



STOCK SYMBOL :  
1340

Victory New Materials Limited Company



## 2020 ANNUAL REPORT

# VICTORY NEW MATERIALS LIMITED COMPANY

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## I. Reports to Shareholders

### I. Operating performance of 2020

- The operating performance of the company has been rising gradually each year since the establishment of the company. The company has 12 single phase dual color injection molding machines (one for development), 5 single phase single-color injection molding machines, 10 two-shot molding machines, 3 pelletizers, 7 production lines for rubber sole and 6 production lines for lamination by the end of 2020. Consolidated operating revenue is NT\$656 million, net income is NT\$390 million, and earning per share is NT\$(-2.55) in 2020. Comparing to 2019, there is a 43% decrease, 11% decrease and 11% decrease, respectively.

In 2020, due to COVID-19 pandemic, revenues decreased by nearly 40% compared with 2019. In addition, well-known sports brands in Mainland China have been greatly reduced in price due to market influence, and the order price has been lowered. As a result, the overall profit margin of the company's products has fallen sharply.

- The sales of sole and EVO particles in the last two years:

Product (Unit: pairs)	2019	2020
Rubber soles	-	-
Traditional single color soles	12,045,703	9,479,090
One phase dual color dual density injection soles	1,783,670	1,678,997
EVO particles (Unit: Thousand grams)	3,255,000	1,155,000

- The sales amount and operating revenue percentage of sole and EVO particles in the last two years:

Product (Unit: NT\$ 1,000)	2019	%	2020	%
Rubber soles	-	-	-	-
Traditional single color soles	771,004	66.64%	487,849	74.32%
One phase dual color dual density injection soles	104,328	9.02%	90,485	13.78%
EVO colloidal particles	281,691	24.35%	78,071	11.89%
Total	1,157,023	100.00%	656,405	100.00%

#### 4. Business performance analysis-accounting audit

Item \ Year	2019	2020	Differences	
			Amount	%
Operating revenue	1,157,023	656,406	(500,617)	(43.27%)
Operating cost	1,370,878	916,108	(454,770)	(33.17%)
Gross profit	(213,855)	(259,699)	(45,844)	21.44%
Operating expense	156,140	141,212	(14,928)	(9.56%)
Operating profit	(369,995)	(400,911)	(30,916)	8.36%
Nonoperating Revenue	39,996	21,380	(18,616)	(46.54%)
Nonoperating revenue	(103,878)	(14,275)	(89,603)	(86.26%)
Pre-tax income	(433,877)	(393,806)	40,071	(9.24%)
Income tax expense	4,447	4,064	(383)	(8.61%)
Consolidated net profit	(438,324)	(389,742)	45,582	(11.08%)

The operating revenue has sharply decreased 43% in 2020 to NT\$656 million comparing to 2019 with NT\$1157 million, due to COVID-19 pandemic, and customer orders decline. The loss of gross profit has increased 21% in 2020 to NT\$260 million comparing to 2019 with NT\$214 million, mainly attributed to the well-known sports brands such as the mainland region, which were greatly affected by the market. The overall profit margin of the company's products fell sharply. The operating expense has decreased about 10% in 2020 to NT\$141 million comparing to 2019 with NT\$156 million. This is mainly due to smaller investment on the development of application in the sole made by graphene. Hence, the pre-tax income has decreased 9% to NT\$394 million loss in 2020 comparing to 2019 with NT\$434 million loss. The net profit belongs to the shareholders of the parent company has decreased 11% to NT\$390 million loss comparing to 2019 with NT\$438 million loss.

#### II. Operation plan for 2021

The company has made a prediction that the market of sports shoes will continue to experience turmoil in the face of COVID-19 pandemic in 2021. The company has taken holds in stabilizing traditional single-color sole and promote one phase dual color dual density products furthermore. Our company will enhance the cooperation with international brands while continuing to build strong cooperation with well-known domestic sports brands to achieve the spreading of company products in top domestic and foreign sports brand. The future business directions are as follows:

1. Strengthen research and development and undergo material upgrade to enhance quality of products and expand market differentiation.
2. Refine dual color dual density production process continuously to enhance production efficiency and reduce production cost.

3. Arrange building magnetic hob manufacture center and expanding production capacity to strengthen leading position in the market.
4. Our company will continue to cooperate will international factories closely to strongly promote compostable eco-friendly materials and advance the testing and the adoption schedule of the material.

III. The effect from external competitive environment, regulation environment and overall business environment

The scale of sports shoe sole market in China is very large, and its growth potential develops fast. However, the entry barriers for shoes industry is relatively low. There are relatively more business corporations of all kinds in shoes industry currently. So, the competition among them are more severe. In recent years, our company has been focused on the development of materials and the innovation of production process to boost competitiveness. As a result, new type of materials such as EVO series material, rubber plastic foam material and compostable EVA material with different functions has been developed. Also, we have developed one phase dual color dual density injection soles ourselves, which reduce man power required by the production of traditional sole greatly and become the leader of the field. The sales of the company have grown significantly in recent years through product differentiation to avoid homogeneity competition. Soles and colloidal particles produced by our company have all been used by well-known domestic factories in China. They require high-level technology, and their adding values are high. With continuous development, innovation and process refining, they have high competitiveness in product development and production. The products have been adopted by major international factories in succession over the past few years. The company will continue to get hold of the market growth opportunity to increase the spreading of current brands, open up new international brands to create larger values for the shareholders.

Board of Director:

Manager:

Accounting Manager:

## II. Introduction to Victory New Materials Limited Company

### (I) Company & Corporate Group introduction

Victory New Materials Limited Company (hereinafter referred to as “our company”) is established in British Cayman Islands on June 14, 2012. The main operating company, Jinjiang Chandra Shoes Industry Co. Ltd, is located at Jinjiang city, Fujian province, China. Our company is a high and new technology enterprise focusing on the development and application of new polymer materials. Current products of our company are mainly applied in all kinds of shoe material. We own professional production bases, which includes two factories, 6 production workshop, 38 production lines and an additional specialized development center, with 920 employees currently.

### (II) Company history

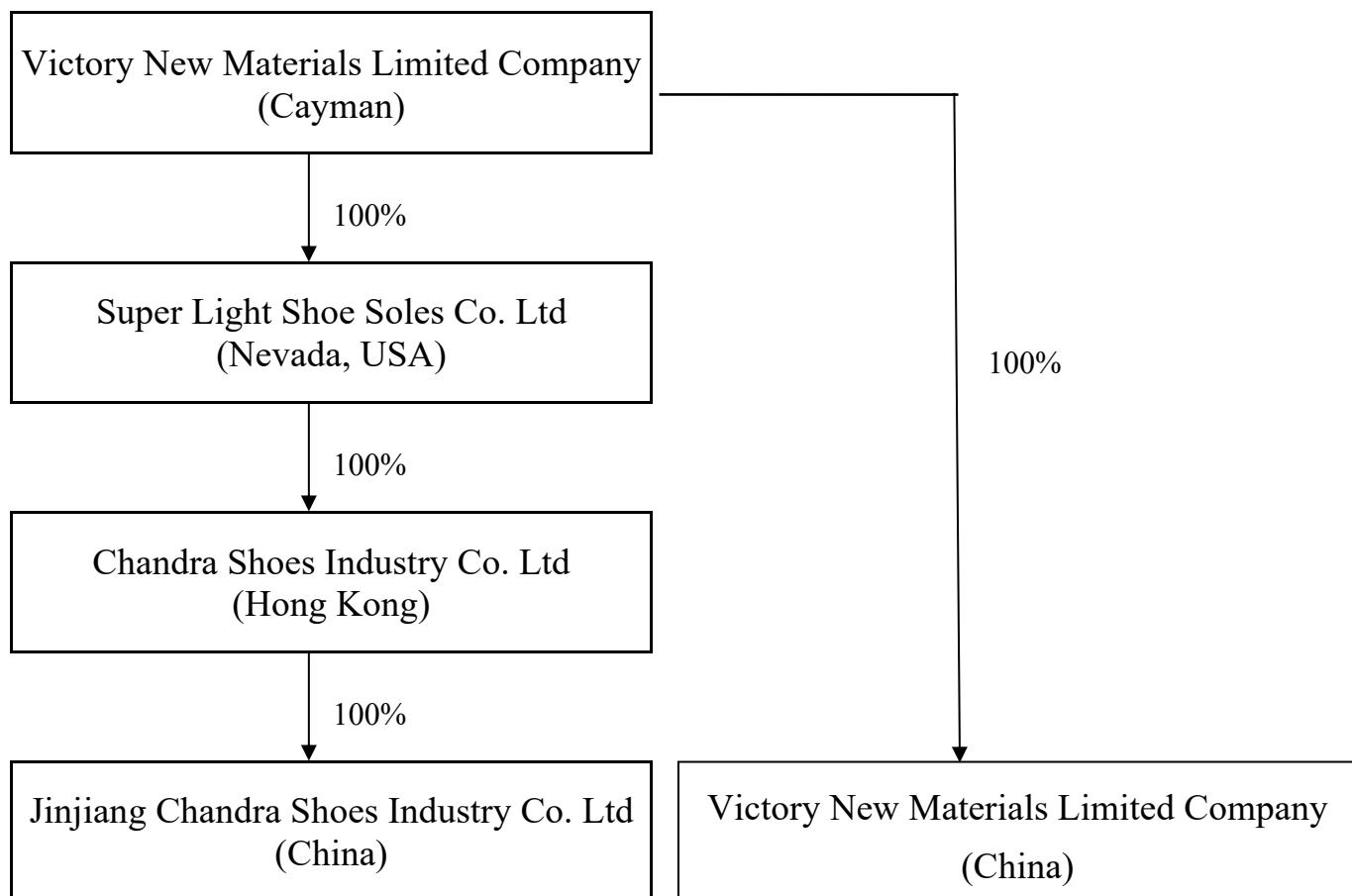
Year	Highlights
1997	Jinjiang Chandra Shoes Industry Co. Ltd was established.
1999	Honored as A Type Corporates from Tax Bureau of Jinjiang City
2000	“ACTONL” sports shoes are honored with golden medal in Jinjiang Footwear & Sports Industry International Exposition.
2001	“Redi” sports shoes are honored with golden medal in Jinjiang Footwear & Sports Industry International Exposition.
2009	Awarded ISO9001 Certificates for Quality Control System
	Awarded 6 Patent Certificates for Utility Model
2010	Successfully developed EVO materials and started selling on the market
	Obtained Authorization Certificates for Production from well-known international brands, Adidas, Reebok
	Obtained Certificate for “High and New Technology Enterprise” and Certificate for “National Green Credibility of Level AAA”
	Obtained 3 Patent Certificates for Design
	Set up implementation base with teaching and scientific research center of Fuzhou University Znicheng College
	Acquisition of a company in Nevada, USA to become listed in the USA, 8888 Acquisition Corporation (8888 Acquisition).
2011	Successfully developed one phase dual color dual density injection soles and then sold them on the market
	Obtained “New Suppliers of Chinese Brands in 2010-2011 for City Innovation”
	Obtained “10 best shoe material innovation enterprises in the West Side of the Straits”
	Obtained 1 patent certificate for design
	Obtained 1 patent certificate for utility model
2012	Obtained the honor for the starting unit of “Travel and Leisure Soles” given by Bureau of Quality and Technical Supervision in Fujian Province
	Obtained “Technology Innovation Demonstration Enterprise for

Year	Highlights
	Leather and Shoe Making Industries in China”
2012	Honored as Golden Medal Supplier for Leading Brands in China’s City of Shoes
	Obtained the honor as “Outstanding Enterprise” given by People’s Government of Quanzhou City
	Obtained 1 Patent Certificate for Innovation
	Established Victory New Materials Limited Company to become listed in Taiwan
	Established Victory New Material Mergerco Inc. (Mergerco) to reorganize the organizational structure
	Established Victory New Materials Limited Company to become listed in Taiwan
2013	EVO material has obtained Science and Technology Award, Patent Award and Excellence Award of Jinjiang City
	Patented with EVA Compostable
	Obtained “Heads of Key Enterprises of Excellent Brands with Economic Quality Honor in the Demonstration Enterprise List of West Side of the Straits” from Legal Newspaper
	Invested by venture capital from investment company under CDIB and SBC
2014	The company is officially listed in Jan. 14.
2015	One phase dual color dual density injection slippers have successfully entered the supply chain of ADIDAS.
2017	New magnetic hob factory has officially begun.

(III) Situations of handling company merger, re-investment affiliated company and reorganization in recent years and till the printing date of the annual report:

A. Situations of handling company merger and reorganization in recent years and till the printing date of the annual report: none.

B. Re-investment affiliated company



IV. Massive transition or change in equity of directors, supervisors or big shareholders with over 10% shareholding ratio, the change in management right, major change in business models or business content and other important matters that could affect the equity of shareholders and their effect to the company: none.

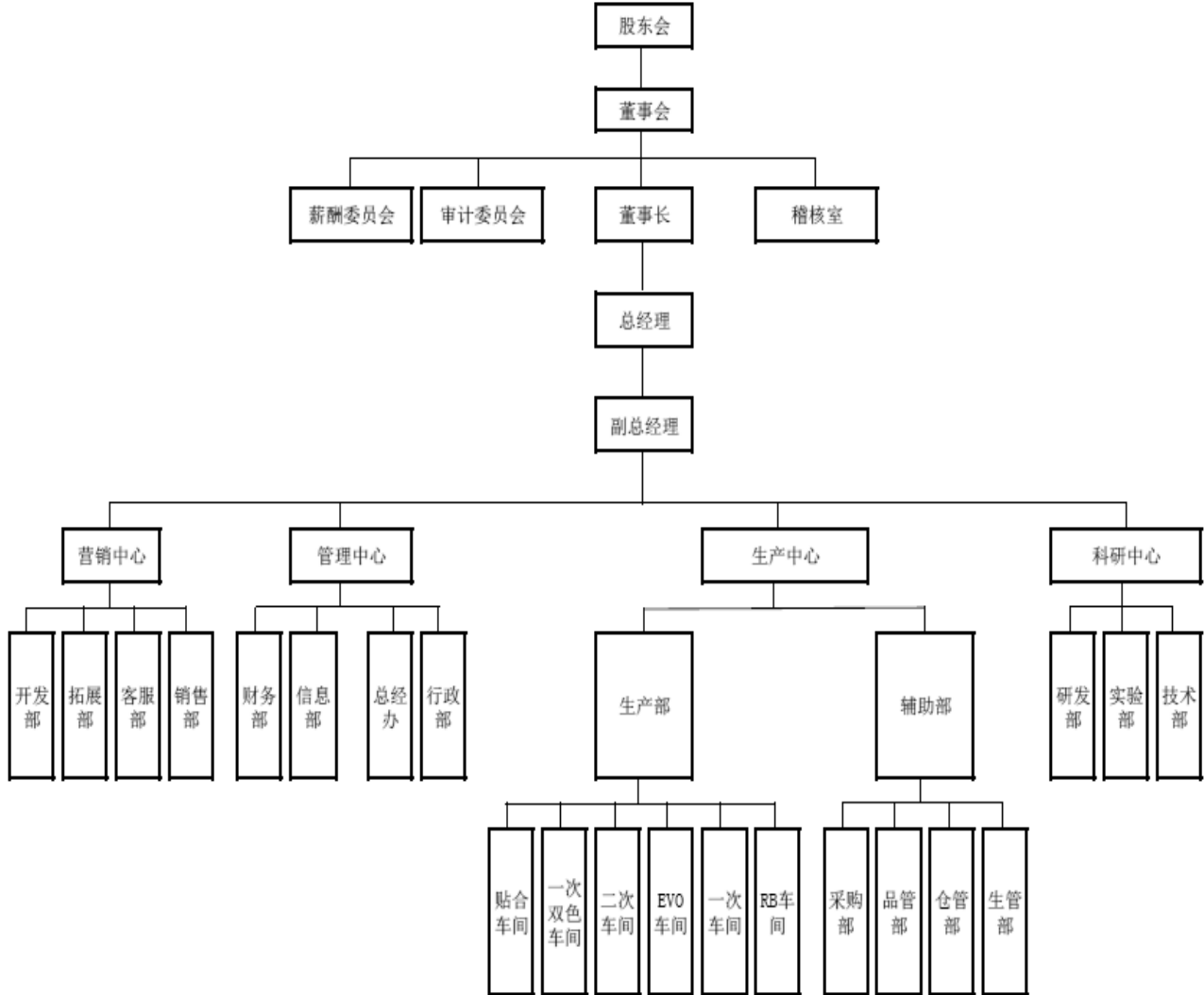
(V) Risk matters

Please refer to VII. Financial Status and Financial Performance Review and Analysis and Other Important Matters

### III. Corporate Governance Report

#### (I) Organizational structure

##### 1. Organizational chart



股東會	Shareholders Meeting	開發部	Dept of Development	貼合車間	Coating Workshop
董事會	Board of Directors	拓展部	Dept of Expansion	一次雙色車間	One Phase Dual Color Workshop
薪酬委員會	Compensation Committee	客服部	Dept of Customer Service	二次車間	Second Shot Workshop
審計委員會	Audit Committee	銷售部	Sales Department	EVO 車間	EVO Workshop
董事長	Board of Director	財務部	Dept of Finance	一次車間	One Phase Workshop
稽核室	Auditing Office	信息部	Information Department	RB 車間	RB Workshop
總經理	General Manager	總經辦	General Manager Office	採購部	Dept of Purchasing
副總經理	Vice General Manager	行政部	Dept of Administration	品管部	Dept of Quality Control
營銷中心	Marketing Center	生產部	Dept of Manufacture	倉管部	Dept of Warehouse Management
管理中心	Administrative Center	輔助部	Auxiliary Department	生管部	Dept of Production Management
生產中心	Manufacture Center	研發部	Dept of R&D		
科研中心	Scientific Research Center	實驗部	Laboratory		
		技術部	Dept of Technology		

## 2. Business operations of main departments

Department	Business operations
Board of Director	Plan business operations and policy of the company within the corporate group Set up operational objectives set up and assign the main managers of each company to perform and promote company business
General Manager	Lead and supervise the personnel in the department and manage company business
Marketing Center	Plan and perform marketing Open up orders and markets Gather market information and manage customers
Administrative Center	<p>1. Dept of Finance Set up financial plans for the company, manage and apply funds and perform risk management Plan and set up financial system and operational program of the company Perform management operations for affairs of accounting, tax and shares Analyze and report decision support</p> <p>2. Information Department Develop, plan, research, promote and manage information strategy and information business Plan, develop and maintain application software system Acquire information equipment, manage information budget, plan and manage operation systems, network and hardware Control, manage, review and improve system procedure</p> <p>3. General Manager Office Manage company personnel and items Perform health and safety management inside the factory zone Personnel related affairs Handle other relevant affairs inside the factory zone</p> <p>4. Dept of Administration Handle affairs related to official documents Store manuscript of company information and data Arrange, record, print and store meeting reports of the company Contact legal affairs Store important documents of the company</p>
Manufacture Center	<p>1. Dept of Manufacture Coordinate and manage production plan Maintain assets such as production equipment of the workshop and perform environmental management</p> <p>2. Auxiliary Department Formulate procurement direction, strategy, system and procedure (including reviewing, estimating and reporting procurement price) Develop new suppliers and maintain relationship with original</p>



Department	Business operations
	suppliers Coordinate problems with the suppliers Stock raw materials and inspect semi-finished and finished products Organize the data of the statistical analysis for feedback information of company product quality Configure, use, calibrate and maintain inspection equipment Plan warehouse area of all kinds and label Assist the organization with stocktaking Protect the warehouse and control the environment
Scientific Research Center	Collect and analyze new techniques of the industry and information of new products on the market Plan and perform development of new product and refinement of process techniques Sample, test and analyze products
Auditing Office	Formulate and perform inspection on inherent control of the company and audit system and plan the refinement of inherent control procedure Perform annual audit plan, make audit reports and track and improve audit faults Assist performing self checkup of inherent control and project audit

(II) Information of directors, supervisors, general manager, vice general manager, assistant manager, department managers and managers of branch offices:

A. Information of directors and supervisors

Our company does not have supervisors.

May 3, 2021

Position	Name	Gender	Nationality or domicile	First elective date	Elective date	Period	Shareholding when elected		Current shareholdings		Current shareholding of spouse, minor children		Shareholding in the name of others		Major education & experiences	Current positions in our company and other companies	Spouse or second-degree relatives who are managers, directors or supervisors		
							Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio			Position	Name	Relationship
Board of Director	Chuang, Kuo-Ching	Male	Hong Kong	2012/6/14	2019/6/10	3 years	(Remark 1)	(Remark 1)	(Remark 1)	(Remark 1)	-	-	-	-	Complete the President Class of Modern Enterprise Capital Operation in School of Management, Xiamen University Director of Jinjiang Zhonghe elementary school Vice President of Jinjiang Qingyang Chambers of Commerce Managing director of Jinjiang Shoe-making Association Managing director of Jinjiang Qingyang Overseas Community Association	Board of Director and General Manager of our company Executive Director of Jinjiang Chandra Shoes Industry Co. Ltd Super Light Shoe Soles Company Limited Director and General Manager of Super Light Shoe Soles Company Limited Director of Chandra Shoes Industry Co. Ltd Chang Xing Investment Limited (BVI) 、Cheng Yue Investment Limited (BVI) Director of Chang Xing Investment Limited (BVI) and Director of Cheng Yue Investment Limited (BVI)	-	-	-
Director	Chuang, Hui-Huang	Male	PRC	2013/1/24	2019/6/10	3 years	(Remark 2)	(Remark 2)	(Remark 2)	(Remark 2)	-	-	-	-	Complete President Class in Xiamen University	Vice General Manager of Jinjiang Chandra Co. Ltd Supervisor of Jinjiang	-	-	-

															Chandra Shoes Industry Co. Ltd Director of Bai Cheng Investment Limited(BVI) Director of Victory New Materials Limited Company Director of Victory New Materials Limited Company				
Director	Hsu, Jui-Hsia	Female	ROC	2013/3/17	2019/6/10	3 years	(Remark 3)	(Remark 3)	(Remark 3)	(Remark 3)	-	-	-	-	Graduated from Department of Accounting in Ming Chuan University Assisting Manager of Deloitte & Touche CPAs Firm	Accountant of ChiaI CPAs Firm	-	-	-
Director	Chen, Tu-Yen	Male	Australia	2013/1/24	2019/6/10	3 years	-	-	-	-	-	-	-	-	Master's degree in Accounting in Australia Macquarie University Registered Accountant of Australia CPA, Registered Financial analyst of CFA and Passed the test for Financial Risk Manager FRM Accountant in Cabot Square Pty Ltd Tax Analyst in Falkiner Global Investors Limited Project Manager in Evalueserve Business Consulting Ltd. Company (Shanghai)	Chief Financial Officer of Victory New Materials Limited Company			
Independent Director	Wang, Liang-En	Male	PRC	2013/1/24	2019/6/10	3 years	-	-	-	-	-	-	-	-	Graduated from Department of Chemical Engineering in Fuzhou University Head of Department of Chemical Engineering in Fuzhou University (Dean) Head of Environmental	Independent Director of Fujian Yuanli Active Carbon Co. Ltd Director of Petroleum and Chemical Technology Association of Fujian Province	-	-	-

															Science and Engineering Technology Development Center in Fuzhou University Managing Director of Chinese Environmental Science Academy Vice President of Eco-Friendly Industry Association in Fujian Managing Director for general affairs of Fujian Environmental Science Academy Vice President for general affairs of Old Professors Association of Fujian University and Old Technology Worker Association Managing Director for general affairs of Chinese Plastic Process Industry Association				
Independent Director	Lin, Shih-Hsun	Male	ROC	2013/1/24	2019/6/10	3 years	-	-	-	-	-	-	-	-	Master of Law in National Chung Cheng University Graduated from Department of Law in National Chung Hsing University Pass the Attorney of higher examination in ROC Pass Legal Affairs Section of the higher examination for public servants Proxy for ROC Patent Adjunct lecturer of Law credits program in Culture	Lawyer of YuCheng Law Firm	-	-	-

															University Jianyuan Assisting Manager for legal affairs in Electronic Toll Collection Ltd. Company Senior Lawyer in Jianye Law Firm				
Independent Director	Lin, Chen-Hsiang	Male	ROC	2013/1/24	2019/6/10	3 years	-	-	-	-	-	-	-	-	Bachelor's degree from Department of Accounting in Feng Chia University Master's degree from Accounting group in Department of Accounting and Information Technology in Chung Cheng University Financial and Accounting Manager in QST International Corp. Assisting Manager in Ernst & Young CPAs	Accountant of YuanFu CPAs Firm	-	-	-

Remark 1: Chuang, Kuo-Ching holds 3,029,104 shares of our company through Chang Xing Investment Limited with 100% ownership. Also, he holds 2,750,117 shares of our company through Cheng Yue Investment Limited with 100% ownership. These are accounted for 17.98% of our company shares.

Remark 2: Chuang, Hui-Huang holds 1,653,065 shares of our company through Bai Cheng Investment Limited with 100% ownership, which are accounted for 1.08% of our company shares.

Remark 3: The chairman and general manager can improve operating efficiency and make decision-making implementation smoother. The company has set up an audit committee to supervise corporate governance and safeguard shareholders' rights and interests, so that the board of directors can operate in a sound manner. In order to enhance information transparency, the company cooperates with the implementation of corporate governance evaluation indicators. Set up an audit committee to supervise corporate governance and safeguard shareholders' rights and interests, so that the board of directors operates in a sound manner. In order to enhance information transparency, the company cooperates with the implementation and disclosure of corporate governance evaluation indicators, so that external investors can obtain information from public information observatories and company websites to achieve monitoring character of.

Remark 4: Independent director Wang, Liang-En resigned on March 31, 2021

#### Major shareholders of corporate shareholders

2021.5.3

Name of legal person shareholder	Major shareholders of corporate shareholders
Chang Xing Investment Limited	Chuang, Kuo-Ching
Cheng Yue Investment Limited	Chuang, Kuo-Ching
Bai Cheng Investment Limited	Chuang, Hui-Huang

Remark: Corporate shareholders belong to a company organization

### Information of directors and supervisors

Criteria  Name	Whether he/she has five years or more work experience and the following professional qualification			The status for satisfying independency (Remark)										Adjunct independent director in other public issued company (number of the companies)
	Lecturer or above level position in Dept of Business, Dept of Law, Financial Dept, Dept of Accounting or other relevant department required for company business of public or private university or college	Pass the National Examination and obtain the Certificate for Specific Career and Technology Professionals as Judge, Prosecutor, Lawyer, Accountant or other profession required for company business	Working experience involving Business Affairs, Legal Affairs, Financial Affairs, Accounting or required for company business	1	2	3	4	5	6	7	8	9	10	
Chuang, Kuo-Ching			✓				✓			✓	✓	✓	✓	0
Chuang, Hui-Huang			✓				✓	✓		✓	✓	✓	✓	0
Hsu, Jui-Hsia			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		0
Chen, Tu-Yen		✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Wang, Liang-En	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Lin, Shih-Hsun		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Lin, Chen-Hsiang		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0

Remark: If the directors and supervisors have satisfied the following conditions two years before being elected and during the position period, please put a check mark in the space under each condition.

