1	\$ <u>5,459</u>

The Company acquired Noroo-Nan Pao Paints & Coatings ( Vietnam ) Co., Ltd. in April 2017 to part of its expansion. The acquisition ratio was 1%, and shareholding ratio increased from 49% to 50%. The main management is designated by the Company's and exercises effective control on Noroo-Nan Pao Paints & Coatings ( Vietnam ) Co., Ltd. For more information, please refer to Note 14.

(II) Assets Acquired and Liabilities Assumed upon Acquisition Date	
Current Assets	
Cash and Cash Equivalents	\$ 71,717
Accounts Receivable and other Receivables	96,860
Inventory	80,000
Other Current Assets	17,716
Non-Current Assets	
Property, Plant and Equipment	56,349
Rent Receivable	47,069
Other Non-Current Assets	1,545
Current Liabilities	
Short-Term Loans	( 34,541 )
Accounts Payable and Other Payables	( 97,316 )
Other Current Liabilities	( <u>50</u> )
	<u>\$ 239,349</u>
(III) Goodwill Arising from Acquisition	
Transfer Price	\$ 5,459
Add: fair value of equity held by acquiree before acquisition	117,281
Add: non-controlling ownership (50% of all ownership from Noroo-Nao Pao Paints & Coatings (Vietnam) Co., Ltd.)	119,674
Less: fair value of obtained identifiable assets	( 239,349 )
Net Exchange Difference	<u>10</u>
Goodwill Arising out of Acquisition	<u>\$ 3,075</u>
(IV) Net cash Inflow from Subsidiary Acquisition	
Consideration Paid in Cash	\$ 5,459
Less: balance of cash and cash equivalents acquired	( 71,717 )
	<u>( \$ 66,258 )</u>

(V) Effects of Business Combination on Management Performance

Management results of acquired companies from acquisition date were as follows:

	Noroo-Nan Pao Paints & Coatings ( Vietnam ) Co., Ltd.
Operating Revenue	<u>\$ 317,828</u>
Net Profit of the Year	<u>\$ 23,103</u>

If these business combinations took place on the date of acquisition at the start of annual accounting, the company's 2017 proposed operating revenue and net profit were NT\$14,724,218,000 and NT\$ 923,669,000 respectively. When such amounts cannot reflect whether business combination had been completed at the beginning of fiscal year in the year at acquisition, actual revenue and business performance cannot be used to predict future operating performance.

Assuming acquisition of Noroo-Nan Pao Paints & Coatings (Vietnam) Co., Ltd. had been completed at the beginning of fiscal year and operating revenue and net profit were estimated, management would take the following into consideration:

1. Depreciation is calculated based on the carrying amounts of the pre-acquisition financial statements and the fair value of the plant and property at the time of the original accounting treatment; and
2. Borrowing cost will be estimated based on capital status, credit rating, and debt-to-equity ratio of the Company after business combination.

XXXII. Disposal of Subsidiaries

The Company entered into an agreement on December 26, 2017 to dispose of Dongguan Bao Jing Chemical Engineering. The disposal was completed on the same day and the Company no longer exercised control. Dongguan Bao Jing was responsible for the Company's trading of chemicals.

(I) Consideration Received

	Dongguan Bao Jing Chemical Engineering Co., Ltd.
Proceeds from Disposal of Investment	<u>\$ 8,289</u>

(II) Analysis of Loss of Control on Assets and Liabilities

	Dongguan Bao Jing Chemical Engineering Co., Ltd.
Current Assets	
Cash and Cash Equivalents	\$ 12,822
Accounts Receivable and other receivables	10,872
Inventory	803
Other Current Assets	149
Non-Current Assets	
Property, Plant and Equipment	363
Current Liabilities	
Accounts Payable and Other Payables	( 1,350 )
Other Current Liabilities	( <u>3</u> )
Net Disposed Assets	<u>\$ 23,656</u>

(III) Loss from Disposal of Subsidiaries

	Dongguan Bao Jing Chemical Engineering Co., Ltd.
Consideration Received	\$ 8,289
Net Disposed Assets	( 23,656 )
Non-Controlling Interests	7,097
Net Exchange Difference	<u>90</u>
Loss disposal	( <u>\$ 8,180</u> )

(IV) Net Cash Inflow from acquisition of subsidiary

	Dongguan Bao Jing Chemical Engineering Co., Ltd.
Consideration Received in Cash and Cash Equivalents	\$ 8,289
Less: disposed Investment Receivables	( 8,289 )
Balance of Disposal of Cash and Cash Equivalents	( 12,822 )
	( <u>\$ 12,822</u> )

### XXXIII. Equity and Non-Controlling Interest Transactions

	2018		2017	
	ITLS-Rich ( S ) Pte. Ltd.(I)	Biorich Biotechnology Co., Ltd. (II)	ITLS-SB SDN BHD (III)	Prince Pharmaceutical Co., Ltd. (4)
Cash Consideration Paid	\$ 1,665	\$ 3	\$ 5,991	\$ 100,000
The amount that shall be transferred out of non-controlling interest based on the calculation of relative changes in equity in the carrying amount of net asset from subsidiaries	( 806 )	( 5 )	( 4,630 )	( 122,533 )
Difference in Equity Transactions	<u>\$ 859</u>	<u>( \$ 2 )</u>	<u>\$ 1,361</u>	<u>( \$ 22,533 )</u>
<u>Equity Transaction Adjustment</u>				
Capital Surplus - The difference between the share price from acquisition of a subsidiary and its book value	\$ -	\$ 2	\$ -	\$ 22,926
Capital Surplus – changes in ownership of subsidiaries	-	-	-	( 393 )
Retained Earnings	( <u>859</u> )	<u>-</u>	( <u>1,361</u> )	<u>-</u>
	<u>( \$ 859 )</u>	<u>\$ 2</u>	<u>( \$ 1,361 )</u>	<u>\$ 22,533</u>

- (I) The Company acquired the remaining 20% of shares from ITLS-Rich (S) Pte. Ltd. in February 2018, increasing shareholding ratio from 80% to 100%.
- (II) The Company used NT\$3,000 to subscribe to shares from Biorich Biotechnology Co. in October 2018, which increased shareholding ratio from 57.06% to 57.1%.
- (III) The Company acquired the remaining 20% of shares from ITLS-SB SDN BHD in April 2017, and shareholding ratio increased from 80% to 100%.
- (IV) In February 2017, the Company's subscription for the NT\$100,000,000 new issuances from Prince Pharmaceutical Co., Ltd. was not undertaken according to shareholding ratio. Prince Pharmaceutical Co., Ltd. issued executive stock option and some employees executed the subscription right, causing the shareholding ratio to decrease to 49.9%.

The above-mentioned transactions did not change the control over such subsidiaries, and the Company considers them to be equity transactions.

#### XXXIV. Operating Lease Agreements

The Company's operating leases are for rental of factories, machinery, equipment, and office.

The total minimum future payable amount for operating leases that cannot be annulled is as follows:

	December 31, 2018	December 31, 2017
Less than 1 year	\$ 60,031	\$ 48,496
1 to 5 years	134,773	118,428
More than 5 years	<u>344,291</u>	<u>359,431</u>
	<u>\$ 539,095</u>	<u>\$ 562,355</u>

#### XXXV. Capital Risk Management

The Company's capital management is to ensure that required financial resources and operational plans are in place to meet the needs for working capital, capital expenditure, research and development expense, debt repayment and dividend expenses for the next twelve months.

#### XXXVI. Financial Instruments

- (I) Fair Value Information - financial instruments not measured at fair value

The carrying amount of the Company's financial instrument not measured at fair value would be a significant approximation of fair value.

- (II) Fair Value Information - financial instruments measured at fair value on repetitive basis

1. Fair Value Measurement Levels

##### December 31, 2018

	Level 1	Level 2	Level 3	Total
<u>Financial Assets Measured at</u> <u>FVTOCI - Equity Instrument</u>				
Domestic Unlisted Stocks	\$ -	\$ -	\$ 1,210,580	\$ 1,210,580

2. Reconciliation of Financial Instruments using Level 3 Fair Value

##### 2018

	Financial Assets Measured at FVTOCI
Balance at Beginning of Year	\$ 1,560,076
Recognized in Other Comprehensive Income (unrealized loss and profit from financial asset measured at FVTOCI)	( 349,496 )
Year-End Balance	<u>\$ 1,210,580</u>

### 3. Valuation Technique and Input Measured at Level 3 Fair Value

- (1) Certain domestic unlisted (or OTC) stocks use market method to estimate fair value. The judgment is based on industry type, valuation from similar types of businesses, and the Company's operating status, or in reference to the Company's net value.
- (2) Equity investment in the domestic (OTC) equity investment is calculated using asset method. The judgment is based on total value of individual assets and liabilities covered by evaluation standards to reflect overall value of the business or equity.

### (III) Classification of Financial Instruments

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Financial Assets</u>		
Loans and Receivables (Note 1)	\$ -	\$ 7,511,760
Financial Assets Measured at Cost	-	183,580
Financial Assets Measured at Amortized Cost (Note 2)	7,894,091	-
Financial Assets Measured at FVTOCI	1,210,580	-
<u>Financial Liabilities</u>		
Valuation of Cost after Amortization (Note 3)	5,702,609	5,855,926

Note 1: balance refers to loan and receivables measured at amortized cost, including cash and cash equivalents, accounts receivable (including affiliates), other receivables, other financial assets, and refundable deposits.

Note 2: balance refers to financial assets measured at amortized cost, including cash and cash equivalents, debt instrument investment, accounts receivable (including affiliates), other receivables.

Note 3: balance refers to financial liabilities measured at amortized cost, including short-term loans, short-term notes payable, accounts payable, other payables, long-term debt (including maturity within 1 year), and guarantee deposits (listing other current and non-current liabilities).

### (IV) Objectives and Policy of Financial Risk Management

The Company's main financial instruments include equity and debt instruments, accounts receivable, accounts payable, short-term securities and loans payable. The financial management department serves each operating unit, coordinating operations in domestic and foreign financial markets. Financial risks associated with operations of the Company is managed through internal risk reporting based on risk levels and analysis. These risks include market risks (foreign exchange rates, interest rates and other price risks), credit risk and liquidity risk.

Material financial activities from the Company are reviewed by the board of directors using relevant regulations and internal control. While carrying out financial planning, the financing department will rigorously abide by segregation of duties and relevant financial risk control procedures. Internal auditors will also continue to review policy compliance and risk exposure. The Company does not undertake transactions of



financial instruments (including derivative financial instruments) for speculative purposes.

# 1. Market Risks

Due to the Company's operating activities, most financial risks undertaken by the Company are foreign exchange risks (see following summary (1)), interest rate risks (see summary (2)), and risks of other pricing (see summary (3)).

Management and measurement of market risks from financial instruments and risk exposure of the Company remain unchanged.

## (1) Foreign Exchange Risks

The Company undertakes product sales and purchases in foreign currencies, and are exposed to foreign exchange risks.

Please see Note 40 for details on carrying amount of monetary assets denominated in non-functional currency, and liabilities denominated in foreign currency on balance sheet date (including monetary items denominated in non-functional currencies written off in the consolidated financial statements).

### Sensitivity Analysis

The Company is mostly affected by exchange rate fluctuation of the USD and Vietnamese Dong.

The following table is a sensitivity analysis of the Company regarding the impact of 1% change in functional currency against exchange rate of each foreign currency. The sensitivity analysis only includes monetary items in circulating foreign currency. A positive figure in the table below indicates amount of increase in profit before tax when functional currency depreciates by 1% against each relevant foreign currency. When functional currency appreciates by 1% against each relevant foreign currency, the impact on net profit will be the negative of the same amount.

	Influence from the USD		
	2018	2017	
Profit or loss	\$ 14,470	\$ 13,372	A

	Influence from VND		
	2018	2017	
Profit or loss	\$ 5,617	\$ 4,862	B

A. Mainly derived from cash and cash equivalents, receivables, payables and loans denominated in USD that are still outstanding on the balance sheet date and have not been hedged by cash flows.

B. Mainly derived from cash and cash equivalents, receivables, payables denominated in Vietnamese Dong that is still outstanding on the balance sheet date and has not been hedged by cash flows.

## (2) Interest Rate Risk

As individual entities in the Company borrow capital with both fixed and floating rates, there is exposure to interest rate risks. The Company manages interest rate risks by maintaining an appropriate mix of fixed and floating rates.

The carrying amount of financial assets exposed to interest rate and financial liabilities of the Company on the balance sheet date are as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Interest Rate Risks with Cash Flow		
Financial Assets	\$ 3,183,724	\$ 3,268,202
Financial Liabilities	2,953,037	2,944,541

### Sensitivity Analysis

The sensitivity analysis on interest rate risks is based on exposure of non-derivative instruments to interest rate risks on the balance sheet date. For liabilities with floating rate, the analysis assumes them to be in external circulation throughout the reporting period.

If interest rate is increased/decreased by 1%, the Company's net profit before tax for 2018 and 2017 would increase/decrease by NT\$ 29,530,000 and NT\$29,445,000 respectively, due to changes in loan interest rates of the consolidated company.