1. Not as an employee of the company or its affiliated company.
2. Directors and supervisors who are not the company or its affiliated companies (except if the company and its parent company, subsidiary, or subsidiary of the same parent company are independent directors set up in accordance with this law or local laws and regulations, this is not the case).

3. Non-self, their spouse, minor children, or other natural person shareholders who hold more than 1% of the total issued shares of the company or hold the top ten shares in the name of others.
4. The spouse, relatives within the second class or the direct blood relatives within the third class of the managers listed in (1) or the personnel listed in (2) and (3).
5. Directors, supervisors or legal shareholders who do not directly hold more than 5% of the total issued shares of the company, hold the top five shares, or appoint a representative as the company's directors or supervisors in accordance with Article 27 (1 or 2) of the Company Law Employed persons (except for those who concurrently serve as independent directors established by the company and its parent company, subsidiary, or subsidiary of the same parent company in accordance with this law or local laws and regulations).
6. More than half of the non-company directors or voting shares are directors, supervisors or employees of other companies controlled by the same person (but if the company or its parent company, subsidiary or subsidiary of the same parent company is based on this Independent directors established by law or local laws and regulations concurrently serve each other, not limited to this).
7. Directors, supervisors or employees of other companies or institutions that are not the same person or spouse as the chairman, general manager or equivalent positions of the company (but if the company and its parent company, subsidiary Or the independent directors established by subsidiaries of the same parent company in accordance with this law or local laws and regulations concurrently serve each other, not limited to this).
8. Directors, supervisors, managers, or shareholders holding more than 5% of shares of a specific company or organization that are not in financial or business dealings with the company (but if a specific company or organization holds 20% of the company's total issued shares The above, not more than 50%, and the independent directors established by the company and its parent company, subsidiary or subsidiary of the same parent company in accordance with this law or local laws and regulations concurrently serve each other, not limited to this).
9. Non-professionals, sole proprietors, partnerships, business owners of companies or institutions who provide audits for companies or affiliated companies or who have received a cumulative amount of remuneration in the past two years not exceeding NT\$500,000 in business, legal, financial, accounting and other related services, Partners, directors (directors), supervisors (supervisors), managers and their spouses. However, this does not apply to members of the Salary and Compensation Committee, Public Acquisition Review Committee, or M&A Special Committee who perform their duties in accordance with the Securities Exchange Act or the relevant laws and regulations of the Corporate Mergers and Acquisitions Act.
10. Does not have spouse or second-degree relatives who are directors.
11. None of the matters stated in Article 30 of Company Act.
12. Not elected based on government agency, juristic person or as their representatives stated in Article 27 of Company Act.

B. Information of General Manager, Vice General Manager, Assistant Manager, Department Managers and Managers of Branch Offices:

May 3, 2021

Position	Name	Gender	Nationality	Date of inauguration	Shareholding		Current shareholding of spouse, minor children		Shareholding in the name of others		Major Education & Experiences	Current positions in our company and other companies	Spouse or second-degree relatives who are managers, directors or supervisors			Status of Manager's obtaining Employee stock option certificates
					Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio			Position	Name	Relationship	
General Manager	Chuang, Kuo-Ching	Male	Hong Kong	1998.1	(Remark 1)	(Remark 1)	-	-	-	-	Complete the President Class of Modern Enterprise Capital Operation in School of Management, Xiamen University Director of Jinjiang Zhonghe elementary school Vice President of Jinjiang Qingyang Chambers of Commerce Managing director of Jinjiang Shoe-making Association Managing director of Jinjiang Qingyang Overseas Community Association	Board of Director and General Manager of our company Executive Director of Jinjiang Chandra Shoes Industry Co. Ltd Super Light Shoe Soles Company Limited Director and General Manager of Super Light Shoe Soles Company Limited Director of Chandra Shoes Industry Co. Ltd Director of Chang Xing Investment Limited (BVI) and Director of Cheng Yue Investment Limited (BVI)	-	-	-	-
Vice	Chuang,	Male	PRC	1998.1		(Remark	-	-	-	-	Complete the President Class of Tsing	Vice General Manager of Jinjiang Chandra	-	-	-	-



Position	Name	Gender	Nationality	Date of inauguration	Shareholding		Current shareholding of spouse, minor children		Shareholding in the name of others		Major Education & Experiences	Current positions in our company and other companies	Spouse or second-degree relatives who are managers, directors or supervisors			Status of Manager's obtaining Employee stock option certificates
					Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio			Position	Name	Relationship	
General Manager	Hui-Huang				(Remark 2)						Hua University in Quanzhou Vice President of Chinese Hokkien Chamber of Commerce in Russia	Co. Ltd Supervisor of Jinjiang Chandra Shoes Industry Co. Ltd Director of Bai Cheng Investment Limited (BVI) Director of Victory New Materials Limited Company Director of Victory New Materials Limited Company				
Chief Financial Officer	Chen, Tu-Yen	Male	Australia	2011.2	-	-	-	-	-	-	Master's degree in Accounting in Australia Macquarie University Registered Accountant of Australia CPA, Registered Financial analyst of CFA and Passed the test for Financial Risk Manager FRM Accountant in Cabot Square Pty Ltd Tax Analyst in Falkiner Global Investors Limited	Chief Financial Officer and Director of Victory New Materials Limited Company	-	-	-	-

Position	Name	Gender	Nationality	Date of inauguration	Shareholding		Current shareholding of spouse, minor children		Shareholding in the name of others		Major Education & Experiences	Current positions in our company and other companies	Spouse or second-degree relatives who are managers, directors or supervisors			Status of Manager's obtaining Employee stock option certificates
					Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio			Position	Name	Relationship	
											Project Manager in Evalueserve Business Consulting Ltd. Company (Shanghai)					
Marketing Director	Chuang, Mei-Jun g	Female	PRC	2003.1	-	-	-	-	-	-	Complete the President Class of MBA in Tsing Hua University	-	-	-	-	-
Research and Development Director	Li, Tsan-Sheng	Male	PRC	2009.7	-	-	-	-	-	-	Graduate from Department of Industrial Analysis in Fuzhou University Research and Development Engineer in Research and Development Department in Fujian Ching Luh Shoe Ltd. Company	-	-	-	-	-

Remark 1: Chuang, Kuo-Ching holds 3,029,104 shares of our company through Chang Xing Investment Limited with 100% ownership. These are accounted for 1.98% of our company shares. Also, he holds 27,501,175 shares of our company through Cheng Yue Investment Limited with 100% ownership. These are accounted for 17.98% of our company shares.

Remark 2: Chuang, Hui-Huang holds 1,653,065 shares of our company through Bai Cheng Investment Limited with 100% ownership, which are accounted for 1.08% of our company shares.

Remark 3: The chairman and general manager can improve operating efficiency and make decision-making smoother. The company has set up an audit committee to supervise corporate governance and safeguard shareholders' rights and interests, so that the board of directors can operate in a sound manner. In order to enhance information transparency, the company cooperates with the implementation of corporate governance evaluation indicators. Set up an audit committee to supervise corporate governance and safeguard shareholders' rights and interests, so that the board of directors operates in a sound manner. In order to enhance information transparency, the company cooperates with the implementation and disclosure of corporate governance evaluation indicators, so that external investors can obtain information from public information observatories and company websites to achieve monitoring character of.

## C. Salary Paid to directors, supervisors, general manager and vice general manager

### 1. Salary of directors (incl. independent directors):

Unit: NT\$ 1,000

Position	Name	Remuneration of director						Ratio of Total of the four items A, B, C and D accounted for net profit	Relevant remuneration obtained as an adjunct employee								Ratio of Total of the four items A, B, C, D, E, F and G accounted for net profit	Whether or not obtained under employee rights																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																								
		Salary (A)		Separation Pay & Pension (B)		Salary from distribution of surplus (C)			Expenses for performing business operations (D)		Salary, reward, special disbursement (E)		Separation Pay & Pension (F)		Employee bonus from the distribution of surplus (G)				Number of stocks obtained from employee stock option certificates (H)		Number of limited new stock obtained under employee rights																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																					
		Our Company	All the Companies in the Financial Statements	Our Company	All the Companies in the Financial Statements	Our Company	All the Companies in the Financial Statements		Our Company	All the Companies in the Financial Statements	Our Company	All the Companies in the Financial Statements	Our Company	All the Companies in the Financial Statements	Our Company	All the Companies in the Financial Statements			Our Company	All the Companies in the Financial Statements	Our Company	All the Companies in the Financial Statements																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																				
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Board of Director	Chuang, Kuo-Ching	-	-	-	-	-	-	-	-	-	-	3,079	-	-	-	-	-	-	-	-	-	-	-	(0.79%)	-
Director	Chuang, Hui-Huang	-	-	-	-	-	-	-	-	-	-	1,540	-	-	-	-	-	-	-	-	-	-	-	(0.40%)	-
Director	Hsu, Jui-Hsia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Director	Chen, Tu-Yen	-	-	-	-	-	-	-	-	-	-	2,566	-	-	-	-	-	-	-	-	-	-	-	(0.66%)	-
Independent Director	Wang, Liang-En	-	-	-	-	-	-	-	(0.08%)	(0.08%)	-	-	-	-	-	-	-	-	-	-	-	-	(0.08%)	(0.08%)	-
Independent Director	Lin, Shih-Hsun	-	-	-	-	-	-	-	(0.08%)	(0.08%)	-	-	-	-	-	-	-	-	-	-	-	-	(0.08%)	(0.08%)	-
Independent Director	Lin, Chen-Hsiang	308	308	-	-	-	-	-	(0.08%)	(0.08%)	-	-	-	-	-	-	-	-	-	-	-	-	(0.08%)	(0.08%)	-

**Remuneration Grading Table**

Remuneration grading of each director paid by our company	Name of the director			
	Total amount of the first four items for remuneration (A+B+C+D)		Total amount of the first seven items for remuneration (A+B+C+D)	
	Our company (Remark 10)	All the Companies in the Financial Statements I	Our company	All the Companies in the Financial Statements J
Less than 2,000,000	Chuang, Kuo-Ching, Chuang, Hui-Huang, Chen, Tu-Yen, Lin, Chen-Hsiang, Lin, Shih-Hsun, Wang, Liang-En	Chuang, Kuo-Ching, Chuang, Hui-Huang, Chen, Tu-Yen, Lin, Chen-Hsiang, Lin, Shih-Hsun, Wang, Liang-En	Lin, Chen-Hsiang, Lin, Shih-Hsun, Wang, Liang-En	Lin, Chen-Hsiang, Lin, Shih-Hsun, Wang, Liang-En
2,000,000 (incl.) ~5,000,000 (not incl.)	-		Chuang, Kuo-Ching, Chuang, Hui-Huang, Chen, Tu-Yen	Chuang, Kuo-Ching, Chuang, Hui-Huang, Chen, Tu-Yen
5,000,000 (incl.) ~10,000,000 (not incl.)	-	-	-	-
10,000,000 (incl.) ~15,000,000 (not incl.)	-	-	-	-
15,000,000 (incl.) ~30,000,000 (not incl.)	-	-	-	-
30,000,000 (incl.) ~50,000,000 (not incl.)	-	-	-	-
50,000,000 (incl.) ~100,000,000 (not incl.)	-	-	-	-
100,000,000 or more	-	-	-	-
Total	7 people	7 people	7 people	7 people

2. Remuneration for supervisor: None.

### 3. Renumeration for general manager and vice general manager in recent years

#### (1) Renumeration for general manager and vice general manager

##### Remuneration for general manager and vice general manager

Unit: NT\$ 1,000

Position	Name	Salary (A)		Separation Pay & Pension (B)		Reward & special disbursement (C)		Employee bonus from distribution of surplus (D)				Ratio of Total of the four items A, B, C and D accounted for net profit (%)		Number of employee stock option certificates		Number of limited new stock obtained under employee rights		Whether obtained remuneration from re-investment business other than subsidiaries
		Our Company	All the Companies in the Financial Statements	Our Company	All the Companies in the Financial Statements	Our Company	All the Companies in the Financial Statements	Our Company		All the Companies in the Financial Statements		Our Company	All the Companies in the Financial Statements	Our Company	All the Companies in the Financial Statements	Our Company	All the Companies in the Financial Statements	
								Amount of Cash Bonus	Amount of Stock Bonus	Amount of Cash Bonus	Amount of Stock Bonus							
General Manager	Chuang, Kuo-Ching	-	3,078	-	-	-	-	-	-	-	-	-	(0.79%)	-	-	-	-	-
Vice General Manager of Jinjiang Chandra	Chuang, Hui-Huang		1,540										(0.40%)					

**Remuneration Grading Table**

Remuneration grading of general manager and vice general manager paid by our company	Name of general manager and vice general manager	
	Our Company	All the Companies in the Financial Statements
Less than 2,000,000	-	Chuang, Hui-Huang
2,000,000 (incl.) ~5,000,000 (not incl.)	-	Chuang, Kuo-Ching
5,000,000 (incl.) ~10,000,000 (not incl.)	--	-
10,000,000 (incl.) ~15,000,000 (not incl.)	-	-
15,000,000 (incl.) ~30,000,000 (not incl.)	-	-
30,000,000 (incl.) ~50,000,000 (not incl.)	-	-
50,000,000 (incl.) ~100,000,000 (not incl.)	-	-
100,000,000 or more	-	-
Total	-	2 persons

(2) Names of managers obtained the distribution of employee bonus and the status of the distribution

Unit: NT\$ 1,000

Items	Position	Name	Amount of stock bonus	Amount of cash bonus	Total	Ratio of total accounted for net profit (%)
Managers	General Manager	Chuang, Kuo-Ching	-	-	-	-
	Vice General Manager	Chuang, Hui-Huang				
	Chief Financial Officer	Chen, Tu-Yen				
	Marketing Director	Chuang, Mei-Jung				
	Research & Development Director	Li, Tsan-Sheng				
	Audit Manager	Wu, Chia-Hsun				

Remark: The total amount of salary for board of directors and general manager in Jinjiang Chandra is NT\$ 3,078 thousands.

D. Compare the ratio of total amount paid to the directors, supervisors, general managers and vice general managers of our company accounted for the net profit in the analysis of individuals or individual financial statement for our company and all companies in the consolidated statements in the past two years, separately and explain the policies, standards and combination for the paid remuneration and the program for the establishment of remuneration and business performance and their relationship with future risks:



Unit: NT\$ 1,000

	2019		2020	
	Our company	All companies	Our company	All companies
Directors	966	966	924	924
General Manager/Vice General Manager	-	4,618	-	4,618

The paid amounts accounted for net profit in 2019 and 2020 are 1.27% and 1.42%, separately. The remuneration of general manager and vice general manager is their salary, which is in accordance with relevant management regulations for company's salary and sufficient to commend the responsibilities and risks taken on them.

Our company did not establish Compensation Committee, however, all of our independent directors are served as members to review and assess the performance of the directors and managers periodically and the policies, systems, standards and structure of remuneration.

### (III) Circumstances of company governance operation

#### A. Circumstances of the operation of the board of directors

1. We had held 8 board meetings from 2020 till the printing date. The attendances of the directors are as follows:

Position	Name	Number of actual attendances	Number of entrusted attendances	Actual attendance rate (%)	Remark
President	Chuang, Kuo-Ching	8	0	100	
Director	Chuang, Hui-Huang	8	0	100	
Director	Hsu, Jui-Hsia	8	0	100	
Director	Chen, Tu-Yen	8	0	100	
Independent Director	Wang, Liang-En	6	0	100	
Independent Director	Lin, Shih-Hsun	8	0	100	
Independent Director	Lin, Chen-Hsiang	8	0	100	

2. Other matters which should be noted

- (1) If there are matters listed in Article 14-5 of Securities and Exchange Act and resolutions made in board meeting, which are against or retained by independent directors and had records or written statements, things, such as dates of the board meeting, period type, content of the resolutions, the opinions from all the independent directors and how the company handled the opinion of the independent directors, should be stated clearly: none
- (2) If there are operations performed on the directors who are the stakeholders of some resolutions to fend off those resolutions, things, such as names of the directors, content of the resolutions, reasons to fend off and the status of voting: none
- (3) Assess the objectives and enforcement for the enhancement of professional competence of board of directors of the current year and in the recent years:  
The company's auditing unit regularly provides independent directors' internal audit reports, and reports the latest audit status through the board of directors. Independent directors can also check the company's financial and business execution status at any time, if they have questions about the company's related operations, you can immediately communicate with the relevant unit supervisor and conduct review and improvement. In terms of communication with accountants, if independent directors have any questions about the company's financial and business conditions, they can communicate with the company's accountants at any time and guide relevant units of the company to review and improve.

B. Circumstances of the operation of audit committee or the circumstances of supervisors attending board meetings:

1. We had held 9 committee meetings from 2017 till the printing date. The attendances of the committee members are as follows:

Position	Name	Number of actual attendances	Number of entrusted attendances	Actual attendance rate (%)	Remark
Independent Director	Wang, Liang-En	6	0	100	-
Independent Director	Lin, Shih-Hsun	8	0	100	-
Independent Director	Lin, Chen-Hsiang	8	0	100	-

2. Other matters which should be noted

- (1) If there are matters listed in Article 14-5 of Securities and Exchange Act and resolutions which have not passed by Audit Committee but have the consent from over two-thirds of all the directors, things, such as dates of the board meeting, period type, content of the resolutions, the results of the resolution from the Audit Committee and how the company handled the opinion of the Audit Committee, should be stated clearly: none

- (2) If there are operations performed on the independent directors who are the stakeholders of some resolutions to fend off those resolutions, things, such as names of the independent directors, content of the resolutions, reasons to fend off and the status of voting: none

- (3) Communication between the independent directors and internal audit managers and accountants (communicate on matters regarding the financial and business status of the company, methods and results, etc.):

The audit unit of our company will provide the audit reports of the company's internal audit to the independent directors and report the newest audit status to the board of directors periodically. The independent directors can check the financial and business status of our company at any time. If they have questions about the relevant operations of our company, they can communicate with the managers of relevant unit immediately and review the improvements. As for the communication with the accountants, if the independent directors have any questions on the financial and business status of our company, they can communicate with the accountants of our company at any times and make guidance on the review and improvements to relevant units of our company.

C. Status of company governance and the differences compared to listed companies in terms of principle of governance practice and their reasons

Items	Situation			The differences compared to listed companies in terms of
	Yes	No	Summary of explanations	

				principle of governance practice and their reasons
<p>i. Structure of a company's equity and stockholders' equity</p> <p>(i) The way a company handled the suggestions from the shareholders or dispute problems</p> <p>(ii) The situation of a company getting hold of the main shareholders who controls the company substantially and the list of ultimate controllers among the main shareholders</p> <p>(iii) The method of a company establishing risk control mechanisms and fire walls with the affiliated companies</p>	✓		<p>(i) In Taiwan, our company has entrusted special stock agency to handle stock matters and established the spokesperson and the proxy of spokesperson to handle the suggestions from the shareholders.</p> <p>(ii) Have gotten hold of the list mentioned on the left already and have tracked periodically to follow the details</p> <p>(iii) Handled in accordance with the relevant internal control systems of our company</p>	No major differences
<p>ii. Composition and duties of the board of directors</p> <p>(i) The situation of the establishment of independent directors of a company</p> <p>(ii) Assess the independency of the certified accountants periodically</p>	✓		<p>(i) Our company installed three independent directors.</p> <p>(ii) The board of directors will assess the certified account periodically to ensure its independency.</p>	No major differences
<p>iii. Situation of building communication channel with the stakeholders</p>	✓		Stakeholders can contact our company at any time by the methods such as telephone, written form, fax and e-mail.	No major differences
<p>iv. Information open to public</p> <p>(i) Situations regarding a company set up websites to disclose the information about its</p>	✓		<p>(i) Our company set up websites to disclose business information, however, we have not</p>	No major differences

financial business and company governance  (ii) Other methods adopted by a company for information disclosure (such as set up English websites, designated person responsible for the collection and disclosure of company's information, implement the system of spokesperson, put the orientation of juridical person on company's websites, etc.)			opened the financial information to public yet. After the public issuance, we will apply or announce in accordance with relevant regulations. (ii) Company related problems should be responded by the spokesperson or the proxy of the spokesperson and the relevant business department, spokesperson and the proxy of spokesperson should be responsible for the collection and disclosure of company's information.	
v. The situation of the establishment of functional committees of a company such as nomination or compensation committee.	✓		Our company has installed Audit Committee and Compensation Committee, which are composed of all the independent directors. The committee has held meetings based on business needs already and made relevant records.	No major differences
vi. If a company has established corporate governance best practice principles in accordance with "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies", please state its operations and the difference between them:  Our company has not established corporate governance best practice principles, but we have established Rules and Procedures of Board of Directors Meetings, Rules and Procedures of Shareholders' Meeting, Internal Control System, Rules for the Implementation of Internal Audit, Programs for Handling Gain or Disposal of Assets, Programs for Operations on Lending of Capital to Others, Regulations on Endorsements and Guarantees, etc., which are relevant to corporate governance. The board of directors have taken on the responsibilities given by the shareholders to guide the corporate business and supervise the management functions of the management effectively.				
vii. Other important information which is helpful to understand the situation of corporate governance (such as employee rights, employee care, relationship with the investors, relationship with the suppliers, the rights of the stakeholders, advanced studies taken by the directors and supervisors, risk management policies and standards for the balance of risks, enforcement of customers' policies, liability insurance purchased for the directors and supervisors of a company):				

1. Our company and its subsidiaries at different places have established relevant employee welfare system in accordance with the law of that country to protect employee rights.
2. The management department of our company is responsible for handling employee rights and the relationship with the investors and they have arranged the trainings for the employees and the advanced studies for the directors periodically or on an irregular basis.
3. Relationship with the suppliers: Our company paid attention to the rationality of the procurement price. The procurement personnel have consulted, compared, negotiated with several suppliers on the unit price, specifications, payment conditions, delivery date and quality, etc. and compared them sufficiently before deciding the procurement suppliers.
4. Stakeholders: Our company has maintained clear and smooth communication channels with correspondent bank of our company, customers and supplies, etc. and respect and maintain their legal rights.

viii. If a company has corporate governance reports or corporate governance review report entrusted by other professional institutes, the following should be stated clearly: the results from self review (or entrusted review), main faults (or suggestions) and improvements:  
Our company has not entrusted other professional institutes to conduct corporate governance review yet. However, we operate on the guidelines for corporate governance best practice principles and implemented the operation and promotion of corporate governance sufficiently.

D. If a company has installed Compensation Committee, its composition, duties and operations should be exposed.

1. The composition of Compensation Committee

Our company has installed Compensation Committee by the resolution of the board meeting on Jan. 24, 2013 in accordance with “Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter” of ROC to complete corporate governance and complete the compensation system of the directors and managers of our company and established the Regulations of Compensation Committee for the benefit of compliance. The members of the Compensation Committee include Wang, Liang-En, Lin, Shih-Hsun, Lin, Chen-Hsiang, which are all independent directors.

2. Duties of the Compensation Committee

Compensation Committee should focus on being a kind manager and fulfill the following duties loyally and submit the proposed suggestions to the board of directors meeting for discussion:

- (1) Establish and review the performance assessment of the directors and managers periodically and the policies, systems, standards and structures of the remuneration.
- (2) Assess and establish the remuneration of the directors and managers periodically. The convenor should hold the meeting at least once a year and can hold the meeting at any time based on needs.

3. Information of the members of the Compensation Committee

Type of Identity (Remark 1)	Conditions Name	Whether he/she has five years or more work experience and the following professional qualification			The status for satisfying the independency (Remark 2)								Adjunct independent director in other public issued company (number of the companies)	3)Remark (Remark 3)
		Lecturer or above level position in Dept of Business, Dept of Law, Financial Dept, Dept of Accounting or other relevant department required for company business of public or private university or college	Pass the National Examination and obtain the Certificate for Specific Career and Technology Professionals as Judge, Prosecutor, Lawyer, Accountant or other profession required for company business	Working experience involving Business Affairs, Legal Affairs, Financial Affairs, Accounting or required for company business	1	2	3	4	5	6	7	8		
Independent Director	Wang, Liang-En	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	1	-

Independent Director	Lin, Shih-Hsun		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	-
Independent Director	Lin, Chen-Hsiang		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	-

Remark 1: For the type of identity, please fill in director, independent director or others.

Remark 2: If the members have satisfied the following conditions two years before being elected and during the position period, please put a check mark in the space under each condition.

- (1) Not as an employee of the company or its affiliated company.
- (2) Not as a director or supervisor of the company or its affiliated company unless he/she is an independent director of our company, its mother company or who holds over 50% shares of the subsidiaries with direct or indirect voting rights
- (3) Does not have issued stocks over 1% of the total amount or is not the stockholder as a natural person who is among the top 10 for shareholdings himself/herself, his/her spouse, minority children or in others' name.
- (4) Not as the spouse, second-degree relatives, or direct blood relative among third-degree relatives of the previous three items.
- (5) Not as a director, supervisor or employee for juridical person shareholder who holds over 5% of the total issued shares of our company directly or as a director, supervisor or employee for juridical person shareholder who is among the top 5 of shareholding list.
- (6) Not as a director (managing director), supervisor (supervisor), manager or shareholder with over 5% shareholdings in the specific company or institute where our company has financial or business interaction
- (7) Not as a professional, who provides services or consulting services in Business Affairs, Legal Affairs, Financial Affairs, Accounting Affairs for our company or its affiliated companies, or an owner, a partner, director (managing director), supervisor (supervisor), manager or his/her spouse in sole proprietorship enterprise, partnership enterprise, company or institute.
- (8) None of the matters stated in Article 30 of Company Act.
- (9) Professionals, sole proprietorships, partnerships, business owners of companies or institutions who are not professionals in business, legal, financial, accounting and other related services who provide audits for companies or affiliates or whose accumulated remuneration in the last two years does not exceed NT\$500,000. Partners, directors (directors), supervisors (supervisors) (Affair), the manager and his spouse. However, this does not apply to members of the Salary and Compensation Committee, Public Acquisition Review Committee, or M&A Special Committee who perform their duties in accordance with the Securities Exchange Act or the relevant laws and regulations of the Corporate Mergers and Acquisitions Act.
- (10) There is no one of the items in Article 30 of the Company Law.

Remark 3: Formulate and regularly review the policies, systems, standards, and structures of directors and managers' performance evaluation and remuneration.

Remark 4: Regularly evaluate and determine the remuneration of directors and managers.



#### 4. Circumstances of the Compensation Committee

(1) The Compensation Committee of our company has 3 members.

(2) Period of the members in this term: Jun. 26, 2019 to Jun. 9, 2022. The Compensation Committee has held a meeting in recent years. The qualification and attendance of the members are listed as follows:

Position	Name	Number of actual attendances	Number of entrusted attendances	Actual attendance rate (%)	Remark
Coordinator	Wang, Liang-En	3	0	100	-
Member	Lin, Shih-Hsun	3	0	100	-
Member	Lin, Chen-Hsiang	3	0	100	-

Other matters which should be noted:

(1) If the board of directors do not adopt or revise the suggestions from the Compensation Committee, these things should be stated clearly, such as date of the board meeting, type of period, content of the resolution, results of the resolution from the board meeting and how the company handled the suggestions from the Compensation Committee (e.g the compensation passed by the board of directors meeting is higher than the suggestions from the Compensation Committee, the differences and reasons should be stated clearly): none.

(2) If the members have opposed or retained and have records or written statements on some resolutions of the Compensation Committee, then these things should be stated clearly, such as the date of the compensation committee meeting, type of period, content of the resolutions, the opinions from all the members and how the opinions from the members being handled: none.

## E. Circumstances of fulfilling social responsibility

Item	Operational status			Differences with corporate governance best practice principles for TWSE/TPEX listed companies and the reasons
	Yes	No	Summarized explanation	
<p>i. Implement the promotion of corporate governance</p> <p>(i) Circumstances of formulating corporate social responsibility policies or systems and reviewing the implementation performance.</p> <p>(ii) Circumstances of the establishment of specialized or adjunct units by a company for the promotion of corporate social responsibilities</p> <p>(iii) Circumstances of the following: corporate ethics educational trainings and promotion announcements for directors, supervisors and employees are held periodically by the company and employee performance review system is combined with it and also clear and effective award and disciplinary system is established.</p>	✓		<p>(i) Our company has not established corporate social responsibility policies or systems; however, our company will continue toward the directions such as implementing the promotion of company governance, developing sustainable environment, protecting social &amp; public welfare and enhancing corporate social responsibility and disclosing information to fulfill social citizenship obligation and give back to society.</p> <p>(ii) Our company has not established specialized or adjunct units for social responsibilities, but we will start devoting ourselves to activities related to social responsibilities.</p> <p>(iii) Our company has held relevant trainings for the directors and employees to strengthen the knowledge of corporate governance for the members of the board of directors and enhanced the working skills of the employees to</p>	<p>Formulate in accordance with operational status and scale of the company.</p> <p>Establish the specialized or adjunct unit for the promotion of corporate social responsibilities based on the actual needs of the company</p> <p>No major differences.</p>

			pursue better business performance.	
<p>ii. Development of sustainable environment</p> <p>(i) Circumstances of a company devoted to the enhancement the utilization rate of all kinds of resources and the utilization of renewable materials which have a lower impact on the environment</p> <p>(ii) Circumstances of a company built appropriate environment management system based on its industrial characteristics</p> <p>(iii) Circumstances of a company established environment management responsible unit or personnel for the protection of environment</p> <p>(iv) Circumstances of a company paid attention to the impact on business activities by climate change and formulate strategies for energy saving, carbon reduction and reduction on greenhouse gases</p>	✓		<p>(i) Our company has devoted to digitalizing the forms and documents, etc. to reduce the impact on the environment.</p> <p>(ii) Our company has complete regulations on quality management, safety and health and environment protection, matched the audit standards of the competent agency and satisfied the expectations of the public to corporate on giving back to the society.</p> <p>(iii) The administrative department of our company has been divided based on its duties. We have established specialized personnel to be responsible for the maintenance and promotion of environment, safety, health management to protect our working environment.</p> <p>(iv) We have paid attention to the temperature of our business places and offices and opening hours at all times and adjusted them appropriately to achieve the goal of energy saving and carbon reduction.</p>	<p>No major differences.</p> <p>No major differences.</p> <p>No major differences.</p> <p>No major differences.</p>
<p>iii. Protection of social &amp; public welfare</p> <p>(i) Circumstances of a company complying to relevant labor laws, respecting international recognized principles of fundamental labor rights, protecting legal rights of the employees, establishing non-discriminatory recruit policies and installing appropriate management methods, programs and their implementations</p> <p>(ii) Circumstances of a company providing its employees a safe and healthy working</p>	✓		<p>(i) Our company has complied to relevant labor regulations and established all kinds of management systems and regulations such as human resource management regulation, working guidelines for operators, etc. to protect the legal rights of the employees.</p> <p>(ii) Our company has provided our employees a safe and healthy working environment in accordance with relevant regulations</p>	<p>No major differences.</p> <p>No major differences.</p>

<p>environment and implement safety and health education training on employees periodically.</p> <p>(iii) Circumstances of a company setting up communication mechanism for employees periodically and notifying the employees in a rational way about the major impacts from the business changes</p> <p>(iv) Circumstances of a company formulating and opening its policies on customers' rights and providing transparent and effective appealing programs on its products and services for the customers</p> <p>(v) Circumstances of a company cooperate with the suppliers to devote in the enhancement of corporate social responsibilities jointly</p> <p>(vi) Circumstances of a company participating in activities related to community development, charity and public welfare organization through business activities, donation of useful materials, corporate volunteering or other free professional services</p>			<p>such as safety guidelines and requirements of buildings and held education trainings and health examination for the employees.</p> <p>(iii) Our company has held communication activities for employees on an irregular basis and installed a bulletin board for the announcement of company policy and regulations on an irregular basis.</p> <p>(iv) Our company maintained good communication channels with our customers and provided effective handling programs for customer complaints.</p> <p>(v) Our company has selected the cooperative partners carefully for both sales suppliers or cooperative enterprises or groups for all kinds of activities to protect the environment and promote the safety and health of the employees jointly.</p> <p>(vi) Our company underwent donations of money or things for public welfare groups on an irregular basis or held public welfare activities to devote some energy to the society to fulfill social responsibilities practically.</p>	<p>No major differences.</p> <p>No major differences.</p> <p>No major differences.</p> <p>No major differences.</p>
<p>iv. Promotion of information disclosure</p> <p>(i) Method for a company to disclose relevant and reliable information related to corporate social responsibilities</p> <p>(ii) Circumstances of a company writing reports on corporate</p>	✓		<p>(i) After public issuance of our company, we will disclose relevant information about corporate social responsibilities on our annual reports or prospectus and disclose information related to social responsibilities on our company website.</p>	<p>We will continue to improve in the future.</p>

social responsibilities to disclose the promotion of corporate social responsibilities			(ii) Our company has not written the reports on corporate social responsibilities	We will continue to improve in the future.
v. If a company has established corporate social responsibly principles in accordance with “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies”, please state clearly about its operation and the differences between them: Our company has not established “Corporate Social Responsibility Best Practice Principles” yet.				
vi. Other important information which is helpful to understand the circumstances about corporate social responsibilities (such as the system and measures adopted by the company towards eco-friendly, community participation, social contribution, social services, social & public welfare, customers’ rights, human rights, safety & health and other activities related to social responsibilities and the circumstances of their implementations)				
vii. If the product or corporate social responsibility report of a company has passed the audit standards from relevant verification institutes, please state them below in detail:  Our company has obtained ISO9001 Certificates for Quality Control System in 2009; obtained Certificate for “National Green Credibility of Level AAA” in 2010; obtained “New Suppliers of Chinese Brands in 2010-2011 for City Innovation” and “10 best shoe material innovation enterprises in the West Side of the Straits” in 2011; obtained “Technology Innovation Demonstration Enterprise for Leather and Shoe Making Industries in China” in 2012.				

F. Circumstances of a company fulfilling ethical operation and adopted measures

Items	Operational status			Differences with corporate governance best practice principles for TWSE/TPEX listed companies and the reasons
	Yes	No	Summary of Explanations	
I. Establishment of ethical corporate management policies and plans	✓		(i) Our company has established “Ethical corporate management	No major differences.

<p>(i) Circumstances of a company implicating ethical corporate management policies in its regulations and public documents and the directors and management fulfilling the promises positively</p> <p>(ii) Circumstances of a company establishing methods against dishonest actions and the operational status of the operation programs, action guidelines and educational trainings within the plans</p> <p>(iii) Circumstances of a company establishing plans against dishonest actions and adopting protection measures against offering or taking bribery or providing illegal political party funding to business activities involving high risks of dishonest actions within the business scope</p>			<p>principles”, which stated clearly that the directors, managers, employees of our company or others with substantial control power cannot provide or receive any improper benefits directly or indirectly to avoid the loss of company’s rights and interests due to personal benefits by employees</p> <p>(ii) Our company has clearly established regulations on actions in “Ethical corporate management principles”. In addition, our company holds meetings for communications and announcements to employees in order for the stakeholders such as customers, suppliers, other external human resources to understand the ethical principles of the company to set up the corporate culture with integrity and announce it in public occasions and relevant places</p> <p>(iii) Our company has established internal control and internal audit system. The relevant audit activities are performed by audit unit. If major fraud or improper actions were found, they will be handled by internal regulations of the company.</p>	<p>No major differences.</p> <p>No major differences.</p>
<p>ii. Implementation of ethical corporate management</p> <p>(i) Circumstances of a company avoid having business activities involving</p>	✓		<p>(i) Our company will perform credit investigation before having transactions with important customers to avoid having transactions</p>	<p>No major differences.</p>

<p>transactions with people who has dishonest records and state the regulations on ethical actions in business contract clearly</p> <p>(ii) Circumstances of a company establishing specialized or adjunct units to promote corporate ethical corporate management and the supervising situations from the board of directors</p> <p>(iii) Operational status of a company establishing policies against conflict of interests and providing channels for appropriate statements</p> <p>(iv) Circumstances of a company fulfilling ethical corporate management to create effective accounting system, internal control system and the circumstances of internal audit personnel to perform auditing</p>			<p>with people who has dishonest records.</p> <p>(ii) Our company has not established specialized unit for the promotion of corporate ethical corporate management. We will assess the needs for establishment.</p> <p>(iii) If the employees have found actions against the regulations or ethical action principles, anyone can hand this matter to the specialists by appealing methods.</p> <p>(iv) Our company has established accounting system for the accounting personnel to comply with, built an internal control mechanism in accordance with the law and the actual status of the company and performed audit operations. The results will be reported to Audit Committee and the Board of Directors Meeting periodically.</p>	<p>No major differences.</p> <p>No major differences.</p> <p>No major differences.</p>
<p>iii. Circumstances of a company setting up channels for reporting and appealing systems for disciplinary of violating ethical corporate management regulations.</p>	✓		<p>(iii) If the employees have found actions against the regulations or ethical action principles, anyone can hand this matter to the specialists by appealing methods.</p>	<p>No major differences.</p>
<p>iv. Promote information disclosure</p> <p>(i) Circumstances of a company setting up websites to disclose information related to ethical corporate management.</p> <p>(ii) Methods adopted by a company to disclose information (such as setting up English website, designating specialized person responsible for the</p>	✓		<p>(i) Our company already have our own website. We will set up specialized zone in the company website to disclose the business status of the company for the reference of the investors.</p> <p>(ii) Our company has established specialized personnel responsible for the collection of company information and disclose it in Market Observation Post</p>	<p>No major differences.</p> <p>No major differences.</p>

collection and disclosure of company information and put it on the company website)			System.	
<p>v. If a company has established ethical corporate management principles in accordance with “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies”, please state its operation and the differences between them clearly.</p> <p>Our company has established “Ethical corporate management principles” and operated and regulated all kinds of business activities in accordance with ethical corporate management principles. We also established three independent directors and an internal audit unit and installed Audit Committee. There has no major incidents occurred with the violation of ethical corporate management.</p>				
<p>vi. Other important information which is helpful for understanding the operational status of ethical corporate management (for example, a company is determined to promote ethical corporate management and policies to its business correspondents, invited them to participate in education training and reviewed and revised the established ethical corporate management principles):</p> <ol style="list-style-type: none"> <li>1. Be determined to promote ethical corporate management and policies to its business correspondents and invited them to participate in education training: <ol style="list-style-type: none"> <li>(1) Our company reviews the quality of sales and supplies with sales customers and suppliers and promotes the corporate management idea of our company.</li> <li>(2) Our company will perform audit on new sales customers and procurement suppliers in accordance with “Regulations on management of customers’ credit” and “Regulations on management of suppliers”. Also, we will interview with the personnel in charge to understand the corporate management idea of that company and whether they conduct ethical corporate management.</li> </ol> </li> <li>2. Circumstances of reviewing and revising the established ethical corporate management principles:</li> </ol> <p>Our company has clearly established regulations on actions in “Ethical corporate management principles”. In addition, our company holds meetings for communications and announcements to employees in order for the stakeholders such as customers, suppliers, other external human resources to understand the ethical principles of the company to set up the corporate culture with integrity and announce it in public occasions and relevant places.</p>				

G. If a company has established corporate governance principle and relevant regulations, the inquiry method should be disclosed:

Inquiry webpage:

<http://www.vnm.com.tw/index.php?option=module&lang=cht&task=pageinfo&id=245&index=1>

Our company has established corporate governance system and formulated complete internal control system and all kinds of management regulations in accordance with “Corporate



Governance Best Practice Principles for TWSE/TPEX Listed Companies”. The relevant regulations as follows:

1. Management of Operation of Board Meeting
2. Management of Operation of Shareholders’ Meeting
3. Regulations for the Election of Directors and Supervisors
4. Programs for Handling Gain or Disposal of Assets

Programs for Handling Transactions of Financial Derivatives

5. Programs for the Operation of Endorsements and Guarantees

Programs for Operations involving Lending of Capitals to Others

6. Programs for Management Operations against Inside Trading

7. Internal Control System and Internal Audit Rules for the Implementation of Programs for Handling Gain or Disposal of Assets

Internal Control System and Internal Audit Rules for the Implementation of Programs for Handling Transactions of Financial Derivatives

Internal Control System and Internal Audit Rules for the Implementation of Programs for Operations involving Lending of Capitals to Others

Internal Control System and Internal Audit Rules for the Implementation of Programs for the Operation of Endorsements and Guarantees

Internal Control System and Internal Audit Rules for the Implementation of Supervision of Subsidiaries

Internal Control System and Internal Audit Rules for the Implementation of Management Operations of Seals

H. Other important information which is sufficient to promote the understanding of the operational status of corporate governance

1. The directors of our company took advanced studies in accordance with regulations, participated in the discussion on corporate governance and relevant courses held by Securities & Futures Institute and implemented corporate governance operations.
2. The responsible unit for the resolutions of the board meeting sends personnel to attend relevant courses about corporate governance on an irregular basis and provide the newest legal information to the directors and managers at all times.
3. Our company has established “Programs for the Management Operations against Inside Trading” to create good mechanism for the treatment and disclosure of major internal information, avoid improper disclosure of the information and ensure the consistency and correctness of the information announced to the public.

I. The following matters should be disclosed for the operational status of the internal control system:

1. Statements for internal control system

Victory New Materials Limited Company

Statements for internal control system

Date: Mar. 31, 2021

The statement of the internal control system for our company and the subsidiaries of our company in 2020, which is based on the results from self-assessment is as follows:

- I. Our company knew that the creation, implementation and the maintenance of internal control system is the responsibility of the board of directors and the managers of our company. Hence, our company has established this system already. Its purpose is to provide rational guarantee for achieving the objectives of the effects and efficiency of our business operation (incl. profit, performance and the safety protection of assets, etc.), reliable, in-time, transparent report and the compliance to relevant regulations and relevant law.
- II. There are congenital limitations on the internal control system. No matter how perfect the design is, an effective internal control system can only provide rational guarantee on the achievement of the three objectives mentioned above; and the effectiveness of the internal control system may change due to the change in environment or situations. The internal control system of our company has installed self-monitor mechanism. Our company will adopt corrective actions if faults were recognized.
- III. Whether the design and enforcement of the internal control system of our company is effective is determined in accordance with the assessment items for the effectiveness of internal control system stipulated in “Regulations Governing Establishment of Internal Control Systems by Public Companies” (abbreviated as “Governing Regulations” hereunder) . The assessment items for internal control system adopted in “Governing Regulations” is based on the process of management control. The internal control system is divided into five elements: 1. Environment control 2. Risk assessment 3. Operation control 4. Information & Communication and 5. Monitor Operation. Each element includes several items. Please refer to the regulations of “Governing Regulations” for the aforementioned items.
- IV. Our company has adopted the aforementioned assessment items of internal control system to assess the effectiveness of the design and enforcement of internal control system.
- V. Based on the assessment results mentioned in the previous paragraph, it has been determined that the design and enforcement of the internal control system of our company (incl. the supervision and management of the subsidiaries), established on Dec. 31, 2020, including the level of achievement for the objectives set on business effects and efficiency, reliable, in-time, transparent report and the compliance with relevant regulations and relevant laws. Hence, rational guarantee can be made for the achievement of the aforementioned objectives.
- VI. Our company has entrusted accountants to audit the internal control system related to reliable report and the safety protection of assets (so that assets are not obtained, used or disposed under unauthorized conditions) during the listed period in the

program in accordance with the regulations in Article 37 of “Governing Regulations” to satisfy the regulations in Paragraph 1 of Article 4 of “Taiwan Stock Exchange Corporation Rules for Regulating Primary Listed Foreign Issuers”. As mentioned in the previous paragraph, its design and enforcement are effective and there is no impact on the recording, governing, summarizing and reporting of financial information nor does it affect the safety protection of assets, where major faults occurred as the assets are obtained, used or disposed under unauthorized conditions.

VII. The statement will become the main content of the annual report and prospectus of our company and will be open to public. If the aforementioned public content is false or has hidden illegal matters, then legal liabilities in Article 20, 32, 171 and 174 of Securities Exchange Act will be involved.

VIII. The statement is passed by the board of directors of our company on Mar. 31, 2021. The board meeting is attended by 6 directors. No one holds objection opinion. Everyone has agreed to the content of the statement.

Victory New Materials Limited  
Company

Chairman of the Board & General  
Manager: Chuang, Kuo-Ching

J. If there are circumstances such that company or its internal personnel is disciplined by law or the company has disciplined its internal personnel on violations against internal control system regulations, or main faults and improvements in recent years and till the printing date of the annual report: none

K. Important resolutions in shareholders' meetings and board meetings in recent years and till the printing date of the annual report:

1. Important resolutions in shareholders' meetings and temporal meetings in 2017 and their enforcements

(1) Important resolutions

Dates	Type of the meeting	Important resolutions
2020/6/30	Regular shareholders' meeting	1. 2019 annual business report and final accounts. 2. The 2019 degree surplus distribution proposal. 3. Amendments to the company's articles of association. 4. Revise the "Rules of Procedures for Shareholders' Meetings" of the company.

(2) Enforcements

Dates	Type of the meeting	Important resolutions
2020/6/30	Regular shareholders' meeting	1. 2018 Annual Business Report and Final Accounts: Passed without objection. 2. The 2018 degree surplus distribution proposal: passed without objection. 3. The amendment to the company's articles of association: passed without objection. 4. Revision of the "Rules of Procedure of Shareholders' Meetings" of the company: passed without objection.

## 2. Important resolutions in board meetings

Dates	Type of the meeting	Important resolutions
2020/3/24	Board meeting	<ol style="list-style-type: none"> <li>1. Apply to the Financial Supervision and Administration Commission for the extension of the 2019 year financial report announcement deadline.</li> <li>2. Approved the company's internal control statement.</li> <li>3. To pass the amendment to the company's articles of association.</li> <li>4. Remuneration for directors and supervisors and distribution of employee remuneration.</li> <li>5. Amend the "Rules of Procedures for Board Meetings" of the company.</li> <li>6. Revise the "Rules of Procedures for Shareholders' Meetings" of the company.</li> <li>7. Revise the company's "Integrity Management Operating Procedures and Behavior Guidelines".</li> <li>8. Revise the "Code of Integrity Management" of the company.</li> <li>9. Revise the "Code of Practice on Corporate Governance" of the company.</li> <li>10. Revise the "Code of Practice for Corporate Social Responsibility" of the company.</li> <li>11. Revised the "Organizational Rules of the Audit Committee" of the company.</li> <li>12. Revised the company's "Salary and Compensation Committee Organization Rules".</li> <li>13. Approved the company's "Communications between independent directors and internal audit supervisors and</li> </ol>

Dates	Type of the meeting	Important resolutions
		<p>accountants".</p> <p>14. Formulate matters related to the acceptance of shareholder proposals at the 2020 regular shareholders' meeting.</p> <p>15. Set the time and place of the company's 2020 shareholders meeting.</p>
2020/4/29	Board meeting	<p>Approved the company's 2019 annual business report.</p> <p>Consolidated financial report.</p>
2020/5/13	Board meeting	<p>1. Approved the company's 2019 earnings distribution proposal.</p> <p>2. Approved the consolidated financial statements for the first quarter of 2020.</p> <p>3. Continue to appoint Qinye Zhongxin as the company's 2020 certified accountant.</p>
2020/8/7	Board meeting	<p>1. Approved the consolidated financial statements for the first half of 2020.</p> <p>2. Set the company's "management operations to prevent insider trading".</p> <p>3. Formulate the "Administrative Measures for Related Party Transactions" of the company.</p> <p>4. To formulate the company's "Regulations for Related Financial Operations between Related Enterprises".</p> <p>5. Changed the land use nature of the newly-built operation center of Jinjiang Chengchang Footwear Co., Ltd., a subsidiary.</p>
2020/11/12	Board meeting	<p>1. The case of replacing the certified accountant of the financial report.</p> <p>2. Approved the consolidated financial statements for the first three quarters of 2020.</p> <p>3. Approval of the company's "Communications between</p>

Dates	Type of the meeting	Important resolutions
		<p>independent directors and internal audit supervisors and accountants".</p> <p>4. Approve the company's 2021 budget.</p> <p>5. Passed the company's 2020 audit plan.</p> <p>6. Approved the company's "Board Performance Evaluation Measures" proposal.</p> <p>7. Approved the company's "Risk Management Measures" case.</p>
2020/12/16	Board meeting	The case of replacing the certified accountant of the financial report.
2021/3/31	Board meeting	<p>1. Approval of the company's internal control statement.</p> <p>2. Remuneration of directors and supervisors and distribution of employee remuneration.</p> <p>3. Approved the company's 2020 business report.</p> <p>4. Revise the "Rules of Procedures for Shareholders' Meetings" of the company.</p> <p>5. Revise the "Director Election Method" of the company.</p> <p>6. Approved the by-election of independent directors of the company.</p> <p>7. Approved the nomination and review of independent director candidates.</p> <p>8. Lifting the non-competition restriction on the by-election of independent directors.</p> <p>9. Revise the "Code of Ethical Conduct" of the company.</p> <p>10. Revise the company's "Salary and Compensation Committee Organization Rules".</p> <p>11. Amend the "Rules for the Scope of Duties of Independent Directors" of the company.</p> <p>12. Approved the company's</p>

Dates	Type of the meeting	Important resolutions
		<p>"Communication status between independent directors and internal audit supervisors and accountants".</p> <p>13. Set the 2021 regular shareholders' meeting to accept shareholder proposals.</p> <p>14. Set the time and place for the company's 2021 shareholders meeting.</p>
2021/5/7	Board meeting	<p>1. The company's 2020 surplus distribution proposal.</p> <p>2. Approved the consolidated financial statements for the first quarter of 2021.</p> <p>3. Approved the construction of the magnetic stove factory.</p> <p>4. Approved the company's "Communications between independent directors and internal audit supervisors and accountants".</p>

M. If the directors or supervisors have different opinions with the important resolutions passed by board of directors and have record or written statements in recent years and till the printing date of the annual reports: none.

N. The resignation of personnel (including the chairman of the board, general manager, accounting manager and internal audit manager, etc.) related to the financial statements in recent years and till the printing date of the annual report



## (IV) Information about professional fees of the certified public accountant

Accountant Public Expenditure Information Level Table

Name of Accounting Firms	Name of the Accountant		Period of audit by the accountant	Remark
Deloitte & Touche	Zhuo Mingxin	Shi Jingbin	2020/1/1-2020/6/30	Deloitte & Touche Internal rotation
Deloitte & Touche	Zhuo Mingxin	Ye Shujuan	2020/7/1-2020/9/30	
ShineWing	Chen Guanghui	Guo Zhenyu	2020/10/1-2020/12/31	To meet the needs of future operational development and overall management considerations

		Audit fee	Non-audit fee (Remark)	Total
1	Lower than 2,000 thousand dollars		√	
2	2,000 thousand dollars (incl.) ~ 4,000 thousand dollars			
3	4,000 thousand dollars (incl.) ~ 6,000 thousand dollars			
4	6,000 thousand dollars (incl.) ~ 8,000 thousand dollars	√		
5	8,000 thousand dollars (incl.) ~ 10,000 thousand dollars			√
6	10,000 thousand dollars (incl.) or more			

Name of Accounting Firms	Name of the Accountant	Audit fee	Non-audit fee					Period of audit by the accountant	Remark
			System design	Company registration	Human resources	Others	Minor total		
Deloitte & Touche	Zhuo Mingxin	2,555	-	-	-	-	-	2020/1/1-2020/6/30	
	Shi Jingbin								
	Zhuo Mingxin	1,491	-	-	-	-	-	2020/7/1-2020/9/30	
	Ye Shujuan								
Shine Wing	Chen Guanghui	3,250	-	-	-	1,600	1,600	2020/10/1-2020/12/31	
	Guo Zhenyu								

Remark: audit fee of internal program

A. If the non-audit fee paid to certified public accountant, the accounting firm of the certified public accountant and its affiliated companies is over one-fourth of the audit fee, then the amount of audit and non-audit fee and the content of the non-audit services should be disclosed: none.

B. If you have changed the accounting firm and there is a decrease in audit fee between the previous year and the year that the accounting firm is changed, then the amount of audit fee before and after the change and the reasons should be disclosed: none.