## (3) Risks to Other Prices

The Company is exposed to equity price risk due to investments in domestic unlisted equity. As there is no open market quotation for such equity pricing, the price risk is immaterial.

## 2. Credit Risk

Credit risks refer to risks that cause financial loss to the Group due to borrower's delay in honoring contractual obligations. As of the balance sheet date, the Company's largest credit risk exposure from counterparty's failure to fulfill obligation comes from the carrying amount of financial assets recognized in the consolidated balance sheet.

As counterparties of the Company are all business organizations with fair credit rating, there is no anticipated material credit risk. The Company also continues to evaluate the financial status of clients for accounts receivables.

Accounts receivable with significant concentration of credit risk are as follows:

	<u>December 31, 2018</u>		<u>December 31, 2017</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Group A	\$ 357,724	10	\$ 279,978	9

### 3. Liquidity Risk

The Company manages and maintains sufficient cash and cash equivalents and readily available financial products to support the Company's operations and mitigate effects of fluctuations in cash flows. The management of the Company supervises the use of financing credit from banks and ensures compliance with the terms of loan agreements.

The Company's working capital and financing credit from banks can sufficiently accommodate future operational needs. Hence, there is no liquidity risk due to the inability to raise funds to fulfill contractual obligations.

#### (1) Liquidity of non-derivative financial liabilities and table of interest rate risk

Contractual maturity analysis of balances for non-derivative financial liabilities is calculated based on earliest required loan repayment date of the Company. It is compiled based on undiscounted cash flows of financial liabilities (including principal and estimated interest). As such, the following table presents bank loans that the Company may be asked to immediately repay first, regardless of the chances of banks in exercising such right. The analysis of maturity of other non-derivative liabilities is prepared in accordance with agreed repayment date.

Undiscounted interests relating to cash flow from floating interest rate payments is extrapolated based on interest rate yield curve on balance sheet date.

#### December 31, 2018

	Less than 1 year	1 to 2 years	2 to 5 years
<u>Non-Derivative</u>			
<u>Financial Liabilities</u>			
Non-Interest-Bearing Liabilities	\$ 2,747,522	\$ 2,050	\$ -
Floating Interest Rate Instruments	<u>1,577,814</u>	<u>1,206,920</u>	<u>216,774</u>
	<u>\$ 4,325,336</u>	<u>\$ 1,208,970</u>	<u>\$ 216,774</u>

#### December 31, 2017

	Less than 1 year	1 to 2 years	2 to 5 years
<u>Non-Derivative</u>			
<u>Financial Liabilities</u>			
Non-Interest-Bearing Liabilities	\$ 2,790,321	\$ 1,141	\$ -
Fixed Interest Rate Instruments	120,000	-	-
Floating Interest Rate Instruments	<u>1,355,424</u>	<u>1,311,736</u>	<u>334,369</u>
	<u>\$ 4,265,745</u>	<u>\$ 1,312,877</u>	<u>\$ 334,369</u>

The above-mentioned amount of non-derivative financial asset and liability instruments with floating interests are subject to change due to floating rates and differences in interest rate estimated as of balance sheet date.

## (2) Financing Credit

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Unsecured Borrowing (reviewed each year)		
Amount Used	\$ 2,970,489	\$ 3,096,995
Amount Available	<u>4,211,371</u>	<u>4,254,100</u>
	<u>\$ 7,181,860</u>	<u>\$ 7,351,095</u>
Secured Borrowing		
Bank Credit		
Amount Used	\$ 88,963	\$ 60,000
Amount Available	<u>195,327</u>	<u>40,000</u>
	<u>\$ 284,290</u>	<u>\$ 100,000</u>

XXXVII. Related Party Transactions

All transactions between the Company and its subsidiaries (affiliates of the Company), account balances, income, and expenses are written off during consolidation and therefore are not shown in this Note. In addition to those disclosed in other Notes, transactions between the Company and other affiliates are as follows.

## (I) Name and Relations of Affiliates

<u>Name of Affiliate</u>	<u>Relations with the Company</u>
New Industrial Companies	Associates
Pou Chen Corporation	Other affiliates (the Chairman of the company is an executive of the Company)
Noroo-Nan Pao Paints& Coatings (Vietnam) Co., Ltd.	Associates (subsidiaries of the Company as of April 2017)
Pou Chen Corporation and Subsidiaries	Investors with Material Influence
Kunshan Nan Pao Coatings Engineering Co., Ltd.	Other affiliates (the Chairman of the Company is an executive of the Company prior to May 2018.)

## (II) Operating Revenue

<u>Category of Affiliates/Name</u>	<u>2018</u>	<u>2017</u>
Investors with Material Influence		
Pou Chen Corporation and Subsidiaries	\$ 1,352,346	\$ 1,417,840
Associates	-	23,674
Other Affiliates	<u>19,624</u>	<u>78,312</u>
	<u>\$ 1,371,970</u>	<u>\$ 1,519,826</u>

There is no significant difference in the Company's selling price to affiliates and average customers. Payment term is 30 to 125 days, which is no different for non-related parties.

## (III) Inventory

Category of Affiliates	2018	2017
Associates	<u>\$ 22,219</u>	<u>\$ 58,173</u>

There is no significant difference in the Company's purchase price from affiliates and non-affiliates. Payment term is 30 days to 45 days, which is no different for non-affiliates.

(IV) Receivables from Affiliates

Accounting Items	Category of Affiliates/Name	2018 December 31	2017 December 31
Accounts Receivable	Material Investor Pou Chen Corporation and Subsidiaries	\$ 357,724	\$ 279,978
	Other Affiliates	<u>-</u>	<u>51,852</u>
		<u>\$ 357,724</u>	<u>\$ 331,830</u>

No guarantee is received for outstanding receivables from affiliates.

(V) Payables to Affiliates

Accounting Items	Category of Affiliates	2018 December 31	2017 December 31
Accounts Payable	Associates	<u>\$ 2,643</u>	<u>\$ 5,714</u>
Other Payables	Investors with Material Influence	<u>\$ 132</u>	<u>\$ 135</u>

No guarantee is given for outstanding payables to affiliates.

(VI) Others – Refund Liabilities

Accounting Items	Category of Affiliates/Name	2018 December 31
Other Current Liabilities	Material Investor Pou Chen Corporation and Subsidiaries	<u>\$ 78,443</u>

(VII) Managerial Remuneration

	2018	2017
Short-Term Employee Benefits	\$ 49,767	\$ 51,065
Post-Retirement Benefits	1,680	1,211
Share-Based Payment	<u>124</u>	<u>-</u>
	<u>\$ 51,571</u>	<u>\$ 52,276</u>

Remuneration to directors and other executives are determined by the Remuneration Committee in reference to compensations from industry standard, individual performance, company performance, and reasonable ties to future risks.

### XXXVIII. Assets Pledged as Collateral

The following assets are provided as collateral for customs duties, letters of credit, long-term and short-term financing loans:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Property, Plant and Equipment	\$ 111,040	\$ 112,406
Fixed Deposits (Note)	<u>200,311</u>	<u>18,786</u>
	<u>\$ 311,351</u>	<u>\$ 131,192</u>

Note: financial assets measured at amortized cost (2018) and other financial assets (2017) are stated.

### XXXIX. Significant Contingent Liability and Unrecognized Contract Commitments

In addition to those stated in the other Notes, the Company has the following significant contingent liabilities and material commitments as of balance sheet date:

(I) As of December 31, 2017 and 2018, the Company has unused letters of credit for purchases of raw materials and machinery, with amounts of NT\$106,415,000 and NT\$ 83,526,000 respectively.

(II) Unrecognized contract commitments of the Company were as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Purchase of Properties, Plants, and Equipment	\$ 89,288	\$ 60,053
Purchase of Raw Material	<u>46,080</u>	<u>-</u>
	<u>\$ 135,368</u>	<u>\$ 60,053</u>

(III) Material Lawsuits

The Company had won the bid for land, plant, and machinery equipment owned by He Kui Chemical Company from Changhua District Court in 2007 and sold the above assets to its subsidiary Nan Pao Chemical Co., Ltd. for production purposes. On January 31, 2008, third-party Fu-chien Management Consulting Company claimed to be the mortgagee of the aforementioned machinery and equipment at Taiwan Changhua District Court and seized the batch of machinery and equipment. Nan Pao Chemical Co., Ltd. has filed for Third Party of Dissent Action arguing that Fu-chien Management Consulting Company's claims over the above-mentioned machinery and equipment were false. Nevertheless, a fire broke out in Nan Pao Chemical Co., Ltd. in January 2010, with all plants and machinery burnt down. Therefore, the content of litigation was changed to confirming whether the machinery had belonged to Nan Pao Chemical Co., Ltd. If the court believed that machinery was not the property of Nan Pao Chemical Co., Ltd., but was destroyed due to its negligence, Nan Pao Chemical Co., Ltd. would be liable for damage. In June 2017, the Supreme Court of Taiwan ruled in a civil lawsuit that machinery and equipment did not belong to subsidiary Nan Pao Chemical Co., Ltd.

Based on the ruling of Changhua District Court, He Kui Chemical Company argued for ownership of machinery and equipment in the plant. Based on the above-mentioned, He Kui Chemical Company filed for indemnity lawsuit against Nan Pao Chemical Co., Ltd. for damage caused by use of machinery and equipment, and sought for indemnity of NT\$53,102,000. Nevertheless, the amount that He Kui Chemical Company claimed for was based on the purchase price of machinery and equipment, and did not factor in

depreciation based on the useful life of property, plant, and equipment. The batch of machinery was purchased in the 90s and early 2000s, with surplus value under NT\$53,102,000. The Company has appropriated NT\$38,445,000 liability reserve based on remaining value.

As of the publication date of the consolidated financial statements, indemnity lawsuit with He Kui Chemical Company was still being ruled at the Changhua District Court.

**XL. Information Regarding Material Assets and Liabilities Denominated in Foreign Currencies**

The following information was summarized from foreign currencies of entities within the Company. Exchange rates were the ones used to translate foreign currencies into functional currencies. Material Assets and Liabilities Denominated in Foreign Currencies are listed below:

December 31, 2018

<u>Financial Assets</u>	<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>Carrying amount</u>
<u>Monetary Items</u>			
USD	\$ 45,851	30.715 (USD:NTD)	\$ 1,408,248
USD	14,297	6.8646 (USD:CNY)	439,203
USD	7,619	14,420 (USD:IDR)	234,020
USD	4,814	7.82 (USD:HKD)	147,590
Hong Kong Dollar	13,127	0.1277 (HKD:USD)	51,472
Vietnamese Dong	526,224,183	0.000043 (VND:USD)	693,419
Malaysian Ringgit	6,880	0.3411 (MYR:AUD)	50,846
<u>Financial Liabilities</u>			
<u>Monetary Items</u>			
USD	4,428	30.6468 (USD:NTD)	135,697
USD	2,796	6.8632 (USD:CNY)	85,894
USD	4,256	7.833 (USD:HKD)	130,729
USD	7,046	14,420 (USD:IDR)	216,406
USD	2,185	23,250 (USD:VND)	67,005
USD	4,765	1.4177 (USD:AUD)	146,353
Vietnamese Dong	99,863,300	0.000043 (VND:USD)	131,755

December 31, 2017

<u>Financial Assets</u>	<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>Carrying amount</u>
<u>Monetary Items</u>			
USD	\$ 46,268	29.76 (USD:NTD)	\$ 1,376,957
USD	11,065	6.534 (USD:CNY)	329,280
USD	6,994	13,345 (USD:IDR)	208,133
USD	4,670	7.8113 (USD:HKD)	138,868
Hong Kong Dollar	25,686	0.1279 (HKD:USD)	97,787
Vietnamese Dong	480,353,227	0.000044 (VND:USD)	628,619
<u>Financial Liabilities</u>			
<u>Monetary Items</u>			
USD	5,151	29.79 (USD:NTD)	153,429
USD	4,623	6.5342 (USD:CNY)	137,577
USD	4,139	7.8172 (USD:HKD)	123,176
USD	6,102	13,345 (USD:IDR)	181,592
USD	4,445	22,745 (USD:VND)	120,303
Vietnamese Dong	108,485,564	0.000044 (VND:USD)	142,398

The Company mostly undertakes exchange rate risk in US Dollars. The following information is aggregated in terms of functional currency of foreign currency holding entities. The exchange rate disclosed is the exchange rate of functional currency converted into presentation currency. The following are significant influences on currency exchange gain or loss (realized and unrealized):



Functional Currency	2018		2017	
	Functional and Presentation Currency	Net exchange profit or loss	Functional and Presentation Currency	Net Exchange Income
USD	30.149 (USD:NTD)	(\$ 23,480)	30.432 (USD:NTD)	(\$ 1,379)
NTD	1 (NTD:NTD)	41,809	1 (NTD:NTD)	( 69,945)
CNY	4.560 (CNY:NTD)	( 5)	4.505 (CNY:NTD)	4,955
Singaporean dollar	22.35 (SGD:NTD)	81	22.04 (SGD:NTD)	1,627
Australian Dollar	22.54 (AUD:NTD)	( 10,556)	23.32 (AUD:NTD)	890
Indonesian rupiah	0.00213 (IDR:NTD)	9,353	0.00229 (IDR:NTD)	393
Others		1,888		16,881
		<u>\$ 19,090</u>		<u>(\$ 46,578)</u>