C. If the audit fee this year is 15% less than the amount last year, then the difference between them, ratio and reasons should be disclosed: none.

(V) Information on change of accountant:

A. About the former accountant

Change date	2020 Q4		
Reason for replacement and description	In response to the needs of future operational development and overall management considerations, the company’s certified public accountants were replaced by accountants Zhuo Mingxin and Ye Shujuan from Deloitte & Touche Certified Public Accountants, and replaced by ShineWing Certified Public Accountants Chen Guanghui and Guo Zhenyu Certified Public Accountants		
Explain that the appointing person or accountant terminated or did not accept the appointment	<div>Party</div> <div>Situation</div>	Accountant	Appointed person
	Voluntary termination of appointment	Not applicable	
	No longer accept (continue) appointment		
Issued within the latest two years of the inspection report other than unqualified opinions Opinions and reasons	None		
Issued within the latest two years of the inspection report other than unqualified opinions Opinions and reasons	Yes		Accounting principles or practices
			Disclosure of financial reports
			Check scope or steps
			Others
	None		
	Description: Not applicable		
Other disclosure matters (Article 10, paragraph 6 of this standard, item 4 to item 7 of this standard should be disclosed)	None		

B. About the successor accountant

Firm name	ShineWing
Accountant name	Chen Guanghui and Guo Zhenyu
Date of appointment	2020 Q4
Before appointment, the accounting treatment methods or accounting principles of specific transactions and the possible issuance of opinions on financial reports, consultation matters and results	None
Written opinions of the successor accountant on matters of disagreement with the former accountant	None

C. Former accountant's reply to item 1 and item 3 of paragraph 6 of Article 10 of this Standard: none

(VI) If the board of director, general manager, the managers in charge of financial or accounting affairs of a company has worked in the accounting firm of the certified accountant or other affiliated companies in the recent years: none.

(VII) Circumstances of changes in stockholders' equity transfer and pledge for the directors, supervisors, managers and shareholders with shareholding ratio over 10% in recent years and till the printing date of the annual report. The relative person of the stockholders' equity transfer or pledge is a related person, then the name of the relative person, his/her relation with the company, directors, supervisors, shareholders with over 10% shareholdings, the number of obtained or pledged stock should be disclosed.

Position	Name	2020		Till May, 3, 2021	
		Increase or decrease in shareholdings	Increase or decrease in number of pledged stock	Increase or decrease in shareholdings	Increase or decrease in number of pledged stock
Director	Chuang, Kuo-Ching	-	-	-	-
Director and big shareholder	Chang Xing Investment Limited Representative: Chuang, Kuo-Ching	-	-	-	-

Director and big shareholder	Cheng Yue Investment Limited Representative: Chuang, Kuo-Ching	-	-		-
Director	Bai Cheng Investment Limited Representative: Chuang, Hui-Huang	-	-	-	-
Director	CHEN TUYAN	-	-	-	-
Independent director	Lin, Chen-Hsiang	-	-	-	-
Independent director	Lin, Shih-Hsun	-	-	-	-
Marketing Director	Chuang, Mei-Jung	-	-	-	-
Audit Director	Wu, Chia-Hsun	-	-	-	-

(1) Information on stockholders' equity transfer:

There are no such circumstances that the relative person of stockholders' equity transfer for the directors, supervisors, managers and shareholders with over 10% shareholding ratio is a related person in the past two years and till the printing date of the annual report.

(2) Information on stockholders' equity pledge: none

(VIII) Information on the shareholders who are the top 10 on shareholding ratio list and are related persons, spouse or second-degree relative between them

May. 3, 2020

Name	Own shareholding		Current shareholding of spouse, minor children		Shareholding in the name of others		If the shareholders who are the top 10 on shareholding ratio list and are related persons, spouse or second-degree relative between them, state their names and relationship		Remark
	Number of stocks	Shareholding ratio	Number of stocks	Shareholding ratio	Number of stocks	Shareholding ratio	Name of the company (or name of the person)	Relationship	
Cheng Yue Investment Limited Representative: Chuang, Kuo-Ching	27,501,175	17.98%	-	-	-	-	Chang Xing Investment Limited	Same owner	
Wang Wenling	7,775,097	5.08%	-	-	-	-	-	-	
Chang Xing Investment Limited Representative: Chuang, Kuo-Ching	3,029,104	1.98%	-	-	-	-	Cheng Yue Investment Limited	Same owner	
Zhu Chenyihui	2,270,000	1.48%							
Bai Cheng Investment Limited Representative: Chuang, Hui-Huang	1,653,065	1.08%	-	-	-	-	-	-	
Citi Trust DFA Emerging Market Core Securities Investment Account	1,436,500	0.94%	-	-	-	-	-	-	
Lin Zhilong	1,500,000	0.98%	-	-	-	-	-	-	
Citi Trustee Dimension Emerging Markets Evaluation Fund Investment Account	1,020,828	0.67%	-	-	-	-	-	-	
Chen Bizheng	713,280	0.47%							
Citibank Custody Dimensional Emerging Market Assessment Fund Investment Account	589,687	0.39%	-	-	-	-	-	-	

(IX) The number of shareholdings for the same re-investment business from the company, the directors, supervisors, managers and the direct or indirect control business of the company and the combination of the total shareholding ratio

May. 3, 2021

Re-investment business	Investment of our company		Investment of directors, supervisors, managers and the direct or indirect control business		Integrative investment	
	Number of stocks	Shareholding ratio (%)	Number of stocks	Shareholding ratio (%)	Number of stocks	Shareholding ratio (%)
Super Light	100 stocks	100	-	-	100 stocks	100
Chandra Shoe Industry Ltd Company	Remark	100	-	-	Remark	100
Jinjiang Chandra Shoes Industry Ltd. Company	Remark	100	-	-	Remark	100
Victory New Materials Limited Company	Remark	100	-	-	Remark	100

Remark: It belongs to the type of limited company, so there are no classified stocks.

- A. If there are circumstances such that the subsidiaries of listed companies holding or disposing the stocks of our company and its settings of pledge equity in recent years and till the printing date of the annual report, then the source of the funds and the impact on the business consequences and financial status of the company should be stated: none.
- B. If there are cases mentioned in Article 185 of The Company Act or circumstances of transferring part of the business, research and development achievements to the subsidiaries in recent years and till the printing date of the annual report, then the circumstances of giving up the subscription of capital increase by cash of the subsidiaries, name of the subscribed relative person and its relationship with the company, directors, supervisors and the shareholders with over 10% shareholding ratio and the number of subscribed stocks should be disclosed.

There are no cases mentioned in Article 185 of The Company Act occurred in our company during recent years and till the printing date of the annual report. In addition, there are no such circumstances of transferring part of the business, research and development achievements to the subsidiaries, so this is not applicable.

## IV. Funding Situations

### (I) Source of Capital Stock

#### 1. Formation of Capital Stock

Year/Month	Distribution pricing	Authorized stock		Paid-up capital		Remark		
		Number of shares	Amount	Number of shares	Amount	Source of Capital Stock	Share paid up by assets other than cash	Others
Aug., 2012	US\$0.0001	100,000,000	US\$10,000	1	US\$0.0001	New establishment	-	-
Oct. 2012	US\$0.0001	100,000,000	US\$10,000	33,606,767	US\$3,360.68	Shares paid by the shares of 8888 Acquisition	-	-
Nov., 2012	US\$0.0001	100,000,000	US\$10,000	33,966,667	US\$3,396.67	Increase capital with 359,000 shares by cash	-	-
Dec., 2012	NT\$10	200,000,000	NT\$2,000,000,000	60,000,000	NT\$600,000,000	Change the par value of the share	-	-
Mar., 2013	NT\$10	200,000,000	NT\$2,000,000,000	12,244,898	NT\$722,448,980	Increase capital with 12,244,898 shares by cash	-	-
Jan., 2014	NT\$136	200,000,000	NT\$2,000,000,000	8,100,000	NT\$803,448,980	Increase capital with 8,100,000 shares by cash	-	-
Aug., 2014	NT\$10	200,000,000	NT\$2,000,000,000	8,034,489	NT\$883,793,870	Increase capital by earnings		
Aug., 2015	NT\$10	200,000,000	NT\$2,000,000,000	26,513,816	NT\$1,148,932,031	Increase capital by earnings		
Aug., 2017	NT\$10	200,000,000	NT\$2,000,000,000	11,489,321	NT\$1,263,825,241	Increase capital by earnings		
Aug., 2018	NT\$10	200,000,000	NT\$2,000,000,000	12,638,253	NT\$1,390,207,770	Increase capital by earnings		
Aug., 2019	NT\$10	200,000,000	NT\$2,000,000,000	13,902,078	NT\$1,529,228,550	Increase capital by earnings		



## 2. Types of shares

May. 3, 2021

Types of shares	Authorized stock			R e m a r k
	Shares in circulation	Undistributed stocks	Total	
Common stock	152,922,855	47,077,145	200,000,000	-

### (II) Structure of shareholders

May. 3, 2021 Unit: share

Structure of shareholders Amount	Government agencies	Financial institutions	Other legal persons	Individuals	Foreign institution and other people	Total
Number of people	-	-	113	31,203	56	31,372
Shareholding (shares)	-	-	2,086,117	106,709,494	44,127,244	152,922,855
Shareholding ratio (%)	-	-	1.36%	69.78%	28.86%	100.00%

Remark: Shareholding ratio of capital from China is 5.08%.

### (III) Dispersion of recent stock

#### 1. Common stock

May. 3, 2021 Unit: person; share; %

Shareholding level	Number of shareholders	Shareholding	Shareholding ratio
1 to 999	19,986	1,159,086	0.76%
1,000 to 5,000	7,589	17,017,799	11.13%
5,001 to 10,000	1,726	12,614,392	8.25%
10,001 to 15,000	700	8,704,137	5.69%
15,001 to 20,000	385	6,868,248	4.49%
20,001 to 30,000	372	9,084,485	5.94%
30,001 to 50,000	284	10,893,077	7.12%
50,001 to 100,000	184	12,775,249	8.35%
100,001 to 200,000	96	13,089,951	8.56%
200,001 to 400,000	24	6,604,901	4.32%
400,001 to 600,000	18	8,648,999	5.66%
600,001 to 800,000	1	713,280	0.47%
800,001 to 1,000,000	-	-	-
Above 1,000,001	7	44,749,269	29.26%
Total	31,372	152,922,855	100.00%

(IV) List of main shareholders

Shares Name of main shareholders	Shareholding (shares)	Shareholding ratio (%)
Cheng Yue Investment Limited Representative: Chuang, Kuo-Ching	27,501,175	17.98%
Wang Wenling	7,775,097	5.08%
Chang Xing Investment Limited Representative: Chuang, Kuo-Ching	3,029,104	1.98%
Zhu Chenyihui	2,270,000	1.48%
Bai Cheng Investment Limited Representative: Chuang, Hui-Huang	1,653,065	1.08%
Citi Trust DFA Emerging Market Core Securities Investment Account	1,436,500	0.94%
Lin Zhilong	1,500,000	0.98%
Citi Trustee Dimension Emerging Markets Evaluation Fund Investment Account	1,020,828	0.67%
Chen Bizheng	713,280	0.47%
Citibank Custody Dimensional Emerging Market Assessment Fund Investment Account	589,687	0.39%

Nationality or domicile of directors, supervisors, managers and shareholders with over 10% shares

Type of identity	Name	Nationality or domicile
Board of Director and General Manager	Chuang, Kuo-Ching	Hong Kong
Director	Chuang, Hui-Huang	PRC
Director	Chen, Tu-Yen	Australia
Director	Hsu, Jui-Hsia	ROC
Independent Director	Lin, Chen-Hsiang	ROC
Independent Director	Lin, Shih-Hsun	ROC
Marketing Director	Chuang, Mei-Jung	PRC
Auditing Director	Wu, Chia-Hsun	PRC
Big shareholders with over 10% shareholding	Cheng Yue Investment Limited	British Virgin Islands

(V) The market price, net value, surplus, dividend of each stock in the past two years and the relevant information

Year		2019	2020	Till the first season of 2021
Items				
Market price of each stock	Highest	22.8	16.5	12.8
	Lowest	15.15	7.61	9.9
	Average	17.7	11.6	10.7
Net value of each stock	Before distribution	38.3	35.5	37.3
	After distribution	38.3	35.5	Not applicable
Earning per share	Weighted average number of stocks	152,932 thousand stocks	152,923 thousand stocks	152,923 thousand stocks
	Earning per share	(2.87)	(2.55)	(0.48)
Dividend of each stock	Cash dividend	-	-	Not applicable
	Stock grants	-	-	Not applicable
		-	-	Not applicable
	Cumulative dividend in arrears	-	-	Not applicable
Return on investment analysis	Price-to-Earning Ratio (Remark 1)	(6.17)	(4.55)	Not applicable
	Ratio of dividend (Remark 2)	-	-	Not applicable
	Cash dividend yield (Remark 3)	-	-	Not applicable

Remark 1: Price-to-Earning Ratio = Average closing price of each stock in the current year/ Earning per share

Remark 2: Ratio of dividend = Average closing price of each stock in the current year/Cash dividend of each stock

Remark 3: Cash dividend yield = Cash dividend of each stock/ Average closing price of each stock in the current year

Remark 4: The board of directors in the subsidiary of our company, Jinjiang Chandra, has passed the resolution of not distributing the surplus of 2020 on Mar. 31, 2021.

Remark 5: The board of directors in the subsidiary of our company, Victory New Materials Limited Company, has passed the resolution of not distributing the surplus of 2020 on Mar. 31, 2021.

## (VI) Dividend policy and enforcement of the company

### 1. Dividend policy established by The Company Law

According to Article 34 of The Company Law, the main regulations of the dividend policy are as follows:

Unless otherwise required by the Statute and the Applicable Public Company Rules, the Directors shall prepare a proposal for distribution of profits in accordance with the procedures and sequence set out below and submit such proposal for the Members' approval by an Ordinary Resolution at any general meeting should there be profits upon a final annual accounting of the Company for a fiscal year:

- (a) the proposal shall begin with the Company's Annual Net Income after tax;
- (b) offset its losses, if any, that have not been previously offset;
- (c) set aside a statutory capital reserve of 10% in accordance with the Applicable Public Company Rules except where the statutory surplus reserve has already reach the Company's paid-in capital;
- (d) set aside a special capital reserve in accordance with the Applicable Public Company Rules or as requested by the authorities in charge; and
- (e) after deducting the aforementioned amounts listed in subsection (a) to (d) from the profits of the current year, the distributable profits shall include the accumulated profits not distributed previously. A proposal for distribution of profits shall be submitted by the Directors for the Members' approval at a general meeting pursuant to the Applicable Public Company Rules prior to distribution. Distribution of Dividends may be made by way of cash dividends and/or stock dividends and the total amount of Dividends shall not be lower than 10% of the profits of the then current year after deducting the aforementioned amounts listed in subsection (a) to (d), and the percentage of cash dividends to be distributed shall not be less than 10% of the total amount of Dividends.

### 2. Situations of the proposed distribution of the dividends in this year

The distribution of surplus of our company in 2020 is passed by the board of directors on May 7, 2021. The relevant information related to the passed resolution on the distribution is as follows:

- (1) The total cash bonus for the shareholders is 0 dollars. The total stock dividend for the shareholders is 0 dollars.
- (2) Distributed employee bonus is 0 dollars; the distributed remuneration for directors and supervisors is 0 dollars.

All of the above are passed in the regular shareholders' meeting in 2021.

## (VII) Impact on the business performance of our company and earning per share by the proposed stock grants during this shareholders' meeting

During this shareholders' meeting, we have proposed not to distribute stock grants, so this is not applicable.

## (VIII) Employee bonus and the remuneration of directors and supervisors

- 1. The amount or scope of employee bonus and the remuneration of directors and supervisors mentioned in The Company Law:

Please refer to The Company Law mentioned above.

- 2. The base of the estimated employee bonus and the estimated remuneration of directors and supervisors in this period, stock calculation base of the distributed stock bonus and

the accounting treatment if the actual distributed amount is different from the estimated amount: none.

3. For the resolutions on the distribution of surplus is passed by the board of directors, which are not passed by the shareholders' meeting yet:

The board of directors of our company proposed the resolution with the distribution of 0 dollars for employee bonus and 0 dollars for the remuneration of directors and supervisors on Mar 31, 2021.

4. Employee remuneration from the distribution of stocks and its ratio accounted for the net profit after tax in the individuals or individual financial statement in this period and its ratio accounted for the total amount of employee bonus: not applicable (Our company did not distribute employee stock bonus).
5. If there is a difference between the actual distribution of employee bonus and the remuneration of directors and supervisors in the previous year (incl. the distributed number of stocks, amount and stock price) and the recognized employee bonus and the remuneration of directors and supervisors, then the difference, reasons and the treatments should be stated clearly: none

(IX) Stock bought back by our company: none

(X) Situations of corporate bond (incl. overseas corporate bond): none

(XI) Situations of preferred stock: none

(XII) Situations of participation in the issuance of overseas depositary receipt: none

(XIII) Situations of employee stock option certificates: none

(XIV) Situations of merger: none

(XV) Situations of the issuance of new stock by transferring other company's stock: none

(XVI) Enforcement of the application program for funds:

Analysis of the application program for funds from capital increase by cash, merger or the issuance of new stock by transferring other company's stock or issuance of corporate bond previously

Activities in recent years such as the merger within the corporation and the issuance of new stocks by transferring other company's stock are done due to the needs for becoming listed company in Taiwan by structure reorganization. These actions have no major negative effects to the shareholders' equity.

A. Content of the program

1. Program for capital increase: Our company expects to issue new stock with capital increase by cash and reduce the dependency of bank loan for the satisfying the requirement of long-term development, supplying business funds and satisfying the needs for future business scale by capital movement.
2. Source of the funds: Common stocks of 8,100 thousand stocks are issued with capital increase by cash. Each stock is 10 dollars. Each stock with 136 dollars is issued with premium. Total amount of money collected are 1,101,600 dollars.
3. Usage of the funds: Supply business funds and strengthen financial structure
4. Expected progress and benefit

Unit: NT\$ 1,000

Items of the program	Accomplished dates	Total amount of funds	Expected progress of the application of the funds
			First season of 2014
Supply business funds	January, 2014	1,101,600	1,101,600
Expected possible benefit	Strengthen the financial structure and reduce the expenditure on the interests.		
Treatment when the collected funds are insufficient	It will be covered by self-funds for the insufficient part.		
Usage of the funds and expected benefit when the collected funds increased	For the increased part compared between the collected funds and the expected, all will be used for supplying business funds. It is expected to strengthen our financial structure.		

## B. Enforcement progress and benefit analysis

## 1. Enforcement

Unit: NT\$ 1,000

Items of the program	Total funds required	Enforcement		Expected progress of the application of funds
				First season of 2014
				Till the first season of 2014
Supply business funds	1,101,600	Amount of payment	Pre-determined	1,101,600
			Actual	1,101,600
		Enforcement progress	Pre-determined	100%
			Actual	100%

2. Benefit analysis: The capital increase by cash last time is used for supplying the business funds to reduce the expenditure for business need by bank loan. If the average interest of long-term loan is calculated by 7.15%, then our company can save the expenditure of NT 46, 332 thousand dollars for the interest every year.

## V. Overview of Business Operations

### (I) Content of the Business

#### A. Scope of the Business

##### (1) Main content of business operations

Our company is a Hi-Tech Technology Enterprise focused on the development of macromolecular materials and its applications on our products. Our products are mainly the soles of sport shoes and sole materials, including RB, EVA, EVO soles, one phase dual color dual hardness sole and EVO particles. Our main customers are famous Chinese sports brands, such as QiaoDan, ERKE, DEERWAY, Xtep and Anta.

##### (2) Percentage of sales revenue

Unit: NT\$ 1,000

Main products	2019		2020	
	Net revenue	(%) Percentage of sales revenue (%)	Net revenue	(%) Percentage of sales revenue (%)
RB sole	-	-	-	-
Single color sole	771,004	66.64	487,850	74.32
Dual color dual density sole	104,328	9.02	90,485	13.79
EVO particle	281,691	24.35	78,071	11.89
Total	1,157,023	100.00	656,406	100.00

##### (3) Current products of the company

Current products of the company include EVA, RB, EVO sole, one phase dual color dual density soles, finished shoes, rubber foam soles and self-developed EVO particles.

##### (4) Products planned to be developed

Our future development programs for new products will focus on raw materials and production processes:

###### ① Raw materials

Our main focus is to upgrade EVA decomposable eco-friendly materials. After years of dedication, we have successfully developed EVA starch degradable materials and obtained a patent certificate on 03/13/2013 officially. Currently, our company has finished the upgrade of EVA degradable materials and adopted wood flour fiber for the replacement of starch in order to further reduce the costs.

###### ② Production processes



Our company has started the first-stage development work of the one phase injection triple colors dual densities soles. Although lamination process can be omitted for our one phase dual colors dual densities soles, the sole can only have two colors. Hence, many customers still add rubber patch to enhance the beauty of the sole. The one phase triple colors sole can solve this difficulty to achieve three-color sole and save additional costs arise from the production process and patch procedure.

## B. Overview of the Industry

### (1) Current status and development of the industry

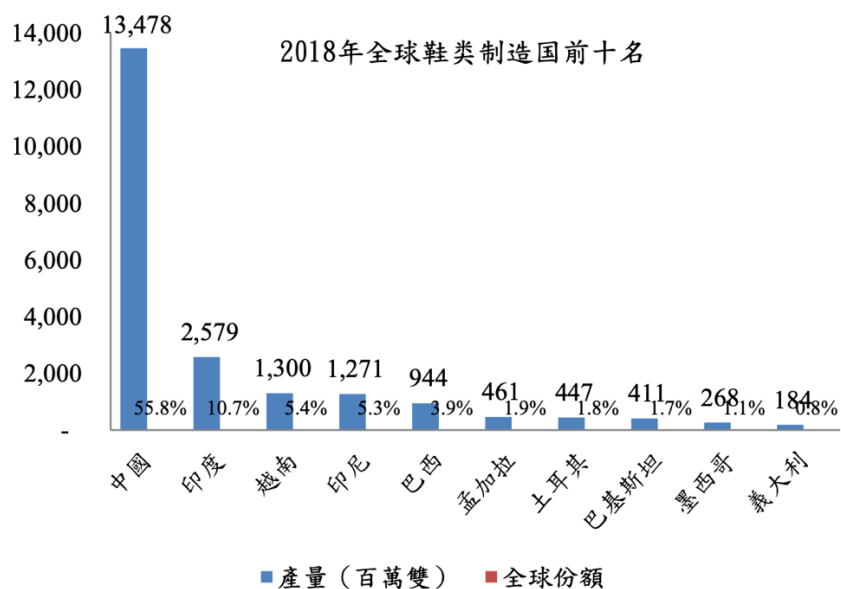
#### ① Current status of the industry

Global population and total output of shoe products show an increasing trend. The total output of global shoe industries is 2 times to 3 times of global population. The increase in the needs of shoe products is 2 times of the increase in population. Shoe-making industry is a classic labor-intensive industry. The requirement on technology and equipment of the industry is relatively low. The cost of labor power and raw materials accounted the most in the production cost of shoe-making industry. Hence, the production has been shifted to countries and areas with lower cost of labor. In the early stages, Italy, Spain and Portugal are the main shoe-making countries. Since 1970s, the focus of production is transferred from Europe to Asia, where the labor cost is lower, such as Japan, Korea and Taiwan, etc. Since 1980s, the focus of production is transferred once again to coastal areas of China with even lower labor costs and richer resources along with Chinese economic reform. Currently, the main shoe-making countries around the world are China, India, Vietnam, Indonesia and Thailand, which are the ones in Asia, Italy, Spain and Portugal, which are the ones in Europe and Brazil, which is in South America. According to World Footwear 2013 Year Book, the number of shoes made in Asia is accounted for around 87% of the global amount; the total number of shoes export is accounted for 85% of the global amount. Therefore, Asia is the focus for the production and export of shoe-making.

#### ② Development of the Industry

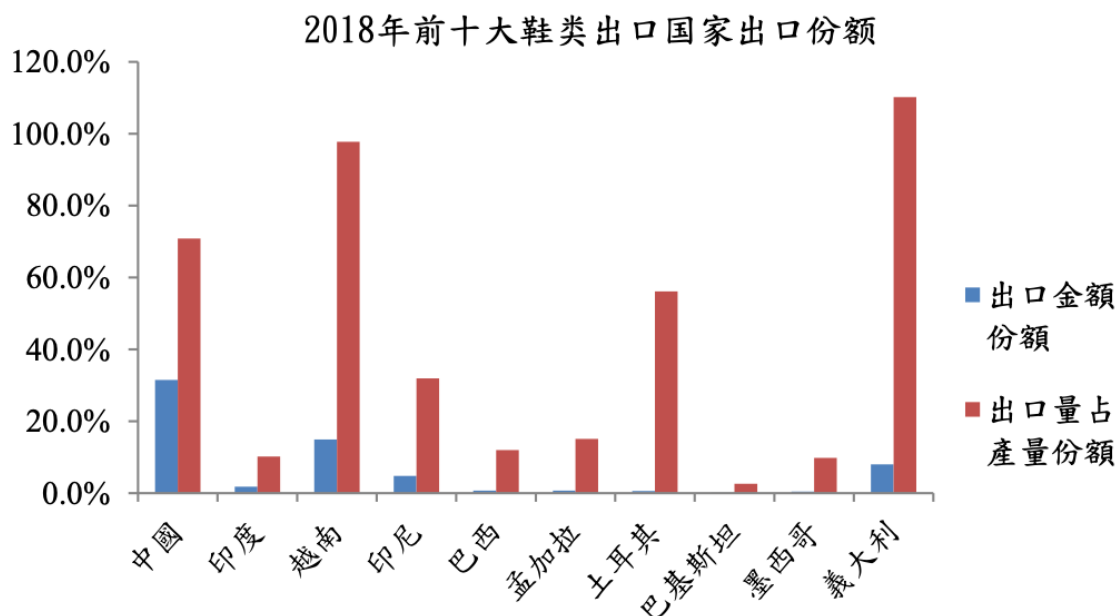
##### (A) Overview on the development of the global shoe industry market

Shoe-making industry is a classic labor-intensive industry in the development history of global shoe-making industry. The requirement on technology and equipment of the industry is relatively low. The cost of labor power and raw materials accounted the most in the production cost of shoe-making industry. Hence, the production has been shifted to countries and areas with lower cost of labor. In particular, the cost of leather and other raw materials is accounted for 50 to 60% and the labor cost is accounted for 10% to 15%. Sufficient land resources and good industry chain are the key factors for the development of the industry.