## XLI. Other Disclosures

### Information on

#### (I) Significant Transactions and

#### (II) Investees

1. Financing provided (Table 1)
2. Endorsements/guarantees provided to others (Table 2)
3. Marketable securities held at balance sheet date (excluding investments in subsidiaries, associates, and joint ventures) (Table 3)
4. Accumulated purchase or disposal of individual marketable securities in excess of NT\$300 million or 20% of paid-in capital (None)
5. Acquisition of real estate at price in excess of NT\$300 million or 20% of the paid-in capital (Table 4)
6. Disposal of real estate at price in excess of NT\$300 million or 20% of the paid-in capital (None)
7. Purchases and sales with related parties in excess of NT\$100 million or 20% of paid-in capital (Table 5)
8. Amount of receivable from related parties in excess of NT\$100 million or 20% of paid-in capital (Table 6)
9. Derivative financial instrument transactions (None)
10. Others: Intercompany relationships and significant intercompany transactions (Table 10)
11. Information on Investees (Table 7)

#### (III) Information on Investments in Mainland China:

1. Mainland China investees' names, main business items, amount of paid-in capital, investment methods, capital transaction conditions, shareholding ratios, current investment loss and profit, end-of-term investment book value, investment income repatriation and investment limits in Mainland China. (Table 8)

2. Direct or indirect significant transactions with Mainland China investee companies through third region, and their prices, terms of payment, unrealized gains and losses: (Table 9)
  - (1) Purchase amount and percentage and the ending balance and percentage of payables.
  - (2) Sales amount and percentage and the ending balance and percentage of receivables.
  - (3) Property transaction amount and resulting gain or loss.
  - (4) Ending balance of endorsement, guarantee or collateral provided and its purposes.
  - (5) The maximum balance, ending balance, interest rate range and total amount of current interest in financing.
  - (6) Other transactions having significant impact on profit and loss or financial status of the period, such as providing or receiving services.

## XLII. Department Information

Information is provided to main business decision makers to allocate resources and assess the performance of each department and focus on type of product or service delivered or provided. The merging company shall report on the following information to the departments:

### (I) Departmental Income and Operation Results

Income and results of ongoing operations of the merging company based on reporting departments are analyzed as follows:

	Taiwan	Mainland China	Vietnam	Australia	Other Regions	Adjustments and Write-Off	Total
<u>2018</u>							
Revenue							
Revenue from External Customers	\$ 3,497,110	\$ 5,940,406	\$ 3,269,460	\$ 1,994,845	\$ 1,320,399	\$ -	\$16,022,220
Revenue between Departments	2,476,354	1,057,069	639,914	22,758	39,596	( 4,235,691 )	-
Total Revenue	<u>\$ 5,973,464</u>	<u>\$ 6,997,475</u>	<u>\$ 3,909,374</u>	<u>\$ 2,017,603</u>	<u>\$ 1,359,995</u>	<u>( \$ 4,235,691 )</u>	<u>\$16,022,220</u>
Department Income	<u>\$ 338,149</u>	<u>\$ 128,590</u>	<u>\$ 242,670</u>	<u>\$ 50,443</u>	<u>\$ 93,733</u>	<u>\$ 47,425</u>	\$ 901,010
Interest Income							35,318
Other Income							121,495
Other profit and loss							18,454
Financing Cost							( 61,694 )
Share of affiliated companies' profit (loss) adopts the equity method							21,229
Income before tax							<u>\$ 1,035,812</u>
<u>2017</u>							
Revenue							
Revenue from External Customers	\$ 3,401,490	\$ 4,927,827	\$ 3,072,020	\$ 1,932,209	\$ 1,281,462	\$ -	\$14,615,008
Revenue between Departments	2,555,228	983,487	397,829	20,933	68,517	( 4,025,994 )	-
Total Revenue	<u>\$ 5,956,718</u>	<u>\$ 5,911,314</u>	<u>\$ 3,469,849</u>	<u>\$ 1,953,142</u>	<u>\$ 1,349,979</u>	<u>( \$ 4,025,994 )</u>	<u>\$14,615,008</u>
Department Income	<u>\$ 452,520</u>	<u>\$ 150,863</u>	<u>\$ 298,079</u>	<u>\$ 91,606</u>	<u>\$ 92,661</u>	<u>\$ 107,243</u>	\$ 1,192,972
Interest Income							24,430
Other Income							61,537
Other profit and loss							( 92,272 )
Financing Cost							( 49,312 )
Share of affiliated companies' profit (loss) adopts the equity method							23,398
Income before tax							<u>\$ 1,160,753</u>

Department profit/loss refers to the profit made by each department and excludes non-operating income and expense nor income tax expense. The assessment is provided to the main business decision-maker to allocate resources to departments and assess their performance.

The main business decision makers of the merging company will base their decisions on each type of operating result. Information on classified assets and liabilities from different business activities are not evaluated, and only the operating results of the reportable segments are shown.

(II) Revenue from Main Products

Revenue analysis of main products of the merging company is as follows:

	2018	2017
Adhesives	\$ 11,423,743	\$ 10,414,902
Coatings	1,757,081	1,485,410
Construction materials	2,137,677	2,123,193
Others	703,719	591,503
	<u>\$ 16,022,220</u>	<u>\$ 14,615,008</u>

(III) Geographic Information

The merging company mainly operates in three geographical areas – Taiwan, Mainland China and Southeast Asia.

The information of the continuing business unit of the merging company from external customers is classified according to the location of the customer and the non-current assets are classified according to the location of the assets as follows:

	Revenue from External Customers	
	2018	2017
Asia	\$ 11,526,562	\$ 10,229,272
Taiwan	2,363,313	2,309,948
Oceania	1,781,868	1,762,867
America	125,667	106,720
Africa	79,204	93,416
Europe	145,606	112,785
	<u>\$ 16,022,220</u>	<u>\$ 14,615,008</u>

	Non-Current Assets	
	December 31, 2018	December 31, 2017
Taiwan	\$ 2,736,700	\$ 2,455,486
Mainland China	660,331	662,280
Southeast Asia	1,415,298	1,289,813
Australia	366,241	213,164
	<u>\$ 5,178,570</u>	<u>\$ 4,620,743</u>

Non-current assets exclude financial instruments and deferred tax assets.

(IV) Information on Main Customers

Single-customer operating revenue reaches 10% or more of net operating income of the merging company is as follows:

Customers	2018	2017
Group A	<u>\$ 1,352,346</u>	<u>\$ 1,417,840</u>

Nan Pao Resins Chemical Co., Ltd. and Subsidiaries

Loans to Others

January 1 to December 31, 2018

Table 1

Unit: NT\$1,000

Serial number	Lender Company	Borrower	Item	Whether being Related Parties'	Maximum Balance on the current period	End-of-Term Balance	Actual Amount Drawn (Note 5)	Interest Rate Interval (%)	Capital Financing and Feature (Note 1)	Amount of Transaction	Reason for Financing Short-term financing	Amount of loss from listed deductibles	Collateral		Limitation on total amount of loan to specific entities	Limitation on total amount of loan
													Title	Value		
1	Nan Pao Group Holdings Ltd.	RLA Polymers (M) Sdn Bhd	Other Accounts Receivable - Related Parties	Yes	\$ 80,906	\$ 4,914	\$ 4,914	3.25 - 3.5	2	\$ -	Operating turnover	\$ -	—	\$ -	\$ 3,674,698	\$ 3,674,698
		Profit Land Ltd.	Other Accounts Receivable - Related Parties	Yes	29,105	-	-	6	2	-	Operating turnover	-	—	-	3,674,698	3,674,698
		Nan Pao Materials Vietnam Co., Ltd.	Other Accounts Receivable - Related Parties	Yes	156,240	-	-	3	2	-	Operating turnover	-	—	-	3,674,698	3,674,698
2	Profit Land Ltd.	Nan Pao Resins (Foshan) Co., Ltd.	Other Accounts Receivable - Related Parties	Yes	121,430	-	-	6	2	-	Operating turnover	-	—	-	1,014,818	1,014,818
3	Progroup Technology Co.	Biorich Biotechnology Co.	Other Accounts Receivable - Related Parties	Yes	8,100	900	900	2	2	-	Operating turnover	-	—	-	13,358	26,715
4	Eastlion Enterprises Ltd.	Nan Pao Resins International Ltd.	Other Accounts Receivable - Related Parties	Yes	11,398	-	-	3.5	2	-	Operating turnover	-	—	-	761,240	761,240
5	Nan Pao Resins (China) Co., Ltd.	Nan Pao (Kunshan) Electronic Commerce Co., Ltd.	Other Accounts Receivable - Related Parties	Yes	229,080	111,800	111,800	4.35 - 5	2	-	Operating turnover	-	—	-	400,990	400,990

Note 1: explanations on the borrowings and their natures are as follows:

1. Business transactions are present
2. Short-term financing capital is needed

Note 2: The following are the Company's rules and procedures for loaning funds to others:

1. Amount of loan to others shall be less than 40% of the Company's net value.
2. The maximum amount of loan permitted to a single borrower:
  - (1) For capital loan and business transaction counterparties, the maximum amount permitted to a single borrower cannot exceed the total purchase or sales (whichever is higher) between two parties in the last year. However, maximum amount may not exceed the total amount of capital loan.
  - (2) For those in need of capital loan and short-term financing, the maximum amount permitted to a single borrower may not exceed 20% of the Company's net value.

Note 3: Procedures of capital loan to subsidiaries that has directly or indirectly invested in the Company and to others are set out below:

1. Total capital loan to others shall be less than 100% of the Company's net value.
2. The maximum amount of loan permitted to a single borrower:
  - (1) For capital loan and business transaction counterparties, the maximum amount permitted to a single borrower cannot exceed the total purchase or sales (whichever is higher) between two parties in the last year. However, maximum amount may not exceed the total amount of capital loan.
  - (2) For those in need of capital loan and short-term financing, the maximum amount permitted to a single borrower may not exceed 20% of the Company's net value.

Note 4: For foreign companies who hold 100% voting rights owned by the Company directly or indirectly, the total amount of loans and loans to individual borrowers to such companies may not exceed the net worth of the lending company.

Note 5: already written off during compilation of the consolidated financial statements

Nan Pao Resins Chemical Co., Ltd. and Subsidiaries

Endorsements for Others

January 1 to December 31, 2018

Table 2

Unit: NT\$1,000

Serial number	Endorsement Provider  Company Name	Guaranteed Party		For a Single Enterprise	Highest for Current Period	At the End of the Period		Property-Guaranteed	Aggregated Endorsement Amount	Endorsement	For the parent company	For the subsidiary	For
		Company Name	Relation (Note 1)	Endorsement Limit				Endorsement	Ratio of which on the latest financial statements	Maximum Amount	For Subsidiaries	For the Parent Company	Mainland China
				(Note 2)	Endorsement Balance	Endorsement Balance	Actual Amount Drawn	Guarantee amount	Ratio on Net Value (%)	(Note 2 and 3)	Endorsement	Endorsement	Endorsement
0	Nan Pao Resins Chemical Co.	NP Australia Pty. Ltd.	2	\$ 1,925,525	\$ 117,775	\$ -	\$ -	\$ -	-	\$ 6,739,336	Y	N	N
		ITLS-SB SDN BHD	2	1,925,525	9,287	9,215	-	-	0.10	6,739,336	Y	N	N
		Phymed Bio-Tec Co., Ltd.	2	1,925,525	10,000	10,000	1,500	-	0.10	6,739,336	Y	N	N
		ITLS-Rich (S) Pte. Ltd.	2	1,925,525	15,478	-	-	-	-	6,739,336	Y	N	N
		Nan Pao Resins Chemical Philippines, Inc.	2	1,925,525	30,955	30,715	-	-	0.32	6,739,336	Y	N	N
		ITLS Holding Pte. Ltd.	2	1,925,525	46,433	-	-	-	-	6,739,336	Y	N	N
		ITLS International Development Co. Ltd.	2	1,925,525	50,000	50,000	2,230	-	0.52	6,739,336	Y	N	N
		Nan Pao Advanced Materials Vietnam Co., Ltd.	2	1,925,525	61,910	30,715	-	-	0.32	6,739,336	Y	N	N
		Nan Pao Materials Vietnam Co., Ltd.	2	1,925,525	123,820	122,860	26,794	-	1.28	6,739,336	Y	N	N
		RLA Polymers (M) SDN BHD	2	1,925,525	92,865	92,145	92,145	-	0.96	6,739,336	Y	N	N
		RLA Polymers Pty Ltd.	2	1,925,525	387,970	153,575	21,665	-	1.60	6,739,336	Y	N	N
		Nan Pao Resins International Ltd.	2	1,925,525	309,550	307,150	12,900	-	3.19	6,739,336	Y	N	N
		Nan Pao Group Holdings Ltd.	2	1,925,525	639,385	153,575	-	-	1.60	6,739,336	Y	N	N
		Nan Pao (Kunshan) Electronic Commerce Co., Ltd.	2	1,925,525	30,955	-	-	-	-	6,739,336	Y	N	Y
		Progroup Technology Co., Ltd.	2	1,925,525	10,000	10,000	-	-	0.10	6,739,336	Y	N	N
		1	NP Australia Pty Ltd.	PT. Indo Nan Pao Resins Chemical	2	1,925,525	91,670	61,430	30,715	-	0.64	6,739,336	Y
RLA Polymers Pty Ltd.	2			129,086	110,471	106,159	71,495	-	16.45	451,801	N	N	N

Note 1: relationship between endorser and those being endorsed is as follows:

1. Companies with business relationship
3. A company that directly and indirectly holds more than 50 percent of the voting rights in the Company
3. A company that directly and indirectly holds more than 50 percent of the voting rights in the Company
3. A company that directly and indirectly holds more than 90 percent of the voting rights in the Company
5. Companies with the same industry or mutual project undertakers that have mutual guarantee based on contract agreements due to contractual project needs
6. Due to joint venture, the company's shareholders' endorsement is based on their shareholding ratio
7. The performance guarantee of the pre-sale house sales contract in the same industry in accordance with the Consumer Protection Law is jointly guaranteed

Note 2: The Company's maximum guarantee and the endorsement for a single business is no more than 20% of the Company's ending net value. The maximum endorsement is no more than 70% of the Company's year-end net value.