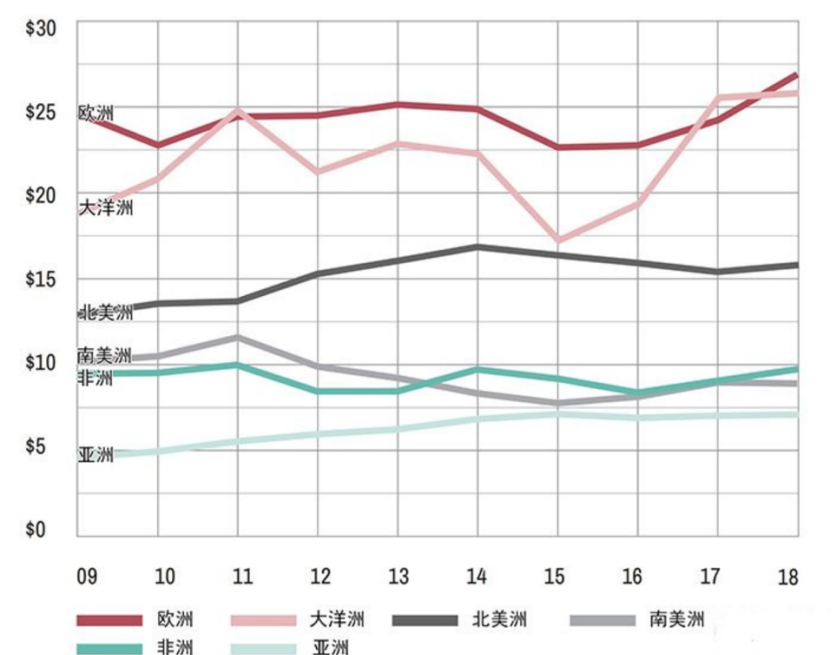
Source: World Footwear 2018 Year Book

World Footwear 2018 Year Book has shown that the total amount of shoes export in Asia is accounted for 84%, of the global amount, the one in Europe is accounted for 14%, the one is North America is accounted for 1% and the ones the South America and Africa are accounted for 1% each in 2018. In the top 10 shoe export countries around the world in 2018, there are 5 of them in Asia. In particular, China has 70.8% of the global export volume.



Source: World Footwear 2018 Year Book

Regarding the export unit price of footwear products, various continents have shown different levels and trends: the average price in Asia, South America and Africa is relatively low, basically between 6 and 9 US dollars; the price in North America is around 16 US dollars; Europe and Oceania have higher prices, around 26-27 US dollars. In the long run, in the past ten years, the average export unit price of footwear in Asia has shown a relatively stable growth trend, and the fluctuations in Africa are more frequent, but the price in 2018 is basically the same as in 2009. The trend of the average export unit price in Europe is also relatively volatile. In the past two years, the corresponding unit price has shown a relatively obvious growth trend. In contrast, the average export unit price of South America has shown a downward trend as a whole.



Source: World Footwear 2018 Year Book

## (B) Overview on the development of the shoe industry market in China

China has become the world's largest footwear manufacturer, exporter and consumer since 1996. According to the World Footwear 2018 Year Book, the report pointed out that China produced more than 13.4 billion pairs of shoes in 2018, accounting for 55.8% of global shoe production; in 2018, the export volume of shoes exceeded 9.5 billion pairs, ranking first in the world; In 2018, the consumption of shoes exceeded 4.1 billion pairs, surpassing the second-ranked India with 2.6 billion pairs, making it the largest country in footwear consumption.

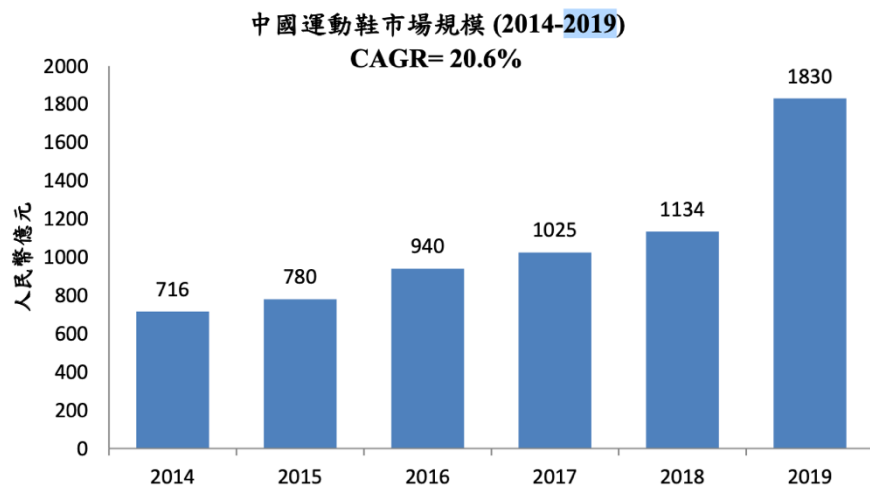
The main reasons that promotes the expansion of the shoe market in China are the policy, which encourages the development of the sports industry, the popularization of fitness concepts and the increase in consumption capability. China has released twelve Five-Year Plans in 2010, including “Five-Year Plan for Sports Industry” and “Five-Year Plan for Development of Public Sports”. Its purpose is to promote the development of the sports industry. After the 2008 Beijing Olympics, China continues to hold various sports events, and people started to cultivate their awareness of health, exercise and fitness gradually. Consumption power of the customers has increased with the growth of disposable income. In 2019, the disposable income per capita of urban residents exceeds RMB 30,000, which is about 9% higher than that in 2018. According to Euromonitor survey results, China's footwear sales in 2018 reached RMB 411.3 billion, a year-on-year increase of 7.7%. It is estimated that in 2021, the footwear market in the Mainland is expected to reach RMB 522.3 billion, And China's domestic market share gradually surpasses the export share, and China's sports shoe consumer market has considerable development potential in the future.

The four major shoe-making industry clusters in China are Zhejiang, Fujian, Guangdong (southeastern coastal areas), and Sichuan (inland). A group of support industry with a tight connection, including the design of shoe mold, the production of shoe materials and shoe-making, has formed in these provinces and creates a complete shoe-making industry chain. The position and business mode of the industry clusters in each province are different. So, they have a rather weak competitive relationship. In contrast, the sole companies within the same industry cluster in the same province have a stronger competitive relationship due to having the same target customers and similar business models.

Industry clusters	Zhejiang	Fujian	Guangdong	Sichuan
City for the Production	Wenzhou, Taizhou, etc.	Jinjiang, Quanzhou, Shishi	Dongguan, Huidong	Chengdu, Chongqing
Type of product	Mainly men's leather shoes, supplemented by casual shoes	Mainly sports shoes	Mainly women's shoes, OEM of sports shoes	Middle and lower end women's shoes and child shoes
Technical advantages	Mainly OEM; Part of them has established self-developed Chinese brands.	Mainly ODM; Few of them are OEM; Part of them has established self-developed Chinese brands, such as 361°, Anta, Xtep, Guireniao	Mainly OEM; Design and development of the stereotype of women's shoe, OEM of world-famous shoe brands, such as Nike, Adidas, Puma, Clarks	Mainly OEM; Smaller scale but flexible
Advantages of the supply chain	It has complete support of the industry, including the production base for cow leather, while stone sole, shoe decorations and shoe-making industry area. Its produced soles accounts for around 10 to 20% of the soles produced in China.	Jinjiang Chenyu owns good reputations by "one street shoe materials" and "China's city of shoes". Its produced soles accounts for 50% of the soles produced in China.	It has lots of companies focus on the production of shoe materials and shoe machinery. There are 60% of production volume of shoes for world-famous brands in Guangzhou. Its produced soles accounts for 30% of the soles produced in China.	Mainly performs patch OEM, custom making; suitable for small batch production of fashion products

Source: Fujian Shoe Industry Association; Guohai Securities Research Institute

According to the research data from the international market survey company, Euromonitor, (posted by ASKCI Consulting on May 2, 2012), the sports shoes market in China has reached RMB 54.153 billion in 2010, which is accounted for 23% of global sports shoes market. The compound annual growth rate (CAGR) of sports shoes market in China is 15% from 2006 to 2010. It is expected that the sports shoes market in China will grow at a rate of 11% of the compound annual growth rate (CAGR) in the next few years along with the development of economy and living standards in China. The market size is expected to reach RMB 92.993 billion by 2015.



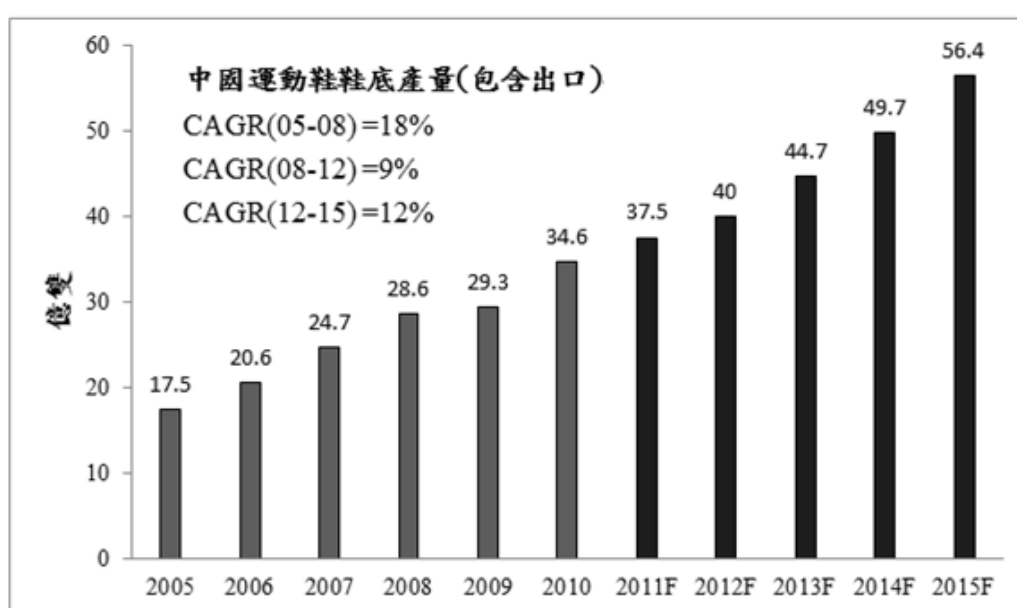
Source: ibaogao

### (C) Overview on the development of sports shoes in China

Fujian and Guangdong Province are the representatives of the sports shoe industry cluster currently. Among them, the total annual production volume of shoes made in the industry cluster with Fujian Province as its core is about 1.4 billion pairs, which is accounted for about 50% of the total domestic sports shoes output in China. Early in March 2001, China Leather and Footwear Research Institute, National Shoe Industry Information Center and Shoe Industry Productivity Promotion Center awarded the honorary title for Jinjiang City in Fujian Province as “China’s Shoes Capital” jointly. The Jinjiang area is known to produce sports shoes of domestic brand in China, such as Anta, Xtep and 361°, etc. with many soles production companies to support their production.

The production of sports shoes includes the production of soles, the cutting and stitching of surface materials of the shoes, and the assembly of soles and surface. The cost of soles is only accounted for about 25% of the cost of sports shoes. 50% of the appearance of sports shoes is determined by the style of soles while 70% of the functionality is determined by the sole. Therefore, research and development have high influence on sports shoes. Some sole production companies have strong research and development capabilities. In addition, they cooperate with the companies with domestic brands of sports shoes in China to develop high-tech sports shoes soles together.

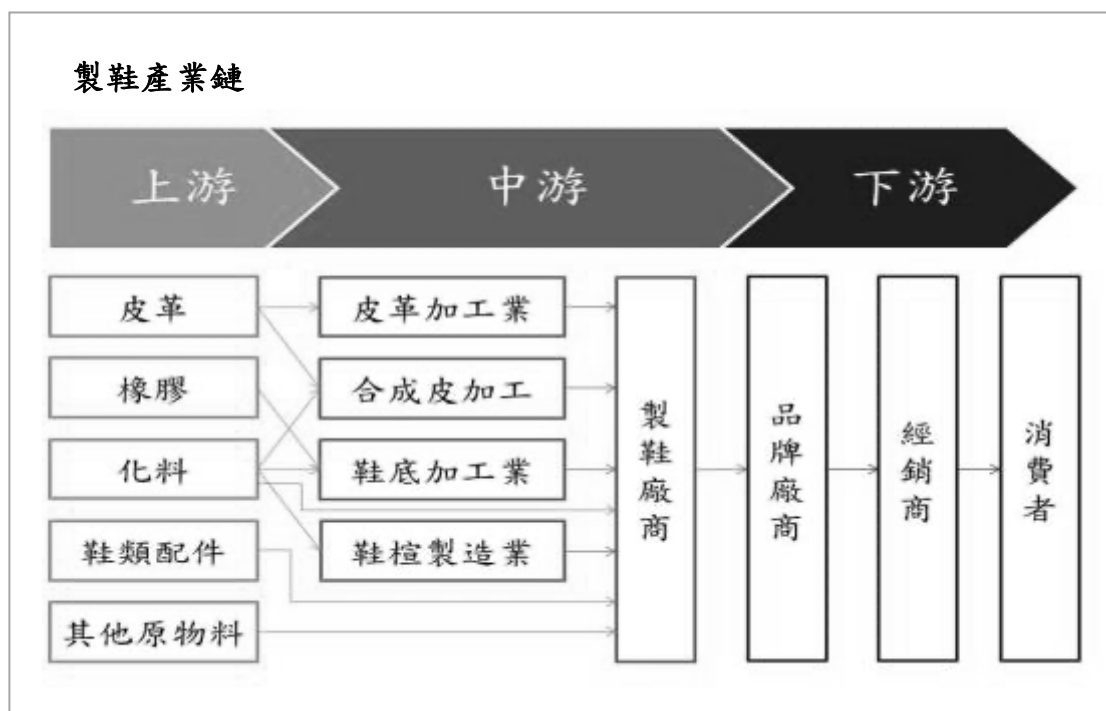
The scale of the sports sole market in China is huge. Also, it has a potential for growth and develops fast. The market demand for sports shoe soles around the world in 2008 was about 7 billion pairs, 40% of which were produced in China, according to the data from China Leather and Footwear Research Institute. The compound annual growth rate (CAGR) of the production volume of sports shoe sole in China had reached 18% from 2005 to 2008; however, the growth rate of the orders declined slightly from 2008 to 2012, and the compound annual growth rate (CAGR) was about 9% due to the change in prosperity. As inventory of the brands had been exhausted gradually, the market slowly recovered starting from the end of 2013. The compound annual growth rate (CAGR) is expected to reach 12% from 2012 to 2015, and the output volume will reach 5.64 billion pairs in 2015.



Source: China Leather and Shoe Industry Research Institute

(2) The relationship between upstream, midstream and downstream of the industry

The upstream of sports shoe sole composed of chemical engineering industries, such as leather, plastic and rubber. Then, midstream OEM (Original Equipment Manufacturing) and ODM (Original Design Manufacturing) companies will perform the fabrication. The cost of leather and other raw materials is accounted for about 50 to 60% of total cost while the labor cost is accounted for about 10 to 15% of total cost. Next, the downstream shoe brand company will receive the finished products. Finally, the products will be sold to consumers through different channels such as dealers, agents, department stores and hypermarkets.



Source: Industry Bureau, Ministry of Economic Affairs

製鞋產業鏈	Shoe chain	皮革加工業	Leather processing industry
上游	Upstream	合成皮加工	Synthetic leather processing industry
中游	Midstream	鞋底加工業	Sole processing industry
下游	Downstream	鞋楦製造業	Shoe last manufacturing
皮革	Leather	製鞋廠商	Shoe-making companies
橡膠	Rubber	品牌廠商	Brand companies
化料	Chemical material	經銷商	Dealers
鞋類配件	Shoe accessories	消費者	Consumers
其他原物料	Other raw materials		



### ①Upstream

The upstream of the sports shoe sole is composed of chemical engineering industries such as leather, plastic and rubber, which are derivatives of black gold. If there is a fluctuation in the international price of black gold, the production cost of the shoe-making industry will be affected. Sports shoe soles require large amount of natural and synthetic rubber. The current use of natural and synthetic rubber in the market is about 4 to 6. Natural rubber is collected from rubber trees, and it takes about 6 to 7 years from planting to harvesting. Thus, it takes a long time to wait for the rubber tree to grow if the supply of natural rubber is insufficient. Moreover, its growth is affected significantly by season. If the price of natural rubber increases, the demand for alternative synthetic rubber, which is obtained from the refinement of petroleum, will be increased. Hence, the price is influenced by the fluctuation of the price of black gold.

### ②Midstream

It is expected that EU will no longer extend the anti-dumping measures, which can increase the export from China to EU countries, since the termination of anti-dumping taxes starting from 2006 on the leather shoes exported from China to EU on March 2011. On the other hand, future trend of the shoe industries will exhibit the situations that bigger companies will be bigger while smaller companies will be smaller after the global economic distress resulted from the subprime mortgage crisis in 2008, and in addition, because of the Labor Contract Law implemented in China, the value increase of RMB and the raise in labor costs. The labor costs in the coastal area of China has increased, which resulted in the transfer of some companies to central or western parts of China or southeast Asia for a better investment environment and a place for shoe production with lower costs.

### ③Downstream

Major brands in the sports shoes market has increased their product sales not only through their own stores, but also through all kinds of other channels, such as dealers, agents, department stores, hypermarkets or the recent hot network sales. International brands such as Nike and Adidas have outsourced their production to the shoe industry companies in China, kept none of their own production factories and shoe-making workers and devoted themselves into the operation of their brands and the development of new products; on the other hand, domestic brands in China, such as Li Ning, Anta, 361°, Kappa, Xtep or Peak, have started to find domestic OEM or ODM companies to develop and produce jointly. The market shares of domestic sports brands have increased from 41% in 2005 to 66% in 2010, which is changing the monopoly market structure of international sports brand, however, the competition of brands has turned white-heated. They not only have similar products but also use the same marketing methods by the endorsement of famous domestic and foreign athletes, which easily caused homogenization.

## (3) Various development trends of the products

### ①Light-weight

The weight of sole takes a big part on the sports shoe. For the shoes to be light-weight, we need to reduce the weight of soles continuously so that the customers can wear more comfortable and light shoes.

②Eco-friendly

Our sports soles will focus on environment protection and the application of biodegradable and eco-friendly materials in the outsoles will be emphasized along with the emphasis of environmental problems from all over the world.

③Colorful and fashion

Colorful and diversified styles have become the trend and mainstream of the development of sports shoe soles along with the sports and casual fashion trends.

④High functional

The primary problems to be solved for sports shoe soles are its features such as better anti-slippery, elasticity, flexibility and wear resistance.

⑤Multi-functional

Pursue more additional functions after the fulfillment of fundamental functions, such as breathable, demisture, deodorization, anti sweat, and shockproof.

(4) Situations of product competition

The soles and particles produced by our company are used by well-known companies in China, which have high technical level and big added value. We have continued to perform development, innovate, and refine processes, so our products have rich competitiveness on the development and production side. The main reasons for our company to maintain its competitiveness are as follows:

①Our product line is wide. We not only produce soles for famous companies in China, but also develop and produce EVO particles ourselves.

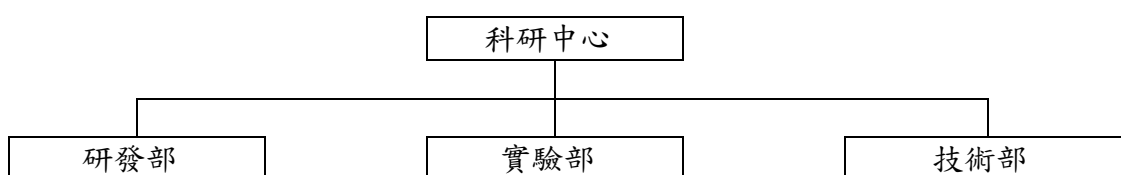
②We have the ability of customized production. Shoe materials are produced in accordance with customer needs, so they can satisfy the needs of the customers.

③We have development and innovation ability. Our company continues to develop new products and improve processes to make our product possessing originality and uniqueness.

### C. Overview on Technology and Development

#### (1) Technology level of the operated business and the status of research & development

Our company has been focused on the development of various macromolecular materials since its establishment. We even collaborate with Material Science and Engineering College of Fuzhou University to create research and development center for highly functional macromolecular shoe materials and signed the industry-academia cooperation agreement with Material Engineering Department of Fucheng University Zhicheng College, which our company will serve as teaching and implementation base in 2010. We installed Dept of R&D, laboratory and Dept. of Technology under our scientific research center till May 2013. Hence, one-step process was formed from the development of materials, experiments and testings, technology transfer to large-scale production. The structure and main functions of our scientific research center are as follows:



科研中心	研發部	實驗部	技術部
Scientific research center	Dept. of R&D	Laboratory	Dept. of Technology

The work tasks of each department are listed as follows:

Name of the Department	Work Tasks
Dept. of R&D	<ol style="list-style-type: none"> <li>1. Responsible for formulating annual plastic and rubber development plans in accordance with the marketing strategy of the company and organizing surveys, collecting similar domestic and foreign products, the dynamics of the technology of our competitors and the market demands.</li> <li>2. Set up the development directions of products based on the marketing plans of products and materials and the results of market survey and the demands from customers, perform validation on feasibility and organize implementation.</li> <li>3. Perform training on the usage of new materials and introduction of its functions to relevant departments.</li> <li>4. Responsible for the application of material patent and the verification of the achievements.</li> </ol>

Name of the Department	Work Tasks
Laboratory	<ol style="list-style-type: none"> <li>1. Responsible for all kinds of management systems of the laboratories and the formulation of test regulations and its completeness.</li> <li>2. Follow the operation regulations and requirements of standards to perform tests on all the in-factory raw materials, supplementary materials, parts of the packaging materials, finished products, intermediate products strictly; work hard to make the original inspection records; calculate the inspection results correctly.</li> <li>3. Responsible for the inspection of the laboratory, and the selection, procurement, installation, testing and maintenance of instrumentation and equipment; perform inspection, repair and maintenance periodically</li> </ol>
Dept. of Technology	<ol style="list-style-type: none"> <li>1. Responsible for the testing of molds and sample production process; ensure sufficient knowledge about the needs of customers in material use, structure and quality before production.</li> <li>2. Responsible for the production of samples in collaboration with Dept. of Manufacture before mass production of new products; ensure to provide the production of samples with the complete technical data to Dept. of Manufacture.</li> <li>3. Proposed the change in product structure, crafts, material selection, specifications and size based on the needs of quality, efficiency and cost from different departments.</li> </ol>

(2) Research and development personnel and their educational background

Year Educational Background	2018		2019		2020	
	Number of people	%	Number of people	%	Number of people	%
Master's degree (or above)	2	7	2	6	-	-
Bachelor's degree	6	21	6	17	5	17
High school diploma (or below)	21	72	27	77	24	83
Total	29	100	35	100	29	100

(3) Research and development expenses devoted each year for the past three years

Unit: NT\$ 1,000

Year Items	2018	2019	2020
Research and development expenses	144,360	81,500	52,600
Operating revenue	2,071,989	1,157,023	656,406
Ratio accounted for operating revenue (%)	6.97	7.04	8.01

(4) Technology or products successfully developed in the past three years

Year	Name of the Product	Description of Content
2010	EVO rubber and plastic composite materials with wear resistance	EVO material is lighter, softer, bears more wear resistance than the traditional EVA shoe material.
2011	Dual color dual hardness sole	This production craft is one phase injection formation, which does not require lamination. It reduces the man power required greatly compared to traditional sole production, has avoided the pollution of environment and injury to human by glue and treatment reagents and shortens the production process of sole production.
	EVA/starch degradable biomaterials	The material has conquered the faults for traditional EVA materials, which are hard to degrade and hard to recycle. It can be used in eco-friendly products in the future.
2012	Foaming rubber sole (rubber and plastic)	The foaming rubber sole can replace the traditional rubber sole. The characteristics of the foaming rubber, such as wear resistance and anti-slippery, are the same as the traditional rubber while the foaming rubber only has around half of the specific weights compared to traditional rubber. Its production process has revolutionized the vulcanization process of traditional RB rubber and used foaming injection method instead, which saves a lot of man power.

2013	EVA/wood flour degradable biomaterials	Upgrade the raw material of EVA/starch degradable biomaterials. By replacing starch with the fiber of plants such as wood flour, the costs can be reduced furthermore.
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#### D. Long-term and short-term business development plans

##### (1) Short-term development plans

- ① Install new machinery equipment and expand production lines; enhance production capability by replacing some manual parts with automatic equipment to reduce labor cost.
- ② Perform tests and refinement on the production lines, strengthen management, enhance production efficiency maintain the yield and originality of products.
- ③ Enhance the sales in all areas and consolidate the market share of our products in accordance with the expansion of China's domestic demand market.
- ④ Maintain good relationship with the existing customers and companies, maintain the stability of the sources of raw materials; continue the customization on product production to satisfy the needs of customers with product diversity.

##### (2) Long-term development plans

- ① Assess the future development trend of all areas, expand the factories of our company, expand business scales and continue the development of domestic customers in China and international customers, expand the business scope of our company, enhance the market shares of our products.
- ② Continue the research on developing new products, obtain the latest concepts and knowledge with the collaboration with the academia, combine theory and knowledge with the development and innovation of products, enhance the product value of our company.
- ③ Strengthen the financial structure and business organization of our company to enhance the competitiveness of our company.

#### (II) Overview of market and sales

##### A. Market analysis

##### (1) Sales areas of major products

Our products are mainly sold in the China market currently. Although our products are not exported directly, some products can still access the foreign market through business expansion of downstream traders. The foreign companies have gradually regarded this area as an important source of procurement with gradual completion in the construction of local industrial chain, which helps our products entering the international market.

##### (2) Market share

According to the report from China Leather and Footwear Industry Research Institute, it is estimated that the output of sports soles in 2012 was about 4 billion pairs, in which, 22,866,000 pairs were sold by Jinjiang Chandra in 2012, and the corresponding market share was about 0.57%. In recent years, our company has successively developed new products, such as EVO material, EVA decomposable material, one-phase two-color double-density sole, etc. Moreover, we continuously increased the operation scale. The company has great growth potential regarding the

current market share.