Note 3: The Company's subsidiaries that has direct or indirect investment has a maximum guarantee and the endorsement for a single business of no more than 20% of the Company's ending net value. The maximum endorsement is no more than 70% of the Company's year-end net value.

Nan Pao Resins Chemical Co., Ltd. and Subsidiaries  
Details on Marketable Securities at the end of the period  
December 31, 2018

Table 3

Unit: NT\$1,000

Company holding shares	Type and Name of Marketable Securities	Relationship with Issuer	Accounting Items	End of Period				Remarks
				Number of Shares	Book Value	Shareholding Ratio (%)	Fair Value	
Nan Pao Resins Chemical Co.	Dairen Chemical Corp. - publicly issued share	None	Financial asset measured at fair value through other comprehensive income - Non-Current	6,515,606	\$ 1,194,702	2	\$ 1,194,702	
	Hua Chi Venture Capital Co., Ltd. - privately issued share	"	"	157,895	3,756	1	3,756	
	Hsin Sheng Photovoltaic Co., Ltd. - privately issued share	"	"	1,600,000	4,480	10	4,480	
					<u>\$ 1,202,938</u>		<u>\$ 1,202,938</u>	
Nan Pao Chemical Co., Ltd.	Ace Chemical Corp - privately issued share	None	Financial asset measured at fair value through other comprehensive income - Non-Current	827,030	<u>\$ 7,642</u>	10	<u>\$ 7,642</u>	

Note 1: marketable securities in table refer to stocks, bonds, beneficiary certificates, and other related derivative securities within the scope of IAS 39 - Financial instruments: Recognition and Measurement.

Note 2: please see table 6 and 7 for information on investments in subsidiaries and affiliated companies.

Nan Pao Resins Chemical Co., Ltd. and Subsidiaries

Acquisition of real estate at cost in excess of NT\$300 Million or 20% of paid-in capital

2018

Table 4

Unit: NT\$1,000

Company that acquires real estate	Property Name	Event Date	Transaction Amount	Payment Status	Counterparty	Relatio ns	Counterparty is Related Party, Prior Transfer Data				Reference of Price Determination	Purpose of Acquisition and Usage	Other Agreement Matter
							Relationshi p Between	Issuer and Counterparty	Transfer Date	Amount			
Prince  Pharmaceutical  Co.	New Construction  Project of Central Taiwan Science Park	09.29.2017 -  12.31.2018	\$ 449,800	Pay through wire  transfer at month- end according to the progress of the construction	Tianrui Construction Engineering  Company	-	-	-	-	-	Price Comparison  and Price Negotiation	Operational  Requirements	None

Nan Pao Resins Chemical Co., Ltd. and Subsidiaries

Amount of purchases and sales with related parties up to NT\$100 million or 20% of its paid-in capital

January 1 to December 31, 2018

Table 5

Unit: NT\$1,000

Purchase(Sale) company	Name of counterparty	Relations	Transaction				Unusual Trade Conditions and Reasons		Notes and accounts receivable (payable)		Remarks
			Purchase/Sale	Amount (NT\$)	Ratio of total Purchase (Sales)	Credit Period	Unit Price	Credit Period	Balance (Note)	Ratio on total accounts receivable or payable (%)	
Nan Pao Resins Chemical Co.	Nan Pao Resins (Vietnam) Enterprise Ltd.	Subsidiary	Sales	( \$ 951,550 )	18	90 day Wire Transfer	Equivalent	Equivalent	\$ 275,605	23	
	PT. Indo Nan Pao Resins Chemical	Subsidiary	Sales	( 305,654 )	6	90 day Wire Transfer	Equivalent	Equivalent	86,332	7	
	Eastlion Enterprises Ltd.	Subsidiary	Sales	( 262,753 )	5	90 day Wire Transfer	Equivalent	Equivalent	80,693	7	
	Nan Pao Materials Vietnam Co. Ltd.	Subsidiary	Sales	( 151,082 )	3	90 day Wire Transfer	Equivalent	Equivalent	79,130	7	
	Nan Pao Resins (Foshan) Co., Ltd.	Subsidiary	Sales	( 185,614 )	3	90 day Wire Transfer	Equivalent	Equivalent	18,459	2	
	Nan Pao Resins (China) Co., Ltd.	Subsidiary	Sales	( 177,062 )	3	90 day Wire Transfer	Equivalent	Equivalent	54,369	5	
Nan Pao Resins International Ltd.	Pou Chen Corporation and Subsidiaries	Investors with significant influence	Sales	( 441,212 )	98	Payment within 60 Days	Equivalent	Equivalent	85,756	100	
Nan Pao Resins (Vietnam) Enterprise Ltd.	Nan Pao Resins International Ltd.	Same Parent Company	Sales	( 321,674 )	12	90 day Wire Transfer	Equivalent	Equivalent	90,840	14	
	PT. Indo Nan Pao Resins Chemical	Same Parent Company	Sales	( 109,304 )	4	90 day Wire Transfer	Equivalent	Equivalent	42,382	6	
	Pou Chen Corporation and Subsidiaries	Investors with significant influence	Sales	( 155,636 )	6	Payment within 90 Days	Equivalent	Equivalent	30,408	5	
Nan Pao Materials Vietnam Co., Ltd.	Nan Pao Resins International Ltd.	Same Parent Company	Sales	( 115,030 )	17	60 - 90 Day Wire Transfer	Equivalent	Equivalent	35,604	17	
PT. Indo Nan Pao Resins Chemical	Pou Chen Corporation and Subsidiaries	Investors with significant influence	Sales	( 431,541 )	45	90 day Wire Transfer	Equivalent	Equivalent	162,123	55	
Eastlion Enterprises Ltd.	Nan Pao Resins (Dongguan) Co., Ltd.	Subsidiary	Processing Fee	311,779	100	Payment within 30 days	No Comparable Product Sales	No Third-Party Transaction for Comparison	-	-	
	Pou Chen Corporation and Subsidiaries	Investors with significant influence	Sales	( 164,547 )	15	45 Day Wire Transfer	Equivalent	Equivalent	34,637	11	
Nan Pao Resins (Foshan) Co., Ltd.	Fuqing Nan Pao Resins Co., Ltd.	Same Parent Company	Sales	( 114,898 )	7	Payment within 90 Days	Equivalent	Equivalent	24,125	7	

Note: Except for investors with significant influence, they would be written off during the compilation of the consolidated financial report.



Nan Pao Resins Chemical Co., Ltd. and Subsidiaries

Amount of accounts receivable from related parties up to NT\$100 million or 20% of its paid-in capital

December 31, 2018

Table 6

Unit: NT\$1,000

Company with Accounts Receivable	Name of counterparty	Relation s	Related party of account receivables  Account balance (Note 2 )	Turnover Ratio%	Overdue Accounts Receivable from R e l a t e d P a r t y		Accounts Receivable from Related Party  Amount Recoverable A f t e r p e r i o d	Listed Deductibles  B a d d e b t
					A m o u n t	Processing Method		
Nan Pao Resins Chemical Co.	Nan Pao Resins (Vietnam) Enterprise Ltd.	Subsidiary	\$ 275,605	3.07	\$ -	Not Applicable	\$ 171,365	\$ -
PT. Indo Nan Pao Resins Chemical	Pou Chen Corporation and Subsidiaries	Investors with significant influence	162,123	2.81	-	Not Applicable	78,330	15
Nan Pao Resins (China) Co., Ltd.	Nan Pao (Kunshan) Electronic Commerce Co., Ltd.	Same Parent Company	113,482	-  (Note 1)	-	Not Applicable	-	-

Note 1: balance of other receivables at the end of the period in which turnover ratio is not applicable

Note 2: Except for investors with significant influence, they would be written off during the compilation of the consolidated financial report.

Table 7

Unit: NT\$1,000

(Only foreign currency is denoted in dollars)

Name of Investor Company	Name of Investee Company	Location	Main Service Items	Initial Investment		Held at the end of the period			Investee Company Profit (loss) for the Period	Recognized Investment Profit/Loss for the current period (Note 1)	Remarks
				End of the current period	End of Last Year	Number of Shares	Ratio	Book Value			
Nan Pao Resins Chemical Co.	Nan Pao Chemical Co., Ltd.	No.12, Nanhaipu, Nanhai li., Xigang Dist., Tainan City	Trading of Chemicals	\$ 300,000	\$ 300,000	15,000,000	100	\$ 144,988	\$ 11,205	\$ 11,205	
	Nan Pao Application Material Co.	No.12, Nanhaipu, Nanhai li., Xigang Dist., Tainan City	Trading of Chemicals	60,000	60,000	200,000	100	9,641	( 255 )	( 255 )	
	Nan Pao Electronic Material Co.	No.510, Zhongshan Rd., Xigang Dist, Tainan City	Production and Trading of Electronic Materials	63,540	63,540	4,000,000	100	45,097	1,927	1,927	
	ITLS International Development Co. Ltd.	5F, No.356, Sec.1, Neihu Rd., Neihu Dist, Taipei	Trading of Building Materials and Chemicals	755,000	755,000	30,500,000	100	296,110	( 12,683 )	( 9,546 )	
	Prince Pharmaceutical Co.	9F, No. 107, Sec.3, Chongxin Rd., Sanchung Dist., New Taipei City	Manufacturing, packaging, processing of various medicine and health food materials	268,000	268,000	14,500,000	49.90	302,950	( 3,843 )	( 1,917 )	
	Phymed Bio-Tec Co.	No.12, Nanhaipu, Nanhai li., Xigang Dist., Tainan City	R&D and Trading of Health Food	16,000	16,000	600,000	100	3,997	( 1,544 )	( 1,544 )	
	Biorich Biotechnology Co.	5F, No.356, Sec.1, Neihu Rd., Neihu Dist, Taipei	R&D, Production and Trading of New High Protein Business and Health Food	64,121	64,121	391,462	57.10	5,240	2,434	1,387	
	Nan Pao Advanced Materials Co.	No. 521, Zhongshan Rd., Xigang Dist., Tainan City 723	Trading of Adhesives and Chemicals	3,500	3,500	350,000	70	5,803	3,140	2,198	
	New Industrial Co.	12 F, No. 117, Sec. 2, Chongqing N. Rd., Datung Dist., Taipei City	Production and Trading of Adhesives, Resins, and Other Chemicals Materials	120,000	120,000	1,500,000	30	292,180	70,763	21,229	
	Fuqing Nan Pao Investments Ltd.	Palm Grove House, P.O. Box 438, Road Town, Tortola, British Virgin Islands	General Investment	166,699	166,699	4,990,000	100	198,610	10,739	10,739	
	Thai Nan Pao Investments Ltd.	Palm Grove House, P.O. Box 438, Road Town, Tortola, British Virgin Islands	General Investment	169,909	169,909	5,282,000	100	177,158	10,157	10,157	
	Nan Pao Resins India Pvt Ltd.	204, Abhishek, off New Link Road, Andheri (W), Mumbai 400053, India	Trading of Adhesives	16,499	16,499	3,000,000	100	26,676	5,755	5,755	
	Nan Pao Materials Vietnam Co., Ltd.	LotA4, A5, A10, A11 Daden Industrial Park, Thu Dau Mot City, Binh Duong Province, Vietnam	Production and Trading of Adhesives and Chemicals	685,094	451,270	-	100	723,976	62,203	62,203	
	Nan Pao Advanced Materials Vietnam Co., Ltd.	C2 Zone, Industry Area, Ninh Phúc Village, Ninh Binh City, Ninh Binh Province, Vietnam	Production and Trading of Adhesives and Chemicals	465,970	439,197	-	100	435,168	( 7,127 )	( 7,127 )	
	Nan Pao Overseas Holdings Ltd.	Palm Grove House, P.O. Box 438, Road Town, Tortola, British Virgin Islands	General Investment	2,071,057	1,839,886	67,284,333	100	3,628,352	171,651	170,418	
	Profit Land Ltd.	Equity Truust Chambers, P.O. Box 3269, Apia, Samoa	General Investment	186,588	186,588	983,333	73.75	742,582	56,314	42,223	Nan Pao Resins Chemical Co., Ltd. and affiliated companies hold 100% shares
	All Saints Enterprises Ltd.	Palm Grove House, P.O. Box 438, Road Town, Tortola, British Virgin Islands	General Investment	143,375	143,375	5,452,549	54.53	221,171	( 16,227 )	( 8,848 )	Nan Pao Resins Chemical Co., Ltd. and affiliated companies hold 100% shares
	Ongoing Profits Ltd.	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Island	General Investment	46,426	46,426	1,560,000	32.18	299,816	121,839	39,359	Nan Pao Resins Chemical Co., Ltd. and affiliated companies hold 100% shares
	PT. Indo Nan Pao Resins Chemical	Jl. Pajajaran Raya No.44, Jatiuwung Tangerang 15137, Indonesia	Production and Trading of Adhesives	39,276	39,276	2,756,250	49	193,196	65,461	32,076	Nan Pao Resins Chemical Co., Ltd. and affiliated companies hold 67,5% shares
ITLS International Development Co., Ltd.	ITLS Holding Pte. Ltd.	Blk 1049, Eunos Avenue 6, #01-132, Singapore 409628	General Investment	545,462	545,462	24,064,549	100	156,167	( 11,744 )		
	Aftek Materials Vietnam Co., Ltd.	No. 16 Kim Dong Street, Ninh Xa Ward, Bac Ninh City, Bac Ninh Province	Production and Trading of Building Materials	49,172	-	-	70	43,848	( 9,160 )		
Fuqing Nan Pao Investments Ltd.	Wealth Castle Development Ltd.	Flat 13, 10F., Building B Tong-li Industrial Center, 19 Lam Hing Street, Kowloon Bay, Hong Kong	General Investment	140,060	140,060	10,000	100	198,186	10,804		
Thai Nan Pao Investments Ltd.	Thai Nanpao Resins Chemical Co., Ltd.	412 Kor Soi, 1cBangpoo Industrial Tumbon Preaksa Ampur Muang Samutprakarn 10280, Thailand	Production and Trading of Adhesives	(USD 4,560,000) 171,353	(USD 4,560,000) 171,353	21,197,000	100	112,583	10,088		
Nan Pao Overseas Holdings Ltd.	Nan Pao Group Holdings Ltd.	4th Floor, Willow House, Cricket Square, P.O. Box 2804, Grand Cayman KY1-1112, Islands	General Investment	(USD 5,578,821) 2,066,638	(USD 5,578,821) 1,830,133	67,284,333	100	3,674,698	171,733		
ITLS Holding Pte. Ltd.	ITLS ( Malaysia ) SDN BHD	Lot 75289, Lebuhraya Pasir Gudang, Mukim Plentong ( PermasJaya ) , 81750 Masai, Johor, Malaysia	Production and Trading of Building Materials	(USD 67,284,333) 31,547	(USD 59,584,333) 31,547	3,250,000	100	17,990	( 727 )		
	PT. ITLS Indonesia	Jl. Pajajaran Raya No. 44, Kel. Gandasari, Kec. Jatiuwung, Tangerang-15137 Indonesia	Production and Trading of Building Materials	(USD 1,027,092) 75,609	(USD 1,027,092) 75,609	2,437,109	100	25,737	1,670		
	ITLS Vietnam Co., Ltd.	No.16 Kim Dong Street, Ninh Xa Ward, Bac Ninh City, Bac Ninh Province	Production and Trading of Building Materials	(USD 2,461,620) 133,717	(USD 2,461,620) 133,717	-	100	83,997	( 9,362 )		
	ITLS-Rich ( S ) Pte. Ltd.	Blk1049,Eunos Avenue 6,#01-132, Singapore 409628	Trading of Hardware and Building Materials	(USD 4,353,487) 6,182	(USD 4,353,487) 4,496	250,000	100	-	( 5,157 )		
	ITLS-SB SDN BHD	Lot 75289, Lebuhraya Pasir Gudang, Mukim Plentong ( PermasJaya ) , 81750 Masai, Johor, Malaysia	Production and Trading of Hardware and Building Materials	(SGD 275,000) 20,876	(SGD 200,000) 20,876	2,000,000	100	18,904	( 1,199 )		
Nan Pao Group Holdings Ltd.	Greatwill Materials (HK) Ltd.	Flat 13, 10F., Building B Tong-li Industrial Center, 19 Lam Hing Street, Kowloon Bay, Hong Kong	General Investment	(SGD 928,632) 38,701	(SGD 928,632) 38,701	7,172	67.68	280,745	74,732		
	Profit Land Ltd.	Equity Truust Chambers, P.O. Box 3269, Apia, Samoa	General Investment	(USD 1,260,000) 57,978	(USD 1,260,000) 57,978	350,000	26.25	266,390	56,314		Nan Pao Resins Chemical Co., Ltd. and affiliated companies hold 100% shares
				(USD 1,887,627)	(USD 1,887,627)						

(continued on next page)

(continued from previous page)

Name of Investor Company	Name of Investee Company	Location	Main service items	Initial Investment		Held at the end of the period			Investee Company Profit (loss) for the current period	Investment profit or loss Recognized in the current period (Note 1)	Remarks
				End of the current period	End of Last Year	Number of Shares	Ratio	Book Value			
Nan Pao Resins (Holdings) Ltd.	Nan Pao Resins (Holdings) Ltd.	P.O.Box 71, Craigmuir Chambers, Road Town, Tortola, British Virgin Islands	General Investment	\$ 800,251 (USD 26,054,073)	\$ 800,251 (USD 26,054,073)	10,000	100	\$ 873,685	\$ 16,724		Nan Pao Resins Chemical Co., Ltd. and affiliated companies hold 100% shares
	All Saints Enterprises Ltd.	Palm Grove House, P.O. Box 438, Road Town, Tortola, British Virgin Islands	General Investment	163,805 (USD 5,333,075)	163,805 (USD 5,333,075)	4,547,451	45.47	184,424	( 16,227 )		
	Mega Victory Ltd.	Visits Corporate Services Centre, Ground Floor NPF Building, Beach Road, Apia, Samoa	General Investment	72,707 (USD 2,367,154)	72,707 (USD 2,367,154)	2,367,154	100	61,468	2,726		
	ITLS –TWA Australia Pty. Ltd.	Level 4, 147 Collins Street Melbourne Vic 3000	Production and Trading of Hardware, Building Materials, and Chemicals	129,990 (AUD 6,000,000)	129,990 (AUD 6,000,000)	6,000,000	100	( 49,106 )	( 3 )		
	NP Australia Pty. Ltd.	Level 4, 147 Collins Street Melbourne Vic 3000	General Investment	513,771 (AUD 23,714,354)	513,771 (AUD 23,714,354)	23,714,354	100	645,430	23,241		Nan Pao Resins Chemical Co., Ltd. and affiliated companies hold 100% shares
	Ongoing Profits Ltd.	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Island	General Investment	117,848 (USD 3,836,817)	117,848 (USD 3,836,817)	3,287,546	67.82	661,171	121,839		
	Treasure Wealth ( HK ) Ltd.	Flat 13, 10F., Building B Tong-li Industrial Center, 19 Lam Hing Street, Kowloon Bay, Hong Kong	General Investment	141,596 (USD 4,610,000)	141,596 (USD 4,610,000)	4,610	100	142,887	( 2,955 )		
	Goldford Investments Ltd.	Creque Building, P.O. Box 116, Road Town, Tortola, British Virgin Islands	General Investment	17,963 (USD 584,844)	17,963 (USD 584,844)	486,000	100	78,717	12,068		
	Nan Pao Resins Chemical Philippines, Inc.	Road 22 Phase 11, Cogeo Village, Antipolo City, Philippines	Trading of Adhesives	6,450 (USD 210,000)	6,450 (USD 210,000)	9,000	100	39,313	4,489		
	Nan Pao Resins International Ltd.	Flat 13, 10F., Building B Tong-li Industrial Center, 19 Lam Hing Street, Kowloon Bay, Hong Kong	Trading of chemicals and related products	784 (HKD 200,000)	784 (HKD 200,000)	1,000	100	9,911	1,729		
Profit Land Ltd.	Giant Profit Development Ltd.	Flat 13, 10F., Building B Tong-li Industrial Center, 19 Lam Hing Street, Kowloon Bay, Hong Kong	General Investment	245,720 (USD 8,000,000)	245,720 (USD 8,000,000)	10,000	100	913,288	53,529		Nan Pao Resins Chemical Co., Ltd. and affiliated companies hold 67,5% shares
Nan Pao Resins (Holdings) Ltd.	Eastlion Enterprises Ltd.	P.O.Box 71, Craigmuir Chambers, Road Town, Tortola, British Virgin Islands	General Investment	618,603 (USD 20,140,100)	618,603 (USD 20,140,100)	20,240	100	761,240	15,623		
	Eastlion Industrial Ltd.	P.O.Box 71, Craigmuir Chambers, Road Town, Tortola, British Virgin Islands	General Investment	3 (USD 100)	3 (USD 100)	100	100	1,080	( 395 )		
	Nan Pao Resins Development Ltd.	P.O.Box 71, Craigmuir Chambers, Road Town, Tortola, British Virgin Islands	General Investment	92,145 (USD 3,000,000)	92,145 (USD 3,000,000)	3,000	100	104,049	1,503		
All Saints Enterprises Ltd.	Great Mount Enterprises Ltd.	Unit 2102, 21/F The Broadway, No., 54-62 Lockhart, Road, Wanchai, Hong Kong	General Investment	307,150 (USD 10,000,000)	307,150 (USD 10,000,000)	10,000	100	401,140	( 16,178 )		
Mega Victory Ltd.	Progroup Technology Co., Ltd.	No.12, Nanhaipu, Nanhai li., Xigang Dist., Tainan City	Trading of Waterborne PU Resin	75,000	75,000	459,950	91.99	61,438	2,970		
NP Australia Pty Ltd.	RLA Polymers Pty. Ltd.	Level 4, 147 Collins Street Melbourne Vic 3000	Production and Trading of Building Materials and Chemicals	321,386 (AUD 14,834,344)	321,386 (AUD 14,834,344)	10,052,080	100	504,231	27,668		
Ongoing Profits Ltd.	Rising Sun Associates Ltd.	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Island	General Investment	148,892 (USD 4,847,546)	148,892 (USD 4,847,546)	3,000,000	100	973,031	121,892		
Treasure Wealth (HK) Ltd.	Noroo-Nan Pao Paints & Coatings (Vietnam) Co., Ltd.	Ken Nhon Trach II, Xa Hiep Phuoc, Huyen Nhon Trach, Tinh Dong Nai, Vietnam	Production and Trading of Coatings	140,982 (USD 4,590,000)	140,982 (USD 4,590,000)	-	50	142,462	221		
Goldford Investments Ltd.	PT. Indo Nan Pao Resins Chemical Ltd.	Jl. Pajajaran Raya No. 44, Jatiuwung Tangerang 15137, Indonesia	Production and Trading of Adhesives	2,217 (IDR 1,040,625,000)	2,217 (IDR 1,040,625,000)	1,040,625	18.5	77,907	65,461		
Rising Sun Associates Ltd.	Nan Pao Resins (Vietnam) Enterprise Ltd.	Cong Thanlilz, DiAn District, Binh Duong Province	Production and Trading of Adhesives and Coatings	104,683 (USD 3,408,217)	104,683 (USD 3,408,217)	-	100	970,005	121,940		
RLA Polymers Pty Ltd.	RLA Polymers (M) SDN BHD	No.5, Lebuhraya Petai, Pandamaran, 42000 Port Klang, Selangor Darul Ehsan, Malaysia	Production and Trading of Building Materials and Chemicals	129,379 (AUD 5,971,801)	129,379 (AUD 5,971,801)	18,415,500	100	192,216	1,921		

Note 1: The Company is only required to list the amount of profit and loss of each of the subsidiaries and each investee that adopts the equity method. The rest of the information can be exempted.  
Note 2: Please refer to Table 7 for information on investees in Mainland China.