(3) Supply and demand status and growth of market in the future

① Potential changes in market demand

Sports goods including sports shoes, etc. highly grew by around 30% annually along with the economic growth in mainland China before 2010. The market of sports goods was even pushed to a higher milestone in 2008 when the Olympic Games were held. Major sports brands were optimistic about the market. They also expand their stores to a larger scale each year, and eventually caused the companies to overstock under overestimation of the market. Chinese brands of sporting goods, such as Li Ning, Anta and Pick, etc., began to show decline in performance and profit decline or slower growth in 2012.

Sporting goods companies entered a period of comprehensive adjustment in 2011. All major companies have taken the alleviation of inventory pressure at the retail end and the exhaustion of inventory as their major working objectives. Therefore, various companies have carried out discount promotions to varying degrees. At the same time, they no longer irrationally expand their stores, instead, they use the resources to increase the average sales volume at the retail end, close the low-efficiency storefronts, and expand or install better retail stores.

Beginning in 2013, after a period of inventory consumption, individual well-known sports brands have begun to achieve growth, and the industry as a whole resumed in 2014-2015. Beginning in 2016, with the inclusion of national sports fitness into the national strategy, the awakening of public health awareness and the improvement of sports supporting facilities, the sports shoe industry has entered a new period of growth. In 2017, the scale of China's sports shoes market exceeded RMB 100 billion, reaching RMB 102.5 billion.

China is the largest footwear market in the world and the second largest sports shoes market in the world. The footwear consumption expenditure is still growing in recent years based on China's national statistics. Urbanization in central and western provinces has been promoted, and income in third and fourth-tier cities has been raised along with the development of economy and the improvement of living standards in China. China's sports footwear market still has potential for development in the long run. Sole companies are facing operational challenges when facing the adjustment of downstream customers. It is required for the companies to adapt to an order mode with smaller number, larger batches and larger models in one order. On the other hand, they have to face the fact that the differences in sporting goods outfits have appeared as the consumer physiology of consumers in China have become matured gradually. Sporting goods companies need to introduce new products constantly in order to satisfy the needs of consumers. It is an important business issue for the companies to master the orders of new-style products from the upgrade of their own technology.

② Potential supply changes in the market

There are thousands of sports shoe-making companies in Jinjiang City. Competition among them is inevitable while the main reason comes from the competition in management and technology. The major sports brands are emphasizing on product differentiation with the rise of consumer awareness gradually. Sole companies are bound to face consolidation and elimination in the future. In particular, excessive low-end products flow in the market while the production capacity of high-quality and high-end products is insufficient currently.

Therefore, it is expected that we can grasp market opportunities and develop rapidly with the emphasis on technology innovation and R&D capabilities. Major brands have begun to screen the sole suppliers in recent years when facing market changes. They have reduced the number of suppliers and concentrated on the orders from a small number of companies with better added value. Hence, there will be a trend where the companies with more product innovation capabilities are able to expand their scales in the future.

### ③Future market growth

China is the largest consumer of footwear, and the second largest sport shoes consumer in the world. However, the top three sports shoes consumers in 2009 are 4.42 pairs for American, 3.89 pairs for British and the 3.75 pairs for German while only 0.64 pairs for Chinese in terms of sports shoes consumption per capita, which has a huge difference with other countries, according to Frost & Sullivan's statistics. However, the sports shoe market in China has great potential for development with the encouragement of relevant policies and the improvement of living standards.

According to the research data from the international market survey company, Euromonitor, (posted by ASKCI Consulting on May 2, 2012), the sports shoes market in China has reached RMB 54.153 billion in 2010, which is accounted for 23% of global sports shoes market. The compound annual growth rate (CAGR) of sports shoes market in China is 15% from 2006 to 2010. It is expected that the sports shoes market in China will grow at a rate of 11% of the compound annual growth rate (CAGR) in the next few years along with the development of economy and living standards in China. The market size is expected to reach RMB 92.993 billion by 2015.

### (4)Competition niche

#### ①Patented products with market differentiation

Our company develops EVO materials and EVO one phase dual color dual densities soles ourselves. We are the leader in this field and have successfully avoided the competition from market homogenization. EVO materials are lighter, softer and more wear-resistant than traditional EVA material. EVO material can replace traditional EVA and rubber soles and reduce the cost of raw materials. EVO material has been given high praise in the market currently. Our company produces one phase dual color dual densities soles currently, which is the first creator of this product. The production process is performed by one phase injection formation without lamination. It reduces the man power required greatly compared to traditional sole production, has avoided the pollution of environment and injury to human by glue and treatment reagents and shortens the production process of sole production. Big brands such as Jordan, Anta and Xtep have adopted the products. The patented products have excellent marketing advantages.

#### ② The basis of famous customers

Our main customers include Jordan, Xtep, Delphi and Hongxing Erke, etc., which are well-known in China market and have a certain market share. They also provide marketing basis for our company in the wide consumption market in China indirectly.

#### ③It has decomposable materials, which allows the access to international brand market

The material possesses good characteristics of traditional EVA. It is also a new



eco-friendly degradable material with low cost which can be decomposed into water and carbon dioxide when being buried in soil or waste heap so that environment pollution is reduced. Our company has prepared in advance and is ready to respond to the increasing international awareness of environmental protection. It is expected to become another driving force for business growth in the future.

(5) Beneficial and disadvantage factors of development prospect and the countermeasures

① Beneficial factors

a. Good external economic factors

In recent years, China's GDP has shown a high increase. According to China's national statistics, the total retail sales of consumer goods in 2012 was 2103.7 billion RMB with an increase of 14.3% compared to the previous year and an actual increase of 12.1% after the deduction of price factors. According to the statistics performed at operation places, the retail sales of consumer goods in cities and towns was 1824.14 billion RMB with an increase of 14.3%; while the retail sales of consumer goods in the countryside was 2789.3 billion RMB with an increase of 14.5%. According to the statistics of consumption patterns, the retail sales of goods was 18685.9 billion RMB, with an increase of 14.4%. All the increases are above 9% while the annual average growth rate of consumption is about 15%, which is much higher than the global average. Moreover, the brands of sports shoes in China have developed rapidly. Although the growth slowed down in 2012, the market of sports shoes soles in China still has a great potential in the wide range of China market.

b. Complete industrial supply chain

The subsidiary of our company, Jinjiang Chandra Shoes Industry Company, is located in Jinjiang City, Fujian Province, where the largest sports shoes industry cluster in China is situated. 1 billion pairs of sports shoes are produced there annually, which is accounted for 20% of global total shoes production volume. The sales of Jinjiang sports shoes brand sales is accounted for about 65-70% of the domestic market in China. The complete local industry chain provides good convenience for the production of sports shoes. The brands of Jinjiang shoe industry include 361, Anta, Xtep, Delphi, Sanxing, Aile, Guirenbi, Jordan, etc. Its market share has been increasing continuously. The whole supply chain is being covered, from the primary plastic fabrication to the terminal product production. There are more than 3000 shoe-making companies in this region, so there are abundant supplies in the upstream and distribution channels in the downstream.

② Disadvantage factors and countermeasures

a. Many companies with fierce competition

Jinjiang has more than 3,000 various types of shoe industry companies currently, which are highly competitive among each other and may affect business performance of our company adversely.

Countermeasures:

Our company has emphasized on the development of new materials and applied patents in recent years to enhance the competitiveness of our company. We have obtained 16 patents and have 5 other patents under reviewing. We

developed different functional series of EVO materials, including wear resistance, shockwave absorption, anti-slippery, ultra-light and high elasticity. We would continue to develop the different functions of EVO in the future, such as antistatic, etc. while our foaming rubber materials can replace the traditional RB materials. In addition, the decomposable EVA material developed by our company in collaboration with Fuzhou University was patented in China in March this year. The business performance of our company has grown significantly in recent years through product differentiation, avoiding the competition by market homogeneity.

b. The increase in labor cost in China

Our main production base is in China. Labor cost has an increasing trend with the increase in consumer price in recent years. If it continues to increase in the future, it will produce negative impact on operating profits.

Countermeasures:

Our company has introduced automatic production equipment successively in recent years and engaged in the improvement of production process positively. At present, the labor cost of the company has been reduced to less than 10%. In the future, the company will improve labor efficiency through the design of production process and staff training. In addition, our company developed a one phase dual color dual densities sole, which removes the most complex lamination procedure. It is expected to reduce the dependency on manual work effectively.

## B. The major usage and production process of the major products

### (1) Major usage of the major products

① Soles: the soles for all kinds of shoes such as sports shoes, casual shoes, etc.

② EVO particles: The raw material required for producing soles.

### (2) Production process of the major products



傳統二次鞋底	Traditional two pase sole	EVA 中底發泡	EVA insole foaming
一次射出單色鞋底	One phase injection single color sole	RB 大底生產	RB outsole production
一次射出雙色雙密鞋底	One phase injection dual color dual density sole	EVA 中底生產	EVA insole production
備料	Material preparation	二次壓模成型	Second-time molding formation
射出成型	Injection formation	貼合加工成型	Lamination and processing formation

## C. Supply status of the main raw materials

Main raw materials	Main suppliers	Supply conditions
EVA	Juwei Guangshuo, Zhongxiang New Energy Technology, Jiixin Chemical Engineering, Enlai Shoe Materials, Qingfeng Xingye, Import and Export of Jinjiang City	Good
PU and TPU parts	Hefeng Shoe Materials, Buyuan Sports	Good
Foaming agent	Quanzhou Chemical Material Construction, Jinlang Fine Chemical Engineering, Guangju Business and Trades	Good
Glue	Weiji Business and Trades, Zhanqi Trades	Good
BR-9000	Fulin Import and Export	Good
3L	Yonghong Renewables	Good

D. Explanations for the major changes in the profit margin of major products or department in the past two years

Year Items	2018	2019	2020
Profit margin (%)	16.86	(18.84)	(39.56)
Change ratio (%)	(50.97)	(209.63)	114.09

In 2020, due to COVID-19 pandemic and the mainland economic downturn, the market competition was fierce. The well-known sports brands in mainland China were greatly affected by the market, which drastically lowered prices. Foreign trade customers were affected by China–United States trade war and lowered the order price, resulting in the overall profit rate of the company's products. Compared with 2019, there is a significant decline.

E. List of major customers for procurement and sales

(1) The suppliers who accounted for over 10% of the total procurement amount in one of the two recent years and their procurement amount and ratio

Unit: NT\$ 1,000; %

Items	2019				2020				First season of 2021			
	Name	Amount	Ratio accounted for the net procurement of the whole year (%)	Relationship with the issuer	Name	Amount	Ratio accounted for the net procurement of the whole year (%)	Relationship with the issuer	Name	Amount	Ratio accounted for the net procurement of the whole year (%)	Relationship with the issuer
1	Yuanren Import and Export	279,173	28.73%	None	Yuanren Import and Export	166,590	29.14%	None	Yuanren Import and Export	39,316	33.72%	無
2	Jinlang Fine	148,186	15.25%	None	Lianyi Trading	76,246	13.34%	None	Fulin Import and Export	12,797	10.79%	無
3	Sanli Materials	103,877	10.69%	None	Guanbao New Material	59,438	10.40%	None	Jinlang Fine	12,609	10.81%	無
	Subtotal	531,236	54.67%		Subtotal	302,274	52.88%		Subtotal	64,722	55.51%	
	Others	440,315	45.33%		Others	269,353	47.12%		Others	51,811	44.49%	
	Net procurement	971,551	100.00%		Net procurement	571,627	100.00%		Net procurement	116,603	100.00%	

Remark: Fujian Zhongxiang Rubber and Plastic Co., Ltd. was renamed Fujian Zhongxiang New Energy Technology Co., Ltd. in 2015.

(2) The suppliers who accounted for over 10% of the total sales amount in one of the two recent years and their sales amount and ratio

Unit: NT\$ 1,000; %

	2019				2020				First season of 2021			
Items	Name	Amount	Ratio accounted for the net sales of the whole year (%)	Relationship with the issuer	Name	Amount	Ratio accounted for the net sales of the whole year (%)	Relationship with the issuer	Name	Amount	Ratio accounted for the net sales of the whole year (%)	Relationship with the issuer
1	Fenghua shoes and clothing	112,659	9.74%	None	Fenghua shoes and clothing	99,962	15.23%	None	Zhongqiao Sports	37,835	31.67%	None
2	Jordan Sports	106,144	9.17%	None	Baitron Sports	87,539	13.34%	None	Fenghua shoes and clothing	13,559	11.35%	None
	Subtotal	218,803	18.91%		Subtotal	187,501	28.57%		Subtotal	51,394	43.02%	
	Others	938,220	81.09%		Others	468,905	71.43%		Others	68,065	56.98%	
	Net sales	1,157,023	100.00%		Net sales	656,406	100.00%		Net sales	119,459	100.00%	

Remark: Jordan Sports was renamed Zhongqiao Sports Co., Ltd. in the first quarter of 2021

F. Output value of the past two years

Unit: NT\$ 1,000

Year Output value Major products	2019			2020		
	Production capacity	Output	Output value	Production capacity	Output	Output value
Sole	29,464,560 pairs	13,474,544pairs	1,011,077	26,350,764 pairs	11,122,628 pairs	800,215
EVO EVO particles	15,486 tons	5,994 tons	600,059	14,196 tons	3,517 tons	367,845
Total	-	-	1,611,136	-	-	1,168,060

G. Sales value of the past two years

Unit: NT\$ 1,000

Year Sales volume and value Major products	2019				2020			
	Domestic sales		Foreign sales		Domestic sales		Foreign sales	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Sole	13,829,373 pairs	875,332	-	-	11,158,087 pairs	578,334	-	-
EVO particles	3,255 Tons	281,691	-	-	1,155 Tons	78,071	-	-
Total	-	1,157,023	-	-	-	656,405	-	-

(III) Number of working employees in the current year for the past two years and till the printing date of the annual report

Unit: people

Year		2019	2020	Till Mar. 31, 2021
Number of employees	Direct personnel	692	453	342
	Indirect employees	111	193	180
	Total	803	646	522
Average age		33	36	37
Average seniority		6.4	5.7	6.3
Distribution of educational background	Master's degree or above	3	1	1
	Bachelor's degree	27	24	22
	High school diploma (incl. below)	773	621	499
	Total	803	646	522

#### (IV) Information on eco-friendly expenditure

- 1.If certificate for the establishment of pollution facility or certificate for emission of pollutants should be applied or expenses for pollution control should be paid or specialized unit and personnels for eco-friendly should be established in accordance with the law, then please state the situations for application, payment or establishment.

The subsidiary of our company, Jinjiang Chandra Shoe Industry, has obtained the certificate for the emission of pollutants certified by the environment protection bureau of Jinjiang City and paid the fee for emission in accordance with the law. Hence, there are no situations where we violated laws related to eco-friendly which caused major negative effects on the financial business of our company.

2. Investment on the main equipment for pollution control and their usage and potential benefits

##### Details of the equipment for pollution control

Mar. 31, 2021

Name of the equipment	Amount	Date of Acquisition	Cost of investment (RMB)	Depreciation deduction (RMB)	Usage and expected potential benefits
Dust removal equipment for furnace	1	2005.12.01	40,000.00	4,000.00	Reduce the particulate matter in the dust effectively
	1	2008.02.29	30,000.00	3,000.00	
	1	2015.6.10	59,829.06	5,982.91	

3. For the process of controlling pollution, if there are cases with dispute related to pollution in the past two years and till the printing date of the annual report, then the treatment should be explained: none.
4. Explain the total disciplined amount (losses includes compensation) due to pollution in the past two years and till the printing date of the annual report and disclose the future countermeasures (including improvement measures) and potential expenditure (including the estimated amount of losses, penalties and compensation resulted from no countermeasures adopted; if rational estimation cannot be made, please explain the fact that it cannot be estimated rationally): none
5. Explain the current pollution status and the impact on the surplus, competitive position and capital expenditure by its improvement and the expected major eco-friendly capital expenditure in the next two years: none.

#### (V) Labor relations

1. List the employee welfare measures, advanced studies, trainings, pension system of the company and their implementation and the agreement between labor and management and the circumstances of the protection measures on employee rights:

##### (1) Employee welfare measures

Our countermeasures for legal welfare subject to local labor law are stated as follows:

- ① Insurance welfare measures: occupational medical insurance, occupational basic endowment insurance, unemployment insurance, occupational injury insurance, childbirth insurance and public housing funds

- ②Other welfares: The subsidiary of our company, Jinjiang Chandra Shoe Industry, has offered free dormitories for employees and held annual feasts to gather the coherence of the employees.

(2) Advanced studies and trainings for employees

The education training for our employees is focused on in-job training mainly. employees are taught and trained to familiarized with the internal operation of the company; for excellent or high-level employee, we encourage them to attend the advanced studies in universities and offer allowance for their tuition.

(3) Pension system

Our company has complied to the regulations of “Regulations on corporate occupational basic endowment insurance” stipulated by the country of our main business body, Jinjiang Chandra Shoe Industry Ltd. Company. Pension funds are withheld monthly to the specialized account of financial department of the local government.

(4) Agreement between the labor and management

Our company always emphasizes labor rights and the harmony in the relationship between labor and management. In addition, our company pays attention the opinions from the employees, employees can appropriately communicate with higher level manager or human resources department directly to maintain their good relationship. Therefore, there are no disputes between labor and management till now.

(5) Protection measures for all kinds of labor rights

Our company has established internal control system and all kinds of regulations, which includes labor rights, obligation and welfare. We review the content of welfare periodically to protect labor rights.

2. If there are losses from the disputes between labor and management in recent years and till the printing date of the annual report, then explain them and disclose the current and future potential amount of losses and their countermeasures. If it cannot be estimated rationally, then explain the fact that it cannot be estimated rationally: none.

In addition, please refer to the aforementioned (II) Risk matters A. Risk factors (2) Main business location: China ii. Foreign exchange control, taxation, laws c. Description of risks on laws and policies regarding the social insurance and public housing funds paid by the subsidiary of our company, Jinjiang Chandra and explain.



I. Important contracts

A. Tenancy agreement							
Serial No.	Name of contract	Lessee	Lessor	Area of tenancy	Duration of the contract	Main covenants	Restrictive covenants
1.	Factory tenancy agreement	Jinjiang Chandra Ltd. Company	Jinjiang Huahong Needle Textile Ltd. Company	32,040 squared meters	From Mar. 1, 2019 to Mar. 31, 2022	The tenancy of Jinjiang Chandra to Huahong company are the two factories located in the industrial the industrial area, WuLi, Jinjiang city, which is used for production. 《Factory tenancy agreement》 has stated that if the lessor violate the agreement and wish to recover the lease holds in advance, then notice should be given to Jinjiang Chandra in written form three months in advance and return the deposit with double amount (the amount of deposit is RMB 2,000,000 dollars) to Jinjiang Chandra. If lease factories were to be sold, the lessor should notify Jinjiang Chandra three months in advance. After the transfer, 《Factory tenancy agreement》 is still effective to the new owner of lease holds and Jinjiang Chandra. When the lessor transferred the lease holds, Jinjiang Chandra enjoys the preemptive right under the same conditions. Before the period of tenancy is over, if Jinjiang Chandra would like to continue the tenancy, then notice should be given to the lessor in written from two months before the tenancy period ends. If the lessor wishes to continue the tenancy	-

A. Tenancy agreement							
Serial No.	Name of contract	Lessee	Lessor	Area of tenancy	Duration of the contract	Main covenants	Restrictive covenants
						after the tenancy period ends, then Jinjiang Chandra enjoys the prioritized tenancy under the same conditions.	

B. Insurance contract						
Serial No.	No.	Insurance carrier	Insurance period	Target	Total amount of insurance	Restrictive covenants
1.	AFUZN1002920Q000029Y	CPIC	2020/07/19 00:00-2021/07/18 24:00	Fixed assets situated in the industrial area, WuLi, Jinjiang city (houses and buildings)	32,490,000	-
2.	AFUZN1002920Q000030X	CPIC	2020/07/19 00:00-2021/07/18 24:00	Fixed assets situated in the industrial area, WuLi, Jinjiang city (houses, buildings, machinery equipment, furnace, devices, furnitures and office supplies ) and liquid assets (raw materials, semi-finished products, finished products)	54,758,000	

## VI. Financial Status

### (I) Condensed Financial Information of the past three years

#### A. Condensed balance sheet & Composite income statement

##### 1. Condensed balance sheet

##### (1) Condensed consolidated balance sheet – International Financial Reporting Standards

Unit: NT\$ 1,000

Items	Year	Annual financial information of the past five years (Remark)					Financial information of the current year till Mar. 31, 2021
		2016	2017	2018	2019	2020	
Liquid assets		5,539,385	5,775,422	5,218,342	4,237,691	3,527,054	3,480,806
Funds & Investments		-	-	-	-	-	-
Fixed assets, factories and equipment		431,209	676,021	914,812	1,171,598	1,386,499	1,450,916
Intangible assets		466,896	499,263	609,451	650,731	643,669	640,856
Other assets		14,603	47,166	45,586	62,483	8,543	8,647
Gross assets		6,452,093	6,997,872	6,788,191	6,122,503	5,565,765	5,581,225
Liquid liability	Before distribution	493,792	398,913	233,028	229,474	143,317	167,598
	After distribution	631,664	436,828	260,832	229,474	143,317	167,598
Long-term liability		-	-	-	-	-	-
Other liability		6,683	10,563	5,235	36,135	478	-
Total Liability	Before distribution	500,475	409,476	238,263	265,609	143,795	167,598
	After distribution	638,347	447,391	266,067	265,609	143,795	167,598
Capital stock		1,148,932	1,263,825	1,390,208	1,529,229	1,529,229	1,529,229
Capital surplus		2,540,814	2,540,814	2,540,814	2,540,814	2,540,814	2,540,814
Retained earnings	Before distribution	2,519,506	3,101,908	3,072,309	2,467,160	2,077,418	2,004,370
	After distribution	2,657,378	3,063,993	3,044,505	2,467,160	2,077,418	2,004,370
Other equity		(257,634)	(318,151)	(453,403)	(680,309)	(725,491)	(660,786)
Gross stockholders' equity	Before distribution	5,951,618	6,588,396	6,549,928	5,856,894	5,421,970	5,413,627
	After distribution	6,089,490	6,550,481	6,522,124	5,856,894	5,421,970	5,413,627

Remark: The financial statement of each year has been audited and certified by accountants.

## 2. Condensed consolidated income statement

### (1) Condensed composite income statement – International Financial Reporting Standards

Unit: NT\$ 1,000

Items	Financial information of the recent five years (Remark)					Financial information of the current year till Mar. 31, 2021
	2016	2017	2018	2019	2020	
Operating revenue	3,302,412	3,406,504	2,071,989	1,157,023	656,406	119,459
Operating profit	1,127,694	1,171,452	349,360	(213,855)	(259,699)	(57,491)
Operating benefit	1,001,870	975,936	127,158	(369,995)	(400,911)	(88,083)
Nonoperating income and benefit	39,530	25,837	45,650	(63,882)	7,105	12,431
Nonoperating expenditure and loss						
Income before tax for the continued business department	1,041,400	1,001,773	172,808	(433,877)	(393,806)	(75,652)
Income after tax for the continued business department	882,091	835,167	134,699	(438,324)	(389,742)	(73,048)
Other composite income	(463,079)	(60,517)	(135,252)	(226,906)	(45,182)	64,705
Composite income of the period	419,012	774,650	(553)	(665,230)	(434,924)	(8,343)
Net profit after tax of every stock (dollars)	7.68	6.01	0.88	(2.87)	(2.55)	(0.48)

Remark: The financial statement of each year has been audited and certified by accountants.

## 3. Name and audit opinion from the certified accountant in the past three years

### (1) Name and audit opinion from the certified accountant in the past three years

Year	Name of the accounting firms	Certified accountant	Audit opinion
2018	Deloitte & Touche	Yeh, Shu-Chuan; Wu, Ko-Chang	Unqualified opinion
2019	Deloitte & Touche	Cho, Ming-Hsin; Shi Jingbin	Unqualified opinion
2020	ShineWing	Chen Guanghui; Guo Zhenyu	Unqualified opinion

(2) If there are situations where the accountants are changed in the past three years, then the company, predecessor and successor accountants should be listed and it is required to explain the reasons for change.

Our company established in 2012. We have entrusted the accountants from Deloitte & Touche to perform audit and certification since we have applied for becoming a listed company in Taiwan. For the past three years, the audit and certification are performed by the accountants from Deloitte & Touche.