Information on investment in Mainland China

January 1 to December 31, 2018

Table 8

Unit: NT\$1,000  
(Only foreign currency is denoted in dollars)

Investee Company in Mainland China Company Name	Main Service Items	Actual Paid-In Capital (Note 4)	Investee Company (Note 1)	Accumulated Outflow of Investment from Taiwan at the beginning of the period Amount Invested (Note 4)	Outflow or recovery of investment during the period		Accumulated outflow from Taiwan at the end of the period Amount Invested (Note 4)	Investee company Profit (loss) of the current period	Shareholding ratio of the company's direct or indirect investments (%)	Investment Profit or Loss Recognized in the current period (Note 2)	Investment at the end of the period Book Value	Investment Income remitted at end of the current period
					Outflow	Recovery						
Nan Pao Resins (China) Co., Ltd.	Production and trading of adhesives and coatings	\$ 307,150 (USD 10,000,000)	(2) Great Mount Enterprises Ltd.	\$ 331,413 (USD 10,789,932)	\$ -	\$ -	\$ 331,413 (USD 10,789,932)	( \$ 16,160 )	100	( \$ 16,160 ) (2) B.	\$ 400,990	\$ -
Fuqing Nan Pao Resins Co., Limited	Production and trading of adhesives	140,060 (USD 4,560,000)	(2) Wealth Castle Development Ltd.	153,268 (USD 4,990,000)	-	-	153,268 (USD 4,990,000)	10,949	100	10,949 (2) B.	196,981	112,121
Nan Pao Resins (Dongguan) Co., Ltd.	Processing of adhesives	82,931 (USD 2,700,000)	(2) Eastlion Enterprises Ltd.	78,073 (USD 2,541,860)	-	-	78,073 (USD 2,541,860)	41,595	100	41,595 (2)B.	120,989	-
Dongguan Jia Chin Electronics Co., Ltd.	Production and trading of coatings and high performance resins	92,145 (USD 3,000,000)	(2) Nan Pao Resins Development Ltd.	94,132 (USD 3,064,683)	-	-	94,132 (USD 3,064,683)	1,504	100	1,504 (2) B.	104,031	-
Foshan Nan Pao Advanced Materials Co., Ltd.	Production and trading of adhesives	46,073 (USD 1,500,000)	(2) Greatwill Materials (HK) Ltd. and Nan Pao Resins (Foshan) Co., Ltd.	-	-	-	-	75,189	68	51,131 (2) B.	280,750	-
Nan Pao Resins (Foshan) Co., Ltd.	Production and trading of adhesives	245,720 (USD 8,000,000)	(2) Giant Profit Development Ltd.	239,197 (USD 7,787,627)	-	-	239,197 (USD 7,787,627)	53,547	100	53,547 (2) B.	912,250	128,367
Nanpao Chenghong New Material Technology Co., Ltd.	Trading of Footwear Materials	22,360 (RMB 5,000,000)	(3) Nan Pao Resins (Fo Shan) Co., Ltd.	-	-	-	-	1,754	51	895 (2) B.	12,783	-
Foshan Nan Pao Hung Hou New Materials Co., Ltd.	Trading of Chemicals	-	(3) Nan Pao Resins (Foshan) Co., Ltd.	-	-	-	-	( 456 )	80	( 365 ) (2) B.	-	-
Gangyi Electronic (Dongguan) Co., Ltd. (Note 5)	Production and trading of magnetic rings, magnetic covers, iron cores and electronic components	-	(2) Qang Yi Electronic Factory Company Ltd.	12,286 (USD 400,000)	-	-	12,286 (USD 400,000)	-	-	-	-	-
Nanpao Advanced Investment Co., Ltd.	General Investment	574,371 (USD 18,700,000)	(2) Nan Pao Group Holdings Ltd.	337,865 (USD 11,000,000)	236,506 (USD 7,700,000)	-	574,371 (USD 18,700,000)	( 4,266 )	100	( 4,266 ) (2) B.	542,313	-
Nan Pao (Kunshan) Electronic Commerce Co., Ltd.	Online Business Agency and General Merchandise Trading	153,575 (USD 5,000,000)	(3) Nan Pao Advanced Investment Co., Ltd.	-	-	-	-	( 9,144 )	100	( 9,144 ) (2) B.	130,460	-
Nantong Nan Pao Resins Materials Co., Ltd.	Production and trading of adhesives	168,933 (USD 5,500,000)	(3) Nan Pao Advanced Investment Co., Ltd.	-	-	-	-	( 537 )	100	( 537 ) (2) B.	159,317	-
Nan Pao Resins (Yunan) Co., Ltd.	Production and trading of adhesives	61,430 (USD 2,000,000)	(3) Nan Pao Advanced Investment Co., Ltd.	-	-	-	-	483	100	483 (2) B.	61,439	-

Aggregate investment amount remitted from Taiwan to Mainland China at end of period (Note 4)	Investment Amounts Authorized by Investment Commission, MOEA (Note 4)	Limitation on investment in Mainland China by Investment Commission of Ministry of Economic Affairs (MOEA) (Note 4)
\$ 1,482,739 (USD 48,274,102)	\$ 1,730,768 (USD 56,349,260)	\$ 5,776,574

Note 1: Investment is divided into the following three categories (indicate the category number):  
(1) Direct investment in Mainland China.  
(2) Invest in Mainland China through companies in a third-party region (please specify investment company in third-party region).  
(3) Other methods

Note 2: Investment gains and losses recognized in the current period column:  
(1) If the Company is in preparation status, no investment loss and profit occur, it shall be noted  
(2) There are three types of recognized investment loss and profit, and the Company is required to note the type that applies to the Company:  
A. The financial statements audited by international accounting firms that has relations with CPA Republic of China.  
B. The financial statements audited by CPA of Taiwan parent company.  
C. Others.

Note 3: the Company's investment limit in Mainland China is calculated as follows:  
\$9,627,623×60%=\$5,776,574

Note 4: relevant amounts are calculated based on the exchange rate of US\$1 = NT\$30.715 at the end of the period.  
Relevant amounts are calculated based on the exchange rate of CNY 1 = NT\$4.472 at the end of the period.

Note 5: Gangyi Electronic (Dongguan) Co., Ltd. has finished liquidation in October 2017 but its share amounts have not been remitted to Taiwan; hence, it has not been removed from authorized investment amount from the MOEA.

Nan Pao Resins Chemical Co., Ltd. and Subsidiaries

Significant direct or indirect transactions with the investees in Mainland China through third region, and its prices and terms of payment, unrealized gain or loss, and other information:

January 1 to December 31, 2018

Table 9

Unit: NT\$1,000 unless otherwise stated

Purchase(Sale) company	Counterparty	Relations	Transaction				The amount of transaction is different from the normal transactions		Notes and accounts receivable (payable)		Unrealized profit  (Note)
			Purchase/Sale	Amount (NT\$)	Ratio on total sales and purchases Ratio (%)	Credit Period			Balance (Note)	Ratio on total accounts receivable Notes Payable,  Account Ratio (%)	
							Reasons and Conditions				
							Unit Price	Credit Period			
Nan Pao Resins Chemical Co.	Nan Pao Resins (Foshan) Co., Ltd.	Subsidiary	Sales	( \$ 185,614 )	( 3 )	90 Day Wire Transfer	Equivalent	Equivalent	\$ 18,459	2	\$ 4,837
	Nan Pao Resins (China) Co., Ltd.	Subsidiary	Sales	( 177,062 )	( 3 )	90 Day Wire Transfer	Equivalent	Equivalent	54,369	5	-
	Fuqing Nan Pao Resins Co., Limited	Subsidiary	Sales	( 15,563 )	-	90 Day Wire Transfer	Equivalent	Equivalent	2,462	-	-
Foshan Nan Pao Advanced Materials Co., Ltd.	Nan Pao Resins Chemical Co.	Ultimate Parent Company	Sales	( 74,074 )	( 5 )	30 Day Wire Transfer	Equivalent	Equivalent	1,996	-	-
	Nan Pao Resins (Foshan) Co., Ltd.	Same Parent Company	Sales	( 50,794 )	( 3 )	Payment within 90 Days	Equivalent	Equivalent	14,642	3	-
	Nan Pao Resins India Pvt Ltd.	Same Parent Company	Sales	( 32,870 )	( 2 )	90 Day Wire Transfer	Equivalent	Equivalent	12,990	3	-
	Greatwill Materials (HK) Ltd.	Same Parent Company	Sales	( 62,487 )	( 4 )	90 Day Wire Transfer	Equivalent	Equivalent	18,727	4	-
Nan Pao Resins (Dongguan) Co., Ltd.	Eastlion Enterprises Ltd.	Parent Company	Net Sale of Processing	( 311,779 )	( 100 )	Payment within 30 days	No comparable product price	No comparable third-party transaction	-	-	-
Nan Pao Resins (Foshan) Co., Ltd.	Eastlion Enterprises Ltd.	Same Parent Company	Sales	( 22,881 )	( 1 )	90 Day Wire Transfer	Equivalent	Equivalent	6,007	2	-
	Nan Pao Resins (China) Co., Ltd.	Same Parent Company	Sales	( 30,726 )	( 2 )	Payment within 90 Days	Equivalent	Equivalent	9,472	2	-
	Fuqing Nan Pao Resins Co., Limited	Same Parent Company	Sales	( 114,898 )	( 6 )	Payment within 90 Days	Equivalent	Equivalent	24,125	6	-
Fuqing Nan Pao Resins Co., Limited	Nan Pao Resins (China) Co., Ltd.	Same Parent Company	Sales	( 48,274 )	( 13 )	90 Day Wire Transfer	Equivalent	Equivalent	17,054	19	—

Note: already written off during compilation of the consolidated financial statements.

Nan Pao Resins Chemical Co., Ltd. and Subsidiaries

Business relationships, important transactions, and amounts between parent company and subsidiaries

January 1 to December 31, 2018

Table 10

Serial number	Name of counterparty	Counterparty	Relationship with Counterparty (Note 1)	Transaction Status			
				Account	Amount (Note 2)	Transaction Terms	Percentage of consolidated total revenue or total asset (%)
0	Nan Pao Resins Chemical Co.	Nan Pao Resins (China) Co., Ltd	1	Accounts Receivable - Related Parties Sales Revenue	\$ 54,369		-
					177,062	Price based on average transaction price, receive 90 day payment through wire transfer	1
		Nan Pao Resins (Vietnam) Enterprise Ltd.	1	Accounts Receivable - Related Parties Sales Revenue	275,605		2
					951,550	Price based on average transaction price, receive 90 day payment through wire transfer	6
				Purchase	12,594	Price based on average transaction price, payment through wire transfer within 90 days	-
		Nan Pao Resins (Foshan) Co., Ltd.	1	Accounts Receivable - Related Parties Sales Revenue	18,459		-
					185,614	Price based on average transaction price, receive 90 day payment through wire transfer	1
		PT. Indo Nan Pao Resins Chemical	1	Accounts Receivable - Related Parties Sales Revenue	86,332		-
					305,654	Price based on average transaction price, receive 90 day payment through wire transfer	2
		Nan Pao Resins Chemical Philippines, Inc.	1	Sales Revenue	21,910	Price based on average transaction price, receive 90 day payment through wire transfer	-
		Fuqing Nan Pao Resins Co., Ltd.	1	Sales Revenue	15,563	Price based on average transaction price, receive 90 day payment through wire transfer	-
		Noroo-Nan Pao Paints & Coatings (Vietnam) Co., Ltd.	1	Sales Revenue	22,138	Price based on average transaction price, receive 90 day payment through wire transfer	-

		RLA Polymers Pty Ltd.	1	Sales Revenue	18,577	Price based on average transaction price, receive 90 day payment through wire transfer	-
		Eastlion Enterprises Ltd.	1	Accounts Receivable - Related Parties Sales Revenue	80,693		-
					262,753	Price based on average transaction price, receive 90 day payment through wire transfer	2
				Purchase	37,050	No comparable product price, payment within 90 days through wire transfer	-
		Foshan Nan Pao Advanced Materials Co., Ltd.	1	Purchase	74,074	Price based on average transaction price, payment through wire transfer within 90 days	-
		Nan Pao Materials Vietnam Co., Ltd.	1	Accounts Receivable - Related Parties Sales Revenue	79,130		-
					151,082	Price based on average transaction price, receive 90 day payment through wire transfer	1
		ITLS International Development Co.	1	Sales Revenue	28,007	Price based on average transaction price, received 90 day payment	-
		Nan Pao Advanced Materials Co.	1	Sales Revenue	30,544	Price based on average transaction price, receive 90 day payment	-
		Thai Nanpao Resins Chemical Co., Ltd.	1	Sales Revenue	23,533	Price based on average transaction price, receive 90 day payment through wire transfer	-
		Nan Pao Chemical Co., Ltd.	1	Purchase	15,189	Price based on average transaction price, payment through wire transfer within 90 days	-
1	Nan Pao Resins ( Vietnam ) Enterprise Ltd.	PT. Indo Nan Pao Resins Chemical		Accounts Receivable - Related Parties Sales Revenue	42,382	Price based on average transaction price, receive 90 day payment through wire transfer	-
					109,304	Price based on average transaction price, receive 90 day payment through wire transfer	1
		Nan Pao Resins International Ltd.	3	Accounts Receivable - Related Parties Sales Revenue	90,840		1
					321,674	Price based on average transaction price, receive 90 day payment through wire transfer	2
		Progroup Technology Co., Ltd.	3	Accounts payable - Related Parties	18,257		-

		Eastlion Enterprises Ltd.	3	Purchase	57,133	No comparable product price, payment within 90 days through wire transfer	-
				Accounts payable-Related Parties Purchase	21,033		-
					80,289	Price based on average transaction price, payment through wire transfer within 90 days	1
		Nan Pao Chemical Co., Ltd.	3	Accounts Receivable - Related Parties Purchase	17,821		-
					53,396	Price based on average transaction price, payment through wire transfer within 90 days	-
		Nan Pao Materials Vietnam Co., Ltd.	3	Accounts payable - Related Parties	12,872		-
2	Nan Pao Resins (Foshan) Co., Ltd.	RLA Polymers Pty Ltd.	3	Purchase	\$30,724	Price based on average transaction price, payment within 90 days	-
				Sales Revenue	21,113	Price based on average transaction price, receive 90 day payment through wire transfer	-
		Fuqing Nan Pao Resins Co., Limited	3	Accounts Receivable - Related Parties Sales Revenue	24,125		-
					114,898	Price based on average transaction price, received 90 day payment	1
		Nan Pao Resins (China) Co., Ltd.	3	Sales Revenue	30,726	Price based on average transaction price, received 90 day payment	-
		Foshan Nan Pao Advanced Materials Co., Ltd.	3	Accounts payable - Related Parties Purchase	14,642		-
					50,794	Price based on average transaction price, payment within 90 days	-
		Eastlion Enterprises Ltd.	3	Sales Revenue	22,881	Price based on average transaction price, receive 90 day payment through wire transfer	-
		Nan Pao Advanced Materials Co.	3	Purchase	17,535	Price based on average transaction price, payment through wire transfer within 90 days	-
3	Eastlion Enterprises Ltd.	Nan Pao Resins (Dongguan) Co., Ltd.	3	Processing Fee	311,779	No comparable product price, payment within 30 days	2
		Nan Pao Resins Chemical Philippines, Inc.	3	Accounts Receivable - Related Parties	34,467		-



				Sales Revenue	67,334	Price based on average transaction price, receive 90 day payment through wire transfer	-
		Nan Pao Resins International Ltd.	3	Management Expenses	15,384	No comparable product price, wire transfer payment within 15 days	-
		PT. Indo Nan Pao Resins Chemical	3	Accounts Receivable - Related Parties Sales Revenue	20,149		-
					39,421	Price based on average transaction price, receive 90 day payment through wire transfer	-
4	Nan Pao Resins (China) Co., Ltd	Nan Pao (Kunshan) Electronic Commerce Co., Ltd.	3	Other Receivables - Related Parties	113,482		1
		Fuqing Nan Pao Resins Co., Limited	3	Accounts payable - Related Parties Purchase	17,054		-
					48,274	No comparable product price, payment within 90 days through wire transfer	-
5	Foshan Nan Pao Advanced Materials Co., Ltd.	Nan Pao Resins India Pvt Ltd.	3	Accounts Receivable - Related Parties Sales Revenue	12,990		-
					32,870	Price based on average transaction price, receive 90 day payment through wire transfer	-
		Greatwill Materials (HK) Ltd.	3	Accounts Receivable - Related Parties Sales Revenue	18,727		-
					62,487	Price based on average transaction price, receive 90 day payment through wire transfer	-
6	Nan Pao Materials Vietnam Co., Ltd.	Nan Pao Resins International Ltd.	3	Accounts Receivable - Related Parties Sales Revenue	35,604		-
					115,030	Price based on average transaction price, payment received through wire transfer within 60-90 days	1
		Nan Pao Chemical Co., Ltd.	3	Accounts Payable - Related Parties Purchase	22,507		-
					69,695	Price based on average transaction price, payment through wire transfer within 90 days	-

7	PT. Indo Nan Pao Resins Chemical	PT. Indo Nan Pao Resins Chemical	3	Sales Revenue	12,662	Priced according to general transactions price, receive 90 day payment through wire transfer	-
		PT. ITLS Indonesia	3	Sales Revenue	22,968	Price based on average transaction price, receive 90 day payment	-
		ProPlus Progroup Technology Co., Ltd.	3	Purchase	27,912	Price based on average transaction price, payment through wire transfer within 90 days	-
		ITLS International Development Co., Ltd.	3	Purchase	12,321	Price based on average transaction price, payment through wire transfer within 90 days	-

Note 1: Relationship with counterparty can be specified using the following three categories:

- (1) Parent Company to Subsidiaries.
- (2) Subsidiaries to Parent Company.
- (3) Between Subsidiaries

Note 2: Already written off during compilation of the consolidated financial statements

## **Appendix 2 : Individual Financial Statements**

### **Independent Auditors' Report**

To Nan Pao Resins Chemical Co., Ltd.:

#### **Audit Opinion**

We have audited the Individual balance sheet of Nan Pao Resins Chemical Co., Ltd. as of December 31, 2017 and 2018, the related Individual statements of comprehensive income, changes in equity and cash flows for the years then ended, and the Notes to Individual financial statements (including a summary on significant accounting policies).

In our opinion and based on our and other independent auditors reports (see Other), the accompanying individual financial statements present fairly, in all material respects, the Individual financial position of Nan Pao Resins Co., Ltd as of December 31, 2017 and 2018, and the individual financial performance and cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and endorsed by the Financial Supervisory Commission of the Republic of China with the effective dates.

#### **Basis for Opinion**

We conducted our audits in accordance with Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and Generally Accepted Auditing Standards (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Individual Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant Code of the Republic of China and we have fulfilled our other ethical responsibilities in accordance with these requirements. With the results of our auditing and other independent auditors reports, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinions.

#### **Key Audit Matters**

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

Key audit matters of the individual financial statements of Nan Pao Resins Co.,Ltd for the year ended December 31, 2018 are stated as follows:

##### **Key Audit Matters: Authenticity of Revenue Recognition**

The main sources of revenue for Nan Pao Resins Co.,Ltd come from the sale of adhesives and paints. As market demand rises, the revenue of 2018 increased compared to the same period last year, the sales of adhesives for footwear was the major increase. Given the effects on materiality of individual financial statements and significant risks of predetermined revenue recognition in auditing standards, we included the authenticity of revenue recognition as a key audit matter.

The key audit procedures conducted in regard to the aforementioned matter are as follows:

- I. Understand and sample test the effectiveness of internal control designs related to revenue recognition

- II. Obtain basic information on the Group's major customers, cross reference with publicly available information, analyze loan conditions and company scale, and check for errors on the number of days for receivables turnover.
- III. Select appropriate samples from sales revenue receipts, inspect sales invoices, commercial invoices, export declarations signed off by external personnel using revenue recognition criteria, and confirm the names for receipt and for trade items.

For accounting policies and income segmentation on income recognition, please refer to Note 4 (13) and 23.

### **Other Matters**

In the 2018 individual financial statements, certain investees were not audited by us but by other CPAs. Accordingly, for our findings on the aforementioned individual financial statements, the dollar amount and information related to the investees in the statements were based on audit reports from other CPAs. As of December 31, 2018, the total assets in equity method were NT\$ 948,380,000 and accounted for 7% of the total assets. The net revenue in equity method of 2018 was NT\$9,567,000 accounting for 2% of the net revenue.

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

Management is responsible for the preparation and fair representation of the Individual 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 individual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing individual 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 intends to liquidate the Company or terminate the business, or no practicable measure other than liquidation or termination of the business can be taken.

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

### **Auditor's Responsibilities for the Audit of the Individual Financial Statements**

Our objectives are to obtain reasonable assurance about whether the Individual 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 Generally Accepted Auditing Standards (GAAS) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error. If it can be reasonably expected that misstatements in individual amounts or aggregates could influence the economic decisions of users taken on the basis of these Individual financial statements, then the misstatements are deemed to as material.

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 implement the following tasks:

- I. Identify and assess the risks of material misstatements of the Individual financial statements, whether due to fraud or error, design and implement appropriate countermeasures to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. Since irregularities can involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control, the risks of failing to detect material

misstatements resulting from fraud is higher than for one resulting from errors.

- II. 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 Company's internal control.
- III. Evaluate the appropriateness of accounting policies adopted by management as well as reasonableness of its accounting estimates and related disclosures.
- IV. Conclude on the appropriateness of the management's use of the going concern basis of accounting, 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 Individual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on audit evidence obtained up to the date of our audit report. However, future events or circumstances may cause the Company to lose its capacity to function as a going concern.
- V. Evaluate the overall presentation, structure, and contents of individual financial statements (including the disclosures), and whether the individual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- VI. Obtain sufficient and appropriate audit evidence regarding the financial information of entities within the Group to express an opinion on the Individual financial statements. We are responsible for the direction, supervision, and implementation 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 significant internal control deficiencies identified during our audit).

We have also provided a declaration to the governing bodies stating that the personnel of our affiliated firm has followed the item of independence in the CPA code of professional ethics. We have also communicated with the governing bodies on all relationships that may possibly be deemed to impair our independence as well as other matters (including relevant protective measures).

From the matters communicated with the governing body, we determined the key audit matters that were of most significance within the audit of the Company's Individual Financial Statements for the year ended in December 31, 2017. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Deloitte & Touché

CPA Liao, Hung-Ju

CPA Kung, Chun-Chi

Approval No. from Financial Supervisory  
Commission R.O.C. (Taiwan)

Approval No. from the Securities and Futures  
Commission

No. 0990031652 in FSC

No. 0920123784 in TWSE

March 21, 2019

Nan Pao Resins Chemical Co., Ltd.

Individual Financial Statements

December 31, 2017 and 2018

Unit: NT\$1,000

Code	Asset	December 31, 2018		December 31, 2017		Code	Liabilities and Shareholders' Equity	December 31, 2018		December 31, 2017	
		Amount	%	Amount	%			Amount	%	Amount	%
	Current Assets						Current Liabilities				
1100	Cash and Cash Equivalents (Note 4 and 6)	\$ 828,391	6	\$ 787,390	25	2100	Short-Term Loans (Note 18)	\$ 670,000	5	\$ 780,000	6
1150	Notes Receivable (Note 4 and 11)	210,017	2	219,042	2	2110	Short-Term Notes and Bills Payable (Note18))	-	-	119,923	1
1160	Notes Receivable-Affiliate (Note 4 11 and 33)	-	-	229	-	2130	Contract Liability-Current (Note 23)	10,442	-	-	-
1170	Accounts Receivable (Note 4, 11 and23)	318,196	3	305,985	3	2150	Notes Payable (Note 19)	25,072	-	32,524	-
1180	Accounts Receivable - Affiliate (Note 4,11,23 and 33)	653,955	5	619,002	5	2200	Other Payables (Note 20 and 33)	331,087	2	337,286	3
1200	Other Receivables (Note 4,11 and 33)	18,606	-	12,619	-	2230	Current Income Tax Liabilities (Note 25)	145,092	1	199,204	2
130X	Inventory (Note 4 and 12)	575,710	4	639,357	5	2300	Other Current Liability(Note 20,23 and 33)	22,564	-	11,540	-
1470	Other Current Assets (Note 17)	41,487	-	29,972	-	21XX	Total Current Liabilities	1,811,907	13	2,173,880	18
11XX	Total Current Assets	10,669,750	61	10,137,504	67	2540	Long Term Debt Payable (Note 18)	1,281,000	10	1,460,000	12
	Non-Current Assets					2570	Deferred Income Tax Liabilities (Note 4, 5 and 25)	701,093	5	747,095	6
1517	Financial Assets Measured at FVTOCI					2640	Net Defined Benefit Liabilities-Non Current (Note 4 and 21)	133,221	1	162,415	2
	Financial Assets – Non-Current (Note 4 and 7)	1,202,938	9	-	-	25XX	Total Non-Current Liabilities	2,115,314	16	2,369,510	20
1543	Financial Assets Carried at Cost - Non-current					2XXX	Total Liabilities	3,927,221	29	4,543,390	38
	(Note 4 and 10)	-	-	179,897	1		Equity Attributable to Company Shareholders (Note 22)				
1535	Financial Assets at Amortized Cost - Non						Equity				
	Current (Note 4, 8 and 9)	13,937	-	-	-	3110	Ordinary Shares	1,205,707	9	1,086,207	9
1550	Investments Accounted for Using Equity Method (Note 4 and 13)	7,752,711	57	7,276,155	61	3200	Capital Reserve	2,108,235	15	1,290,212	11
1600	Property, Plant & Equipment (Note 4 and 14)						Retained Earnings				
		1,735,208	13	1,633,008	14	3310	Statutory Surplus Reserve	988,725	7	900,538	7
1760	Investment Property (Note 4 and 15)	17,760	-	17,760	-	3320	Special Surplus Reserve	313,321	3	313,321	3
1780	Other Intangible Assets (Note 4 and 16)	12,084	-	14,124	-	3350	Retained Earnings	4,207,525	31	4,158,679	35
1840	Deferred Income Tax Assets (Note 4 and 25)	122,342	1	116,849	1	3300	Total Reserved Earnings	5,509,571	41	5,372,538	45
1990	Other Non-Current Assets (Note 4 and 17)	51,502	-	149,241	1	3400	Other Equity	804,110	6	( 291,717 )	( 3 )
15XX	Total Non-Current Assets	10,908,482	80	9,387,034	78	3XXX	Total Equity	9,627,623	71	7,457,240	62
							Total Liabilities and Equity	\$ 13,554,844	100	\$ 12,000,630	100

The attached Notes are part of the individual financial statements.