## (II) Financial analysis

### 1. Financial analysis by the International Financial Reporting Standards

Analyzed items			Year	Financial information of the past five years					First season of 2021
			2016	2017	2018	2019	2020		
Capital structure (%)	Debts ratio		7.76	5.85	3.51	4.34	2.58	3.00	
	Long term funds to fixed assets, factories and equipment		1,380.22	974.58	715.99	499.91	391.05	373.12	
Debt-paying ability (%)	Current ratio		1,121.81	1,447.79	2,239.36	1,846.70	2,461.02	2,076.88	
	Quick ratio		1,049.15	1,434.75	2,220.66	1,821.52	2,413.66	1,991.24	
	Interest guarantee		1,550.70	-	-	-	-	-	
Operating ability	Average collection turnover (times)		2.81	3.17	2.70	3.15	2.63	3.46	
	Average collection days		130	115	135	116	139	105	
	Average inventory turnover (times)		89.45	86.60	72.57	86.58	69.28	210.51	
	Average payables turnover (times)		6.11	9.79	11.57	14.17	14.17	17.05	
	Average inventory turnover days		4	4	5	4	5	2	
	Fixed assets, factories and equipment turnover (times)		7.66	5.04	2.26	0.99	0.47	0.33	
	Total assets turnover (times)		0.51	0.49	0.31	0.19	0.12	0.09	
Earning power	Return on total assets (%)		13.75	12.42	1.95	(6.79)	(6.67)	(5.24)	
	Return on total stockholders' equity (%)		15.21	13.32	2.05	(7.07)	(6.91)	(5.39)	
	to capital (%)		77.22	9.15	(24.19)	9.15	(26.22)	(23.04)	
			79.27	12.43	(28.37)	12.43	(25.75)	(19.79)	
	Net income to sales (%)		26.71	24.52	6.50	(37.88)	(59.38)	(61.15)	
Earning per share (dollar)		7.68	6.01	0.88	(2.87)	(2.55)	(0.48)		
Cash flow	Cash flow ratio (%)		109.34	268.47	299.27	(84.73)	(218.25)	4.17	
	Cash flow adequacy ratio (%)		-	-	-	-	-	-	
	Cash reinvestment flow ratio (%)		8.96	16.01	10.09	(3.19)	(5.55)	0.12	
Leverage	Operating leverage		0.97	0.97	0.74	1.18	1.14	1.16	
	Financial leverage		1.00	1.00	1.00	1.00	1.00	1.00	

The calculation formula of the ratios above are listed as the following:

1. Capital structure

(1) Debts ratio = total liability/total assets

(2) Long-term funds to fixed assets, factories and equipment = (average shareholders' equity + long-term liability)/net value of fixed assets, factories and equipment

2. Debt-paying ability

(1) Current ratio = liquid assets/liquid liability

(2) Quick ratio = (liquid assets – inventory – prepaid expenses)/liquid liability

(3) Interest guarantee = pre-tax income of income tax and interest expenses/interest expensidure of the period

3. Operating ability

(1) Average collection turnover = average receivable amount

(2) Average collection days = 365/average collection turnover

(3) Average inventory turnover = operating costs/average net value of inventory

(4) Average payables turnover = operating costs/average payable amount

(5) Average inventory turnover days = 365/average inventory turnover

(6) Fixed assets, factories and equipment turnover = net sales/net value of the fixed assets, factories and equipment

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

4. Earning power

(1) Return on total assets = [net profit margin + interest expenses (1- tax rate)]/average total assets

(2) Return on total stockholders' equity = net profit margin/average shareholders' equity

(3) Operation income to capital = operating profit/actual receipt capital

(4) Per-tax income to capital = pre-tax income/ actual receipt capital

(5) Net income to sales = net profit margin/net sales

(6) Earning per share = (net profit margin – preferred stock dividend)/weighted average of issued number of common stocks

5. Cash flow

(1) Cash flow ratio = cash flow of business activities /liquid liability

(2) Cash flow adequacy ratio = net cash flow of business activities in the past five years/past five years(capital expenditure + increased amount of inventory + cash dividends)

(3) Cash flow reinvestment ratio = (net cash flow of business activities – cash dividends)/(gross fixed assets, factories and equipment + long-term investment + other assets + operating funds)

6. Leverage

(1) Operating leverage = (net operating revenue – changed operating cost and expenses)/operating profit

(2) Financial leverage = operating profit/(operating profit – interest expenses)

(III) Audit report from Audit Committee for the financial statements of recent years

←

**Victory New Materials Limited Company**←

**109 年度審計委員會審查報告書**←

←

茲准←

←

董事會造具本公司民國一〇九年度營業報告書、財務報表及盈餘分派議案，其中財務報表業信永中和聯合會計師事務所郭鎮宇會計師及陳光慧會計師查核完竣，並出具查核報告。前述營業報告書、財務報表及盈餘分派議案，經本審計委員會查核，認為尚無不合，爰依證券交易法第十四條之四及公司法第二一九條規定報告如上，敬請鑒查。←

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此致←

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本公司 110 年股東常會←

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審計委員會召集人：林振祥←



←

(IV) Financial statements of recent years

Please refer to attachment 1 for the consolidated financial statements and audit report by the accountants in 2020

(V) Individual financial statements of the company audited and certified by the accountants in recent years

Not applicable

(VI) If there are difficulties in financial turnover for a company and its affiliated companies in recent years and till the printing date of the annual report, then the impact on the financial status of our company by such cases should be stated: none.



## VII. Review and Analysis of Financial Status and Financial Performance and Other Important Matters

### (I) Financial Status

Main reasons and their effects on the major changes of the assets, liabilities and stockholder's equity in the past two years.

Unit: NT\$ 1,000

Items \ Year	2019	2020	Differences	
			Amount	Ratio(%)
Liquid assets	4,237,691	3,527,054	(710,637)	(16.77)%
Fixed assets	1,171,598	1,386,499	214,901	18.34%
Intangible assets	650,731	643,669	(7,062)	(1.09)%
Other assets	62,483	8,543	(53,940)	(86.33)%
Gross assets	6,122,503	5,565,765	(556,738)	(9.09)%
Liquid liabilities	229,474	143,317	(86,157)	(37.55)%
Long-term liabilities	-	-	-	-
Other liabilities	36,135	478	(35,657)	(98.68)%
Gross liabilities	265,609	143,795	(121,814)	(45.86)%
Capital stock	1,529,229	1,529,229	-	-
Capital surplus	2,540,814	2,540,814	-	-
Retained earnings	2,467,160	2,077,418	(389,742)	(15.80)%
Cumulative translation adjustment	(680,309)	(725,491)	(45,182)	6.64%
Minority interest	-	-	-	-
Total stockholder's equity	5,856,894	5,421,970	(434,924)	(7.43)%
Reasons and their effects on over 20% of changes between the two terms and the amount of changes to be NT\$ 10 million:				
1. The increase in fixed assets				
This is mainly due to the procurement of land to build new factories and offices in 2020.				
2. The increase in other assets				
This is mainly because of the payment to the supplementary of transfer of land use rights, the guarantee deposits for the expected participation of bidding and the expenses for relocation personnel as pension security.				
3. The increase in retained earnings				
The business performance of our company in 2017 is good, thus, the retained earnings has also increased correspondingly.				
4. The increase in cumulative translation adjustment				
This is mainly affected by the fluctuation of exchange rate.				

## (II) Financial Performance

### 1. Table of Comparison and Analysis of Financial Performance

Unit: NT\$ 1,000

Items \ Year	2019	2020	Differences	
			Amount	Ratio(%)
Net operating revenue	1,157,023	656,406	(500,617)	(43.27)%
Operating cost	1,370,878	916,105	(454,773)	(33.17)%
Gross profit	(213,855)	(259,699)	(45,844)	21.44%
Operating expenses	156,140	141,212	(14,928)	(9.56)%
Operating profit	(369,995)	(400,911)	(30,916)	8.36%
Non-operating revenue	39,996	21,380	(18,616)	(46.54)%
Other profit and losses	(103,878)	(14,275)	89,603	(86.26)%
Income before tax	(433,877)	(393,806)	40,071	(9.24)%
Income tax expenses	4,447	4,064	(388)	(8.61)%
Consolidated net income	(438,324)	(389,742)	48,582	(11.08)%
Main reasons and explanations for over 20% changes between the two terms and the amount of changes to be NT\$ 10 million:				
1. The increase in operating expenses				
This is mainly because that our company has devoted more money in the development of sole materials with the application of graphene. The raw material price of graphene is high. Also, we need to pay for the relevant expenses of the cooperative development unit. Thus, the development expenses have increased in 2017 compared to the same period last year.				
2. The increase in other interests and losses				
This is mainly due to the losses in currency exchange.				

### 2. Potential effects and the corresponding plans of the company's future financial business according to the expected sale amount

The expected sale amount of our company is based on the reference to the sale amount from the past years, the estimation on market demand and the acquired client order while considering the factors such as supply status of the main raw material to set up the shipment objectives of the year. The response to the sole market of our company is good, the application of EVO material has a wide range and the new production lines has been constructed successively, so we expected that it will show a trend of steady growth in the future.

### (III) Cash flow

#### 1. The analysis of cash flow

Unit: NT\$ 1,000

Items	Year	2019	2020	Differences	
				Amount	Ratio(%)
Cash inflow from business activities		(194,433)	(312,789)	(118,356)	60.87%
Cash outflow from investment activities		870,214	(47,557)	(917,771)	(105.46)%
Cash outflow from financing activities		(55,360)	(28,193)	27,167	(49.07)%
Change Analysis:					
1. Cash inflow from business activities: This is mainly due to the decrease in prepayment for the procurement of land in 2020.					
2. Cash outflow from investment activities: This is mainly due to the procurement of land to build new factories and offices of the company in 2020					
3. Cash outflow from financing activities: This is mainly due to the release of cash dividends in 2020					

#### 2. The improvement plan for insufficient liquidity and the change impact analysis of cash flow for the future year

Although our company has some ongoing demands for working capital and all kinds of plans for capital expenditure in 2021, cash position is still high and should be able to afford the cash outflow of investment activities in the future year. Thus, there is no such problems as insufficient liquidity yet.

### (IV) Impact on financial business by major capital expenditure in recent years

The amount of fixed assets for our company's procurement in 2018 is 288,802 thousand dollars. The newly addition of fixed assets for our company is helpful to some extent to the revenue according to the comparison chart of fixed-asset and total-asset turnover ratio in 2015~2017. This is because our company has expanded production capacity and purchased production machinery and equipment based on the business demands. There are no negative effects on the financial business of our company resulted from the increase in capital expenditure.

Turnover ratio	2016	2017	2018
Fixed-asset turnover ratio (times)	7.66	5.04	2.26
Total-asset turnover ratio (times)	0.51	0.49	0.31

(V) Re-investment policy and the major reasons and improvement plans for the profit or loss in recent years and the investment plan for the future year

The re-investment policy of our company is matched with the demands of corporate business. The affiliated re-investment subsidiary is in profit status since the domestic demand market of China has expand continuously in 2012, which present a trend of steady growth.

(VI) Analysis and assessment on risk matters in recent years and till the printing date of the annual report

A. Impact on company's income by interest rate fluctuations, exchange rate fluctuations and inflation and the countermeasures for future

1. Interest rate fluctuations

Our company and its important subsidiary has performed periodic assessment on credits and loans with the correspondent bank, obtained better offers of interest rates from the negotiation with the correspondent bank and controlled the capital flow of the main business activities to pay for the loans from the bank and business activities. The amount short-term loan from the bank is 0 dollars, which accounted for 0% in total-asset till the end of 2020 and till March 31, 2021. The interest expenditure for 2020 and the first season of 2021 are both 0 dollars. Hence, there are no major negative effects on the financial business of our company resulted from the interest rate fluctuations till now.

2. Exchange rate fluctuations

The main body of our company's business is located in Jinjiang Chandra, Fujian province, China. The sales transaction is calculated in RMB since its main target customers are local companies and traders in China. The payment is also made by RMB through import procurement by the local traders in China though its main raw material EVA comes from abroad. Therefore, the collection of relevant payment for daily operation of Jinjiang Chandra is performed with RMB. The registered main body, Victory New Materials Company, tracks their expenses by RMB. When making the consolidated reports, differences arose from rounding to whole numbers rather than the losses resulted from currency exchange in trades. Hence, there are no major negative effects on financial business of our company resulted from the exchange rate fluctuations till now.

The main body of our company's business has no major risks from exchange rate fluctuations currently. However, Victory New Materials Company, which applied as listed companies in Taiwan, may release dividends in New Taiwan Dollars to domestic investors or obtain capitals in New Taiwan Dollar from financing domestically and exchange to Raminbi for operations in the future. There will be risks involving exchange rate fluctuations when performing currency exchange from Raminbi to New Taiwan Dollars. The countermeasures of our company are as follows:

- (1) Financial personnel have maintained appropriate foreign exchange position in the perfect timing based on the future trend of exchange rates and provided business needs for all subsidiaries within the corporation to reduce the impact on company's profit by exchange rate fluctuations.

- (2) Keep close contact with the main correspondent bank to monitor the changes in foreign exchanges market at all times for the relevant management personnel to get hold of the exchange rate fluctuation trends. If there are accidental incidents occurred with the change in collection or payment currency, then adjustments can be made in time.

### 3. Inflation

The main operations performed by our company is related to “shoes”. Though the main market is located in China, the economy of China is still affected by global economics, especially in the livelihood products for export. Some countries have large debts, which is hard to solve within a short time, and are dependent on international rescue. In addition, all countries have started to raise the interest rate level to avoid excess capital, which will result in inflation, so there are still dark clouds along the road to recovery. Similarly, the government of China has started to reduce money supply because of housing speculations and inflation pressures, which buried the variables for the economic growth of China and affected the consumptions potentially. These reasons have limited business growth and profit margin of our company. Our company has currently continued to develop new products and explore new markets positively to response to the risks from future prosperity changes.

- B. Policies, main reasons and future countermeasures for profit or loss due to performing high-risk, high leverage investments, endorsements and guarantees and transactions in financial derivatives

The mission statement of our company is built on conservatism principle and pragmatic concept. Our company and its important subsidiaries did not perform high-risk, high-leverage investments, endorsements and guarantees and transactions in financial derivatives. In addition, our company has formulated “Regulations for endorsements and guarantees” and “Programs for handling gain or disposal of assets” for compliance when performing relevant operations in the future; as for operations related to lending of capital are handled in accordance with “Programs for operations involving lending of capital” of our company. Therefore, there are no incidents occurred where there is major impacts on the financial business of our company.

- C. Future development plans and expected research and development expenses to be devoted

The important subsidiaries of our company will develop new products according to market demands and devoted into the improvement on major production equipment and process. The research and development expenses of 2019 and 2020 are accounted for 8% of the revenue percentage. The research and development expenses of the first season of 2018 are accounted for 8.99% of the revenue percentage. We will continue to devote into research and development and the improvement on production process. The expected research and development expenses to be devoted each year will accounted for less than 10% of the revenue percentage to ensure the advantage of our company within the industry.

- D. Impact on the financial business of our company by domestic and foreign important policies and changes in law and their countermeasures

The registration of our company is Cayman Islands, but there are no concrete economic activities performed there. The main operation location is China. Our company and its important subsidiaries have paid attention to the major policies, changes in law and changes in policies and orders of the competent agencies of the host countries at all times and made immediate responses. Therefore, there are no major impact on the financial business of our company and its important subsidiaries.

E. Impact on the financial business of our company by technology changes and industrial changes and their countermeasures

Our company and its important subsidiaries belonged to livelihood necessity industry. Our corporation always pays attention to relevant shoe-making technology and the price change in raw materials within the industry and gets hold of market trends. There are no major impacts on the financial business of our company by technology changes or industrial changes currently. However, it should be noted that the downstream client of our corporation is mainly the local shoe brands of China, such as Jordan, Anta and Xtep. Shoe industry involves fashion greatly and is dependent on the identification of customers to the brands. Customer awareness in China has raised along with the continuous development of China's economy and increase in per capita income. If our corporation cannot continue to develop products, which matched the demands from customers, then there will be negative effects on the revenue of our corporation.

Our corporation has newly developed EVO and EVA degradable materials, which are products with high gross profits, to respond to the bottleneck of revenue and profit from traditional shoe materials. However, EVA degradable materials have not reached the capability for mass production, and the relevant products are still facing the challenges of the market. If the revenue of relevant products produced by new materials is not as expected in the future, then there will be negative effects on the business and financial status of our corporation.

F. Impacts on corporate management crisis by the change of corporate image and their countermeasures

Our company and its important subsidiaries always value local corporate image. Our company has continued to strengthen internal management and quality management of our company positively since its establishment to build corporate image of our corporation. This can further increase the trust to the brands of our company from customers. Therefore, there are no crisis occurred yet.

G. Expected benefits, potential risks and countermeasures for merger

Our company performed internal merger of the corporation since the end of 2012 to fulfill the needs for becoming listed company in Taiwan. Reorganization of the internal structure of the corporation and the integration of resources are accomplished by doing so. Other than this, our company have no other merger action. The program for our company to perform structure reorganization is handled and performed in accordance with local orders and regulations and the internal regulations of our company. Therefore, there are no doubts on negative effects of the business of our company resulted from the relevant risks of merger.

H. Expected benefits and potential risks for the expansion of factories and their countermeasures

The management of our company has planned to purchase land in Cizao town, Jinjiang city to construct new production center of our company in accordance with future development of our company. The new production center will integrate the two current factories of the company. The production capability will also be further expanded. As a result, management and business efficiency will be enhanced. Furthermore, employee welfare and corporate competitiveness will be enhanced from research and development buildings, staff dormitories and employee service centers.

I. Risks from centralized purchasing or marketing and countermeasures

1. Risks from centralized purchasing

The procurement of raw materials by important subsidiaries of our company has distributed the procurement risks properly based on the principle of making the

procurement from multiple suppliers to ensure there are no problems in the supply of required raw materials for production and followed the relevant procurement programs.

## 2. Risks from centralized marketing

The important correspondent customers of important subsidiaries of our company are well-known brands, shoe factories and traders of China. Centralized marketing is the characteristics of this industry. However, our company has continued to pay attention and assess the risks from customer credits in order to response immediately. In addition, our company has developed new customers positively. By expanding customer base, we can reduce the risks from the centralized marketing of our corporation.

### J. Impacts and risks on the company by massive stock transfers or changes occurred, which are performed by directors, supervisors or big shareholders who have over 10% of shareholdings and their countermeasures

There are no massive stock transfers occurred, which are performed by directors, supervisors or big shareholders who have over 10% of shareholdings, in recent years and till the printing date of the annual report.

### K. Impacts and risks on the company by the change in management right in recent years and till the printing date of the annual report and their countermeasures

There are no changes in the management right of our company in recent years and till the printing date of the annual report. Our company has enforced corporate governance system and introduced independent directors to promote the protection of stockholders' equity. The daily operation of our company relies on professional managers. The professional team of managers of our company have made contributions to business performance of our company to some extent. They can continue to obtain the support from shareholders in the future. Therefore, there are no major negative effects on the management and business advantages of our company if there are changes in management right.

### L. For litigation or non-contentious cases, the company and the directors, supervisors, general manager, substantial responsible person of the company, big shareholders, who have over 10% of shareholdings, and the affiliated companies should be stated in detail; for cases with final verdict or major litigation, non-contentious or administrative cases at trial where its consequences can result in major impact on stockholders' equity or security prices, the litigation facts, target amount, starting date of the litigation, main parties of the litigation and the status until the printing date of the annual report should be disclosed.

There are no such circumstances within our company.

### M. Other important risks and their countermeasures

#### 1. Management has faced the challenges of working in listed company for the first time

The business of shoe industry of our company has obtained significant scores. However, we need to face the wide range of investors, shareholders and professional investment institutes after the stock of the company is listed. Our company belongs to the category of foreign enterprise and we need to adapt and understand the relevant securities act. In the future, there will be specialized personnel responsible for maintaining the relationship with investors and performing operations to comply with relevant regulations in the securities act in Taiwan. Our company has recruited suitable talents and organized an excellent team for the demand from business operation successively since our company applied to be listed. Moreover, our company has recruited auditing managers

with the working experience in accounting firms in Taiwan to enforce corporate governance in order to respond to the challenges faced after being listed.

2. Challenges from stockholders' equity

The Company Act of Cayman Islands and The Company Act of R.O.C. have many different regulations. Our company has amended our company law in accordance with "Checklist for important matters concerning the protection of shareholders' equity in foreign issuer's country of registration" announced by Taiwan Stock Exchange without against the law in Cayman Islands. However, the legal regulations for corporate operation in China and Taiwan have many different points, investors cannot ensure that their perspectives in the legal rights of investment on domestic companies in Taiwan can also be used when making investments on companies in Cayman Islands. Hence, investors should understand and inquire relevant risks from specialists.

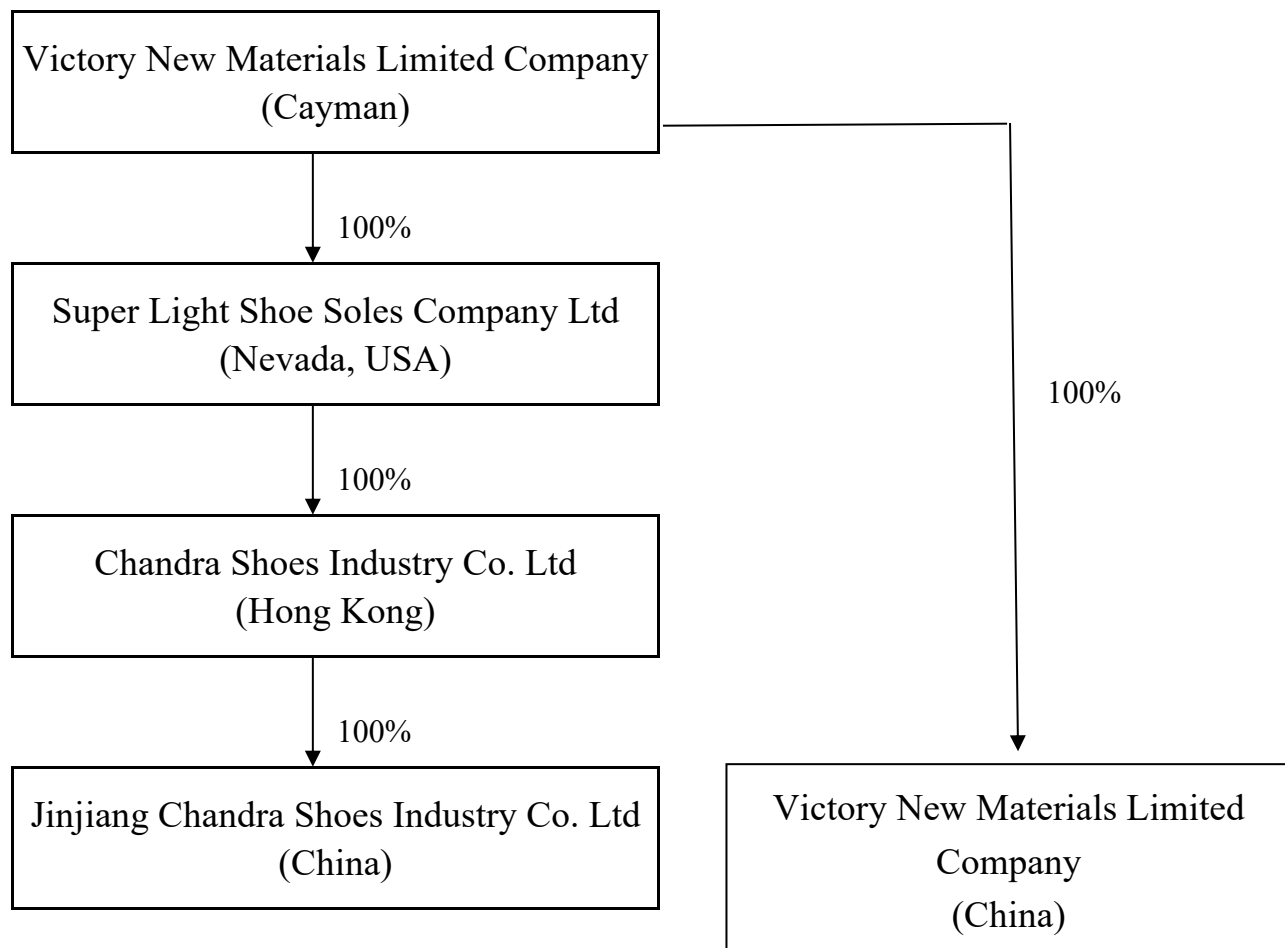
(VIII) Other important matters:

None



## VIII. Special Notes

### (I) Relevant information on affiliated company



(II) Circumstances of private offering of securities in recent years: None

(III) Circumstances of the stock of our company held by or disposed of by the subsidiary in recent years and till the printing date of the annual report: None

(IV) Other necessary matters for supplementary: None

(V) If there are matters that caused major effects on the stockholder's equity or securities price stated in Subparagraph 2 of Paragraph 2 of Article 36 of the Act in recent years and till the printing date of the annual report, they should be stated in detail: None

(VI) Whether specific contents for protecting stockholder's equity has been stipulated in company law or the documents of the organization

The applied company has stipulated concrete contents in the Law for the protection of stockholders' equity in accordance with the requirement in the checklist for the protection of stockholders' equity after reviewing The Company Law of the applied company except for the differences listed in the following table:

Matters for protecting stockholders' equity Items in the checklist	Content stipulated in Company Law	Reasons for the differences and explanations
<p>A company shall not cancel its shares, unless a resolution on capital reduction has been adopted by its shareholders' meeting; and capital reduction shall be effected based on the percentage of shareholding of the shareholders pro rata.</p> <p>A company reducing its capital may return share prices (or the capital stock) to shareholders by properties other than cash; the returned property and the amount of such substitutive capital contribution shall require prior approval of the shareholders' meeting and obtain consents from the shareholders who receive such property.</p> <p>The board of directors shall first have the value of such property and the amount of such substitutive capital contribution set forth in the preceding Paragraph audited and certified by a certified public accountant before the shareholders' meeting.</p>	<p>Article 10.7 of The Company Law: "Notwithstanding anything to the contrary contained in Article 10.1 to 10.6, and subject to the Statute, the Memorandum and Articles and the Applicable Public Company Rules, the Company may, with the approval of an Ordinary Resolution, compulsorily redeem or repurchase Shares, provided that such Shares shall be cancelled upon redemption or repurchase and such redemption or repurchase will be effected pro rata based on the percentage of shareholdings of the Members. Payments in respect of any such redemption or repurchase, if any, may be made either in cash or by distribution of specific assets of the Company, as specified in the Ordinary Resolution approving the redemption or repurchase, provided that (a) the relevant Shares will be cancelled upon such redemption or repurchase and will not be held by the Company as Treasury Shares, and (b) where assets other than cash are distributed to the Members,</p>	<p>According to the explanations from the lawyers of Cayman Islands:</p> <p>1. Article 14 of Cayman Islands Company Law allows the company to reduce issued capital, however, this requires the approval of board meeting by Special Resolution and can be performed after the confirmation of Cayman court.</p> <p>2. Other than Article 14 of Cayman Islands Company Law, the issued capital of the company can be removed only when buying, returning or taking back in accordance with the regulations in Article 37 or 37B of Cayman Islands Company Law.</p> <p>3. Based on Article 37 of Cayman Islands Company Law, a company can buy back its stocks in accordance with The Company Law with the approval of board meeting. Other than the regulations in Article 37, Cayman Islands Company Law has not stipulated: (1) the buy-back should be in accordance with the shareholding ratio of the shareholders; (2) approval is required when the stock payment is returned by properties other than cash; or (3) assessment should be performed for the returned property value. However, these can be stipulated in The Company Law.</p> <p>Because of this, Article 14.1 and Article 10.7 of The Company Law stipulate that the procedure of reducing capital of our company should be performed through the buy-back of stocks. The difference comes from the regulation of Cayman Islands Company Law. However, The</p>