(Please refer to Audit Report of Deloitte & Touche on March 21, 2019)

Chairman: Wu, Cheng-Hsien

Manager: Hsu, Ming-Hsien

Accounting Manager: Lin, Kun-Chin

Nan Pao Resins Chemical Co., Ltd. and Subsidiaries  
Individual Comprehensive Balance Sheet  
For the Years Ended December 31, 2018 and 2017

Unit: NT\$1,000

(except earnings per share, which is denoted in NT\$)

Code		2018		2017	
		Amount	%	Amount	%
4000	Operating Revenue (Note 4, 23, and 33)	\$ 5,321,256	100	\$ 5,146,035	100
5000	Operating Cost (Note 12, 21, 24 and 33)	<u>4,074,419</u>	<u>77</u>	<u>3,823,989</u>	<u>74</u>
5900	Gross Profit	1,246,837	23	1,322,046	26
5910	Unrealized Interest with subsidiaries and affiliates	( 73,745)	( 1)	( 76,303)	( 2)
5920	Realized Interest with subsidiaries and affiliates	<u>76,303</u>	<u>2</u>	<u>108,523</u>	<u>2</u>
5950	Realized Operational Gross Profit	<u>1,249,395</u>	<u>24</u>	<u>1,354,266</u>	<u>26</u>
	Operating Expenses (Note 21, 24 and 33)				
6100	Selling Expenses	453,354	9	354,618	7
6200	General and Administrative Expenses	248,260	5	330,046	6
6300	Research and Development Expenses	184,002	3	169,168	3
6450	Estimated Credit Impairment Loss or Gain	<u>1,750</u>	<u>-</u>	<u>-</u>	<u>-</u>
6000	Total Operating Expenses	<u>887,366</u>	<u>17</u>	<u>853,832</u>	<u>16</u>
6900	Net Operating Profit	<u>362,029</u>	<u>7</u>	<u>500,434</u>	<u>10</u>
	Non-Operating Income and Expenses (Note 4, 24 and 33)				
7010	Other Income	107,168	2	49,710	1
7020	Other Gains and Losses	32,850	1	( 58,495)	( 1)
7050	Financing Cost	( 26,621)	(1)	( 26,288)	( 1)
7070	Share of Profit of Subsidiaries and Affiliates or Loss of Associates Accounted for Using Equity Method	<u>381,640</u>	<u>7</u>	<u>593,412</u>	<u>12</u>
7000	Total Non-Operating Income and Expenses	<u>495,037</u>	<u>9</u>	<u>558,339</u>	<u>11</u>
7900	Pre-Tax Profit	857,066	16	1,058,773	21
7950	Income Tax Expenses (Note 4 and 25)	<u>184,291</u>	<u>3</u>	<u>176,899</u>	<u>4</u>
8200	Net Profit of the Year	<u>\$ 672,775</u>	<u>13</u>	<u>\$ 881,874</u>	<u>17</u>

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Code		2018		2017	
		Amount	%	Amount	%
	Other Comprehensive Gain or Loss (Note 25, 26 and 29)				
8310	Items that will not be reclassified to profit or loss:				
8311	Remeasurement of				
8316	Defined Benefit Plans	12,604	-	47,577	1
	Unrealized Valuation				
	Loss (gain) on				
	Investments in an				
	Equity Instrument				
	Measured at FVTOCI	( 337,983)	(6)	-	-
8330	Share of the other				
	comprehensive loss of				
	subsidiaries and				
	associates	( 11,648)	-	751	-
8349	Income Tax Related to				
	Items that will not be				
	Reclassified	<u>(4,248)</u>	<u>-</u>	<u>(8,088)</u>	<u>-</u>
		<u>( 341,275)</u>	<u>(6)</u>	<u>40,240</u>	<u>1</u>
8360	Items that may be Reclassified				
	to Profit or Loss:				
8361	Exchange differences on				
	translation of foreign				
	financial statements	63,409	1	( 334,645)	( 7)
8380	Share of Profit of				
	Associates Accounted				
	for Using Equity				
	Method	9,444	-	( 10,522)	-
8399	Income Tax Related to Items that				
	may be Reclassified	( 4,026)	-	58,679	-
		<u>68,827</u>	<u>1</u>	<u>(286,488)</u>	<u>( 6)</u>
8300	Total Other Comprehensive Income				
	for the Year (net of tax)	( 272,448)	( 5)	( 246,248)	( 5)
8500	Total comprehensive income for the				
	year	<u>\$ 400,327</u>	<u>8</u>	<u>\$ 635,626</u>	<u>12</u>
	Earnings per Share (Note 26)				
9710	Base	\$ 6.15		\$ 8.22	
9810	Diluted	6.12		8.16	

The attached Notes are part of the individual financial statements.

(Please refer to Audit Report of Deloitte & Touche on March 21, 2019)

Chairman: Wu, Cheng-Hsien

Manager: Hsu, Ming-Hsien

Accounting Manager: Lin, Kun-Chin



Individual Statement of Changes in Equity  
For the Years Ended December 31, 2018 and 2017

Unit: NT\$1,000

(except earnings per share and share issuance price, which are denoted in NT\$)

		Equity Attributable to Owners								
		Retained Earnings					Other Equity			
							Exchange Difference on Conversion of Foreign Operations	Financial Assets Measured at FVTOCI Unrealized Gain or Loss	Total	Total Equity
Code		Capital	Capital Reserve	Statutory Surplus Reserve	Special Surplus Reserve	Undistributed Earnings				
A1	Balance as of January 1, 2017	\$ 1,034,909	\$ 778,977	\$ 768,016	\$ 313,321	\$ 3,902,903	( \$ 5,229 )	\$ -	(\$ 5,229)	\$ 6,792,897
B1	2016 Earnings Distribution (Note 22)									
B5	Statutory Surplus Reserve	-	-	132,522	-	( 132,522 )	-	-	-	-
	Cash Dividend - NT\$5 per share	-	-	-	-	( 532,455 )	-	-	( 532,455 )	( 532,455 )
C13	Distribution of Capital Surplus in Stock Dividend - NT\$0.2 per share (Note 26)	21,298	( 21,298 )	-	-	-	-	-	-	-
D1	Net Profit for 2017	-	-	-	-	881,874	-	-		881,874
D3	Other Comprehensive Income after Tax for 2017	-	-	-	-	40,240	( 286,488 )	-	( 286,488 )	( 246,248 )
D5	Total Comprehensive Income for 2017	-	-	-	-	922,114	( 286,488 )	-	( 286,488 )	635,626
E1	Capital Increase on June 16, Issued at NT\$180 per Share (Note 26)	30,000	510,000	-	-	-	-	-		540,000
M3	Disposition of Subsidiaries (Note 32)	-	-	-	-	-	-	-	-	( 7,097 )
M5	Book Value Differences in Acquisition or Disposal of Shares from Subsidiaries (Note 33)	-	22,926	-	-	( 1,361 )	-	-		21,565
M7	Changes in Subsidiary Shares (Note 33)	-	( 393 )	-	-	-	-	-		( 393 )
Z1	Balance as of December 31, 2017	1,086,207	1,290,212	900,538	313,321	4,158,679	( 291,717 )	-	( 291,717 )	7,457,240
A3	Impact of Retrospective Application (Note 3)	-	-	-	-	-	-	1,376,496	1,376,496	1,376,496
A5	Adjusted Balance as of January 1, 2018	1,086,207	1,290,212	900,538	313,321	4,158,679	( 291,717 )	1,376,496	1,084,779	8,833,736
B1	Appropriation of Net Income in 2017 (Note 26)									
B5	Statutory Surplus Reserve	-	-	88,187	-	( 88,187 )	-	-	-	-
	Cash Dividend - NT\$5 per share	-	-	-	-	( 543,104 )	-	-		( 543,104 )
C17	Cost of Share-based Payment	-	358	-	-	-	-	-		358
D1	Net Profit for 2018	-	-	-	-	672,775	-	-		672,775
D3	Other Comprehensive Income after Tax in 2018	-	-	-	-	8,221	68,827	( 349,496 )	( 280,669 )	( 272,448 )
D5	Total Comprehensive Income in 2018	-	-	-	-	680,996	68,827	( 349,496 )	400,327	448,744
E1	Capital Increase - November 26, Issued at NT\$76.8 to 79.56 per Share (Note 26)	119,500	817,663	-	-	-	-	-		937,163
M5	Book Value Differences in Acquisition or Disposal of Shares from Subsidiaries (Note 33)	-	2	-	-	( 859 )	-	-		( 857 )
O1	Increase in Non-Controlling Interests	-	-	-	-	-	-	-	-	21,286
Z1	Balance as of December 31, 2018	\$ 1,205,707	\$ 2,108,235	\$ 988,725	\$ 313,321	\$ 4,207,525	( \$ 222,890 )	\$ 1,027,000	\$ 804,110	\$ 9,627,623

The attached Notes are part of the individual financial statements.  
(Please refer to Audit Report of Deloitte & Touche on March 21, 2019)

Chairman: Wu, Cheng-Hsien

Manager: Hsu, Ming-Hsien

Accounting Manager: Lin, Kun-Chin

Nan Pao Resins Chemical Co., Ltd. and Subsidiaries

Individual Cash Flow Statement

For the Years Ended December 31, 2018 and 2017

Unit: NT\$1,000

C o d e		2018	2017
	Cash flow from operating activities		
A10000	Net Profit before Tax for the Year	\$ 857,066	\$ 1,058,773
A20010	Gains and Losses:		
A20100	Depreciation	121,999	104,488
A20200	Amortization	4,795	3,754
A20400	Estimated Credit Impairment Loss	1,750	-
A21900	Employee Stock Option Costs	358	-
A21200	Interest Income	( 1,047 )	( 672 )
A21300	Dividend Income	( 98,176 )	( 46,083 )
A20900	Financing Costs	26,621	26,288
A22500	Loss on Disposal of Properties, Plants, and Equipment	1,750	3,295
A23700	Allowance for Inventory Valuation and Obsolescence Loss	12,891	50,286
A23900	Unrealized interest with subsidiaries	73,745	76,303
A24000	Realized interest with subsidiaries	( 76,303 )	( 108,523 )
A31130	Notes Receivable	9,025	( 8,981 )
A31140	Accounts Receivable-Affiliates	229	84,737
A31150	Accounts Receivable	( 16,977 )	50,700
A31160	Accounts Receivable - Stakeholders	( 31,937 )	( 121,178 )
A31180	Other Receivables	( 5,987 )	8,469
A31200	Inventory	50,756	( 249,993 )
A31240	Other Current Assets	( 11,515 )	1,708
A32125	Contract Liabilities	984	-
A32130	Notes Payable	( 8,122 )	( 21,046 )
A32150	Accounts Payable	( 85,753 )	80,418
A32180	Other Payables	2,003	5,226
A32230	Other Current Liabilities	20,482	( 18,296 )
A32240	Net Defined Benefit Liabilities	( 16,590 )	( 5,357 )
A32990	Other Non-Current Liabilities	13,714	( 7,682 )
A33000	Cash Flow from Operating Activities	450,407	381,081
A33100	Interest Income Received	1,047	681
A33300	Interest Paid	( 26,614 )	( 26,530 )
A33500	Income Tax Paid	( 298,172 )	( 121,343 )
AAAA	Net Cash Inflow from Operating Activities	126,668	233,889

Cash Flow from Investment Activities

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C o d e		2018	2017
B00300	Acquisition of Financial Assets Measured at Cost	\$ -	( \$ 20,000 )
B01800	Acquisition of Investments Measured at Equity	( 491,771 )	( 1,155,738 )
B02700	Purchase of Properties, Plants, and Equipment	( 150,017 )	( 343,936 )
B02800	Disposition of PPE	639	3,895
B03700	Increase in Refundable Deposits	( 308 )	( 600 )
B03800	Decrease in Refundable Deposits	-	23
B04500	Purchased Intangible Assets	( 2,755 )	( 2,499 )
B07600	Dividends Received	<u>573,409</u>	<u>813,723</u>
BBBB	Net Cash Flow from Investing Activities (out)	( <u>70,803</u> )	( <u>705,132</u> )
	Cash Flow from Financing Activities		
C00100	Increase in Short-Term Loans	3,555,000	3,863,024
C00200	Decrease in Short-Term Loans	( 3,665,000 )	( 3,985,185 )
C00500	Increase in Short-Term Notes and Bills Payable	259,508	469,049
C00600	Decrease in Short-Term Notes and Bills Payable	( 379,431 )	( 499,012 )
C01600	Long-Term Loans Borrowed	3,011,000	2,510,000
C01700	Long-Term Loans Repaid	( 3,190,000 )	( 2,090,000 )
C04500	Cash Dividends	( 543,104 )	( 532,455 )
C04600	Capital Cash Increase	<u>937,163</u>	<u>540,000</u>
CCCC	Net Cash Inflow from Financing Activities	( <u>14,864</u> )	<u>275,421</u>
EEEE	Net Decrease in Cash and Cash Equivalents	41,001	( 195,822 )
E00100	Cash and Cash Equivalents at Beginning of Year	<u>787,390</u>	<u>983,212</u>
E00200	Cash and Cash Equivalents at End of Year	<u>\$ 828,391</u>	<u>\$ 787,390</u>

The attached Notes are part of the individual financial statements.

(Please refer to Audit Report of Deloitte & Touche on March 21, 2019)

Chairman: Wu, Cheng-Hsien

Manager: Hsu, Ming-Hsien

Accounting Manager: Lin, Kun-Chin