Matters for protecting stockholders' equity Items in the checklist	Content stipulated in Company Law	Reasons for the differences and explanations
	<p>the type of assets, the value of the assets and the corresponding amount of such substitutive distribution shall be (i) assessed by an R.O.C. certified public account before being submitted to the Members for approval and (ii) agreed to by the Member who will receive such assets. After the Company has acquired public company status, the foregoing matter shall be made in accordance with the Applicable Public Company Rules as applied to the Company.”</p>	<p>Company Law did not further limit the procedure of reducing capital of our company.</p>
<p>The remuneration of directors, if not prescribed in the Articles of Incorporation, shall be determined by a meeting of shareholders and cannot be ratified by a meeting of shareholders.</p>	<p>Article 30.2 of The Company Law: “The Directors may be paid remuneration only in cash. The amount of such remuneration shall be recommended by the remuneration committee and determined by the board of Directors, and take into account the extent and value of the services provided for the management of the Company and the standards of the industry in the R.O.C. and overseas. The Directors shall also be entitled to be paid all travelling, hotel and other expenses properly incurred by them in connection with their attendance at meetings of the board of Directors or committees of Directors, or general meetings of the Company, or separate meetings of the holders of</p>	<p>Our company did not state clearly about the remuneration of the directors in company law nor stipulate for the board meeting to establish it. However, by referencing the contents in Business No. 09302030870 Explanation given by Ministry of Economic Affairs on Mar. 8, 2004 and “Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter”, the regulations listed on the left has no negative impact on shareholders' equity.</p>

Matters for protecting stockholders' equity Items in the checklist	Content stipulated in Company Law	Reasons for the differences and explanations
	any class of Shares or debentures of the Company, or otherwise in connection with the business of the Company, or to receive salaries in respect of their service as Directors as may be recommended by the compensation committee and determined by the board of Directors, or a combination partly of one such method and partly another, provided that any such determination shall be in accordance with the Applicable Public Company Rules.”	
Any or a plural number of shareholder(s) of a company who has (have) continuously held 3% or more of the total number of outstanding shares for a period of one year or are longer time may, by filing a written proposal setting forth therein the subjects for discussion and the reasons, request the board of directors to call a special meeting of shareholders. If the board of directors fails to give a notice for convening a special meeting of shareholders within 15 days after the filing of the request under the preceding Paragraph, the proposing shareholder(s) may, after obtaining an approval from the competent authority, convene a special meeting of shareholders on his/their own.	Article 16.8 of The Company Law: “If the board of Directors do not within fifteen days from the date of the deposit of the requisition dispatch the notice of an extraordinary general meeting, the requisitionists themselves convene an extraordinary general meeting in accordance with the Applicable Public Company Rules.”	According to Taiwan Certificate No. 0991701319 Letter given by Taiwan Stock Exchange on Apr. 13, 2010: “Explanation: II. (III) Foreign issuer should stipulate the rights for minority shareholders to ask for the gather of temporal board meetings in the company law without the confliction of the laws in registration. The part of which competent agency for the approval of the gathering should be omitted.” Hence, Article 16.8 of The Company Law stipulates that: “If the board of Directors do not within fifteen days from the date of the deposit of the requisition dispatch the notice of an extraordinary general meeting, the requisitionists may themselves convene an extraordinary general meeting in accordance with the Applicable Public Company Rules.”
A company whose shareholders may exercise their voting power in writing	Article 19.6 of The Company Law: “A Member exercising voting power by	According to the explanations from the lawyers of Cayman Islands, shareholders cannot exercise their voting rights by

Matters for protecting stockholders' equity Items in the checklist	Content stipulated in Company Law	Reasons for the differences and explanations
<p>or by way of electronic transmission shall describe in the shareholders' meeting notice the method of exercising their voting power.</p> <p>A shareholder who exercises his/her/its voting power at a shareholders meeting in writing or by way of electronic transmission shall be deemed to have attended the said shareholders' meeting in person, but shall be deemed to have waived his/her/its voting power in respect of any extemporary motion(s) and/or the amendment(s) to the contents of the original proposal(s) at the said shareholders' meeting.</p>	<p>way of a written ballot or by way of an electronic transmission shall be deemed to have appointed the chairman of the general meeting as his proxy to exercise his or her voting right at such general meeting in accordance with the instructions stipulated in the written or electronic document."</p>	<p>written or electronic form in the board meeting. However, if The Company Law has clear statements about it, then the shareholders can entrust proxies to exercise their voting rights in the meeting by written or electronic form. Still, if the shareholders exercise their voting rights through proxies, this will not be considered as the attendance of board meeting in person.</p> <p>It is determined in Cayman law that shareholders exercised their voting rights by this method will not be considered as attendance of board meeting in person, however, these shareholders enjoy all the rights of exercising their voting rights in written or electronic forms in accordance with ROC laws substantially. Hence, this shall not result in impact on shareholders' equity.</p>
<p>For the following acts involved with major stockholders' equity, a company should have a resolution adopted by a majority of the shareholders present who represent two-thirds or more of the total number of its outstanding shares. If the total number of shares represented by the shareholders present at shareholders' meeting is not sufficient to meet the criteria specified in the preceding paragraph, the resolution to be made thereto may be adopted by two-thirds or more of the attending shareholders who represent a majority of the total number of its outstanding shares.</p> <p>1. A company enter into, amend, or terminate any</p>	<p>Stipulated in Article 14.2(f)(g)(h), 14.1(b), 12.1, 14.2(d), 14.2(e) and 14.3 of The Company Law</p>	<p>According to the explanations from the lawyers of Cayman Islands:</p> <p>1. According to Article 60 of Cayman Islands Company Law, special resolutions refer to the voting methods in the board meeting, where the consent from over two-thirds of the shareholders attended the board meeting in person or entrusted proxies (if the board meeting allows letter of authorization) with voting rights (Follow the regulations in the company law if it has voting methods with higher thresholds) is required for the approval of the resolution. In general Cayman company law, it is often stipulated that the special resolutions should be stated clearly on the notice for board meetings. The written resolution signed by all the shareholders can be considered as special resolution if authorized by company law. When calculating whether a case is considered as majority rule of special resolution with</p>

Matters for protecting stockholders' equity Items in the checklist	Content stipulated in Company Law	Reasons for the differences and explanations
<p>contract for lease of the company's business in whole, or for entrusted business, or for regular joint operation with others; transfer the whole or any essential part of its business or assets; or accept the transfer of another's whole business or assets, which has great bearing on the business operation of the company.</p> <p>2. Modification or Alteration of the Articles of Incorporation</p> <p>3. Any modification or alteration in the Articles of Incorporation prejudicial to the privileges of special shareholders shall also be adopted by a meeting of special shareholders.</p> <p>4. Distribute the surplus profit distributable as dividends and bonuses in whole or in part in the form of new shares to be issued by the company</p> <p>5. A resolution for dissolution, consolidation or merger, or split-up</p>		<p>the requirement of bullet counting method as the voting method, The Company Law can stipulate the number of voting rights enjoyed by each shareholder.</p> <p>2. According to the regulations in Cayman Islands Company Law, matters which requires the approval of Special Resolution include:</p> <p>(i) The change in company name (Article 31);</p> <p>(ii) Amend or add regulations in The Company Law (Article 24);</p> <p>(iii) Amend or add purposes, rights or other specially stated matters related to the outlines of the company law (Article 10);</p> <p>(iv) Capital reduction and redemption of preparation money by capital (Article 14 and Article 37(4)(d));</p> <p>(v) Volunteer dismissal due to reasons other than the incapability to pay off when the debt is due (Article 90(b)(i) and Article 116(c))</p> <p>(vi) Merger or consolidation with other company</p> <p>According to Cayman Islands Company Law, the matters, which requires the approval of Special Resolution, cannot be passed by the method with lower threshold, majority rule.</p> <p>3. Regarding matters other than the ones listed above, Cayman Islands Company Law did not ask for the requirement of a certain majority, however, The Company Law can further stipulate this.</p> <p>The differences between some regulations in The Company Law and the important matters which protects stockholders' equity listed on the left are described as follows, separately:</p> <p><b>1. Article 1.1 of The Company Law</b></p> <p>(1) Regulations in The Company Law:</p> <p>According to Article 1.1 of the</p>

Matters for protecting stockholders' equity Items in the checklist	Content stipulated in Company Law	Reasons for the differences and explanations
		<p>Company Law, "Special Resolution means a resolution passed by a majority of not less than two-thirds of votes cast by such Members as, being entitled so to do, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as special resolution has been duly given." According to the explanations from the lawyers of Cayman Islands: matters which requires the approval by special resolution should include but not limit to: (i) The change in company name; (ii) Amend or add regulations in The Company Law; (iii) Amend or add purposes, rights or other specially stated matters related to the outlines of the company law; (iv) Capital reduction and redemption of preparation money by capital and (v) Volunteer dismissal due to reasons other than the incapability to pay off when the debt is due; (vi) Merger or consolidation with other company. In addition, according to Article 18.1 of The Company Law, "No business shall be transacted at any general meeting unless a quorum is present. Unless otherwise provided in the Statute, the Articles and the Applicable Public Company Rules, Members present in person or by proxy, representing more than one-half of the total outstanding Shares, shall constitute a quorum for any general meeting." In addition, if the company wish to make it as a special resolution, then at least the shareholders who holds over half of the issued stocks of our company should attend in person or entrust proxies and it can be approved by the consent of over two thirds of the votes with voting rights exercised by the attended shareholders (include the ones attended by the entrusted proxy</p>

Matters for protecting stockholders' equity Items in the checklist	Content stipulated in Company Law	Reasons for the differences and explanations
		<p>with letter of authorization).</p> <p>(2) Reasons for the differences</p> <p>According to the explanations of Cayman lawyers, special resolution is the regulation in Cayman Islands Company Law; the matters which requires special resolution should require the approval by board meeting in accordance with the company law based on the regulations in Cayman Islands Company Law; and if any such matters are approved by thresholds lower than special resolution in Cayman Islands Company Law, it is considered as invalid based on the regulations in Cayman Islands Company Law. Hence, The Company Law has stipulated that for the matters regarding the protection of shareholders' equity which requires Supermajority Resolution, if special resolutions are required according to Cayman Islands Company Law, then they will be retained as "special resolution" in the company law; as for the other matters regarding the protection of shareholders' equity which requires supermajority resolution, they will be listed as matters required supermajority resolution in The Company Law.</p> <p><b>2. Article 14.3 of The Company Law</b></p> <p>(1) Regulations in The Company Law:</p> <p>According to Article 14.3 of The Company Law: "Subject to the provisions of the Statute, the Articles, and the Applicable Public Company Rules, with regard to the dissolution procedures of the Company, the Company shall pass (a) a Supermajority Resolution, if the Company resolves that it be wound up voluntarily because it is unable to pay its debts as they fall due; or (b) a Special Resolution, if the Company resolves that it be wound up</p>



Matters for protecting stockholders' equity Items in the checklist	Content stipulated in Company Law	Reasons for the differences and explanations
		<p>voluntarily for reasons other than the reason stated in Article 14.3(a) above." The differences with the important matters, which protects shareholders' rights, listed on the left are: In The Company Law, the resolution regarding dismissal is based on the reasons for the resolution of dismissal and hence, there are different requirements for "Supermajority Resolution" and "Special resolution"; comparing to this, the important matters, which protects stockholders' rights, listed on the left, have required that all should be done by "Supermajority Resolution".</p> <p>(2)Reasons for the differences: According to the opinions of Cayman lawyers, if there is a resolution involving voluntary dismissal of the company for other reasons except the incapability of paying off debts when it is due, then it should be passed as a special resolution, which is in accordance with Cayman Islands Company Laws. From the above, we can know that the differences come from Cayman laws.</p>
<p>1. Shareholders, who have been holding three per cent or more of the total number of issued shares continuously for a period of one year or more, may request in writing the supervisors of the company to institute, for the company, an action against a director of the company. And Taiwan Taipei District Court will be served as the first tribunal for jurisdiction.</p> <p>2. In case the supervisors fails to institute an</p>	<p>Article 25.6 of The Company Law: "Any Member(s) holding 3% or more of the Company's issued Shares for at least one year may in writing request the Independent Directors of the Audit Committee to bring action against the Directors on behalf of the Company in a court of competent jurisdiction as the court of first instance. If the Independent Directors fail to bring such action within thirty days after the request by the Member, such Member may bring the</p>	<p>According to the explanations from the lawyers of Cayman Islands:</p> <p>1.Cayman Islands Company Laws does not have the concept corresponding to "supervisors". Hence, the effect of the establishment of supervisors in The Company Law is unclear.</p> <p>2.Regarding on the regulations of shareholders' relief, according to the Case Law, the appropriate accuser should be the company itself formally rather than the shareholder himself/herself or minority shareholders in a lawsuit alleging the directors performed damagers to the company. Only in a very few exceptions, for example, if the action of the directors causes fraud to minority shareholders and the person that</p>

Matters for protecting stockholders' equity Items in the checklist	Content stipulated in Company Law	Reasons for the differences and explanations
<p>action within 30 days after having received the request, then the shareholders filing such request may institute the action for the company. And Taiwan Taipei District Court will be served as the first tribunal for jurisdiction.</p>	<p>action in a court of competent jurisdiction as the court of first instance in the name of the Company.”</p>	<p>performed the fraud actions is the controller of the company, then the minority shareholder who bears the fraud can ask for a litigation to the court.</p> <p>3. The regulation that Taipei local court in Taiwan will be the first instance court has been added to The Company Law, which may not be performed under Cayman laws. This is because that Cayman court cannot recognize and perform a foreign judgement which are not about money payment before reviewing the basis of law for the disputes.</p> <p>According to the front subparagraph of Paragraph 2 of Article 28-4 of Taiwan Stock Exchange Corporation Rules Governing Review of Securities Listings: “A foreign issuer shall either install an audit committee or a supervisor.” Our company has established an audit committee comprised of all of the Independent Directors, hence, there is no need to establish a supervisor additionally. The differences should not have major negative impact on the shareholders' equity.</p>
<p>1. A company may enter into a share subscription right agreement with its employees or the procedure for the issuance of share subscription warrant.</p> <p>2. The share subscription warrant obtained by any employee of the issuing company shall be non-assignment, except to the heir(s) of the said employee.</p>	<p>Article 11.1 of The Company Law: “Notwithstanding the provision of Article 8.7 Restricted Shares, the Company may, upon approval by a majority of the Directors at a meeting attended by two-thirds or more of the total number of the Directors, adopt incentive programmes and may issue Shares or options, warrants or other similar instruments, to employees of the Company and its Subsidiaries. The rules and procedures governing such incentive</p>	<p>According to the explanations from the lawyers of Cayman Islands, Cayman Islands Company Laws did not stipulate special regulations on employee stock option certificates or the procedure for the issuance of employee stock option certificates. The issuance of employee stock option certificates and whether the certificate can be transferred, etc. should be stipulated in the contracts for employee stock options or on the stock option certificates.</p> <p>Hence, according to the regulations in Cayman laws, if the company wish to limit the transfer of employee stock option certificates, relevant regulations should be stipulated in contracts for employee stock option or the stock option</p>

Matters for protecting stockholders' equity Items in the checklist	Content stipulated in Company Law	Reasons for the differences and explanations
	<p>programme(s) shall be in accordance with policies established by the board of Directors from time to time in accordance with the Statute, the Memorandum and the Articles. After the Company has acquired public company status, the foregoing matter shall be made in accordance with the Applicable Public Company Rules as applied to the Company. 」</p> <p>Article 11.2: "Options, warrants or other similar instruments issued in accordance with Article 11.1 above are not transferable save by inheritance."</p> <p>Article 11.3: "The Company may enter into relevant agreements with employees of the Company and the employees of its Subsidiaries in relation to the incentive programme approved pursuant to Article 11.1 above, whereby employees may subscribe, within a specific period of time, a specific number of the Shares. The terms and conditions of such agreements shall be no less restrictive on the relevant employee than the terms specified in the applicable incentive programme."</p> <p>Article 11.4: "Directors of the Company and its Subsidiaries shall not be eligible for the employee incentive programmes under Article 8.7 or Article</p>	<p>certificates although Article 11 of The Company Law has been amended in accordance with the important matters which protects the shareholders' rights listed on the right.</p>

Matters for protecting stockholders' equity Items in the checklist	Content stipulated in Company Law	Reasons for the differences and explanations
	11.1, provided that directors who are also employees of the Company or its Subsidiaries may participate in an employee incentive programme in their capacity as an employee (and not as a director of the Company or its Subsidiaries)."	
<p>In case the procedure for convening a shareholders' meeting or the method of adopting resolutions thereat is in contrary to any law, ordinance or the company's Articles of Incorporation, a shareholder may enter a petition in the court for annulment of such resolution. And Taiwan Taipei District Court will be served as the first tribunal for jurisdiction.</p>	<p>Article 18.7 of The Company Law: "Nothing in the Articles shall prevent any Member from issuing proceedings in a court of competent jurisdiction for an appropriate remedy in connection with the improper convening of any general meeting or the improper passage of any resolution. The Taipei District Court, R.O.C., shall be the court of the first instance for adjudicating any disputes arising out of the foregoing."</p>	<p>According to the explanations from the lawyers of Cayman Islands, the regulations in The Company Law listed on the left may not be performed under Cayman laws. This is because that Cayman court cannot recognize and perform a foreign judgement which are not about money payment before reviewing the basis of law for the disputes.</p> <p>The important matters which protects shareholders' equity listed on the right are actually the regulation for the legal rights for the revocation of the appeal of the shareholders. Its legal effect cannot be achieved by the regulations on the law. It requires legal regulations to give the rights to the shareholders in order to abolish an appeal. The regulations in The Company Law listed on the left has a slight difference with the important matters which protects shareholders' equity, however, if the gather procedure of board meetings or its resolution method violates orders or laws, then The Company Law did not limit the rights of the shareholders to ask for a lawsuit or relief to the court. Regarding whether the court which accepted the case will abolish the resolution of the board meeting because of the violation of gather procedure or resolution method with the laws or The Company Laws, it will be reviewed by that court (no matter the court is in ROC or Cayman Islands or other courts in the country with</p>

Matters for protecting stockholders' equity Items in the checklist	Content stipulated in Company Law	Reasons for the differences and explanations
		jurisdiction on its applicable laws to determine whether the shareholders can have the rights to abolish an appeal in accordance with its position. This difference is because of the nature of the rights to abolish an appeal of the shareholders and The Company Law did not limit shareholders to ask for a lawsuit or relief to the court.
In case a director has, in the course of performing his/her duties, committed any act resulting in material damages to the company or in serious violation of applicable laws and/or regulations, but not discharged by a resolution of the shareholders' meeting, the shareholder(s) holding 3% or more of the total number of outstanding shares of the company may, within 30 days after that shareholders' meeting, institute a lawsuit in the court for a judgment in respect of such matter. And Taiwan Taipei District Court will be served as the first tribunal for jurisdiction.	Subparagraph (j) of Paragraph 1 of Article 28.2 of The Company Law: "Subject to the provisions of the Statute, and the Articles or the Applicable Public Company Rules, in the event that he has, in the course of performing his duties, committed any act resulting in material damage to the Company or in serious violation of applicable laws and/or regulations or the Memorandum and the Articles, but has not been removed by the Company pursuant to a Supermajority Resolution vote, then any Member(s) holding 3% or more of the total number of outstanding Shares shall have the right, within thirty days after that general meeting, to petition any competent court for the removal of such Director, at the Company's expense and such Director shall be removed upon the final judgement by such court. For clarification, if a relevant court has competent jurisdiction to adjudicate all of the foregoing matters in a single or a series of	According to the explanations from the lawyers of Cayman Islands: 1. Cayman Islands Company Law did not stipulate the minority shareholders can apply for the dismissal of directors to Cayman court specifically. 2. Normally, the procedure for the dismissal of directors is stipulated in The Company Law. It usually stipulates that this resolution should be passed in a board meeting for it to take effect. 3. Regarding on the regulations of shareholders' relief, according to the Case Law, the appropriate accuser should be the company itself formally rather than the shareholder himself/herself or minority shareholders in a lawsuit alleging the directors performed damages to the company. Only in a very few exceptions, for example, if the action of the directors causes fraud to minority shareholders and the person that performed the fraud actions is the controller of the company, then the minority shareholder who bears the fraud can ask for a litigation to the court. 4. These regulations in the Company Law may not be performed under Cayman laws. This is because that Cayman court cannot recognize and perform a foreign judgement which are not about money payment before reviewing the basis of law for the disputes. However, the directors can be dismissed by the procedure stated in The Company Law.

Matters for protecting stockholders' equity Items in the checklist	Content stipulated in Company Law	Reasons for the differences and explanations
	proceedings, then, for the purpose of this paragraph (i), final judgement shall be given by such competent court.”	The reasons for the differences between The Company Law listed on the left and the important matters which protects shareholders' equity are that Cayman court cannot recognize and perform foreign judgements other than monetary judgements before the substantial trial of the dispute. Hence, they cannot be recognized and performed by Cayman court even if the important matters which protects shareholders' equity are stipulated in The Company Law where Taipei local court in Taiwan may recognize it as the judgement or ruling of the dismissal of directors. Because of this, it has been stipulated in The Company Law that the shareholders should ask for a lawsuit to a court with jurisdiction. This difference is resulted from the regulations in Cayman law regarding the recognition and enforcement of foreign judgement. Hence, the shareholders can still dismiss the directors in accordance with The Company Law.
<ol style="list-style-type: none"> <li>1. Supervisors of a company shall be elected by the meeting of shareholders if exist, among them at least one supervisor shall have a domicile within the territory of the Republic of China.</li> <li>2. The term of office of a supervisor shall not exceed three years, but he may be eligible for re-election.</li> <li>3. In case all supervisors of a company are discharged, the special meeting of shareholders for election of supervisors shall be convened by the board of directors within 60 day.</li> <li>4. Supervisors shall</li> </ol>		According to the front subparagraph of Paragraph 2 of Article 28-4 of Taiwan Stock Exchange Corporation Rules Governing Review of Securities Listings: “A foreign issuer shall either install an audit committee or a supervisor.” Our company has established an audit committee comprised of all of the Independent Directors (Article 32.6), hence, there is no need to establish a supervisor additionally.

Matters for protecting stockholders' equity Items in the checklist	Content stipulated in Company Law	Reasons for the differences and explanations
<p>supervise the execution of business operations of the company, and may at any time or from time to time investigate the business and financial conditions of the company, inspect the accounting books and documents, and request the board of directors or managerial personnel to make reports thereon.</p> <p>5. Supervisors shall audit the various statements and records prepared for submission to the shareholders' meeting by the board of directors, and shall make a report of their findings and opinions at the meeting of shareholders.</p> <p>6. In performing audit matters, the supervisors may appoint a certified public accountant or lawyer to conduct the auditing in their behalf.</p> <p>7. Supervisors of a company may attend the meeting of the board of directors to their opinions. In case the board of directors or any director commits any act, in carrying out the business operations of the company, in a manner in violation of the laws, regulations, the Articles of Incorporation or the resolutions of the shareholders' meeting, the supervisors shall forthwith advise, by a notice, to the board of</p>		

Matters for protecting stockholders' equity Items in the checklist	Content stipulated in Company Law	Reasons for the differences and explanations
<p>directors or the director, as the case may be, to cease such act.</p> <p>8. Supervisor may each exercise the supervision power individually.</p> <p>9. A supervisor shall not be concurrently a director, a managerial officer or other staff/employee of the company.</p>		
<p>In case a director or supervisor (applicable when a company has supervisors) of a company has created a pledge on the company's shares more than half of the company's shares being held by him/her/it at the time he/she/it is elected, the voting power of the excessive portion of shares shall not be exercised and the excessive portion of shares shall not be counted in the number of votes of shareholders present at the meeting.</p>	<p>Article 24.3 of The Company Law: "If a Director creates or has created security over any Shares held by such Director, such Director shall notify the Company of such security. If at any time the number of the pledged Shares held by a Director exceeds half of the Shares held by such Director at the time of his appointment, then the voting rights attached to the Shares held by such Director at such time shall be reduced, such that the Shares over which security has been created which are in excess of half of the Shares held by such Director at the date of his appointment shall not carry voting rights and shall not be counted in the number of votes casted by the Member at a general meeting."</p>	<p>Article 24.3 of The Company Law stipulates the regulations regarding directors. According to the front subparagraph of Paragraph 2 of Article 28-4 of Taiwan Stock Exchange Corporation Rules Governing Review of Securities Listings: "A foreign issuer shall either install an audit committee or a supervisor." Our company has established an audit committee comprised of all of the Independent Directors, hence, there is no need to establish a supervisor additionally. Hence, the article did not have regulations regarding supervisors.</p>
<p>1. The directors of a company shall have the loyalty and shall exercise the due care of a good administrator in conducting the business operation of the company; and if he/she has acted contrary to this</p>	<p>Article 26.5 of The Company Law: "The Directors shall faithfully carry out their duties with care, and may be held liable for the damages suffered by the Company for any violation of such duty. The Company may by Ordinary</p>	<p>According to the explanations from the lawyers of Cayman Islands:</p> <p>1. Cayman Islands Company Law did not stipulate the substantial regulations on the duties of directors specifically. According to Case Law applicable in Cayman Islands, directors should take on (1) fiduciary duties and (2) duty of care as a kind manager from the</p>



Matters for protecting stockholders' equity Items in the checklist	Content stipulated in Company Law	Reasons for the differences and explanations
<p>provision, shall be liable for the damages to be sustained by the company there-from. In case the behavior is done for himself/herself or on behalf of another person, the meeting of shareholders may, by a resolution, consider the earnings in such an act as earnings of the company.</p> <p>2. If the directors of a company have, in the course of conducting the business operations, violated any provision of the applicable laws and/or regulations and thus caused damage to any other person, he/she shall be liable, jointly and severally, for the damage to such other person.</p> <p>3. Managers or supervisors of a company should be liable to compensation as the directors of a company within the scope of their duties.</p>	<p>Resolution of any general meeting demand the Directors to disgorge any profit realised from such violation and regard the profits realised as the profits of the Company as if such violation was made for the benefit of the Company. The Directors shall indemnify the Company for any losses or damages incurred by the Company if such loss or damage is incurred as a result of a Director's breach of laws or regulations in the course of performing his duties. The Directors and the Company shall jointly and severally indemnify the third party for any losses or damages incurred by such third party if such loss or damage is incurred as a result of a Director's breach of laws or regulations in the course of performing his duties. The aforementioned duties of the Directors shall also apply to the managers of the Company."</p>	<p>company. A company can ask for compensation if a director violates the aforementioned duties. In addition, if a director violates his/her duties and has obtained benefits from the violation, then the benefits shall belong to the company.</p> <p>2. According to the principle of Case Law, an action performed by a director act on behalf of the company will be considered as the action of the company itself during the process of managing company business. If its action resulted in any damages to the third parties, then it should be the company rather than that director who had responsibilities to the third parties for its action. The third parties asked for compensation were not able to ask upon in accordance with the regulations in The Company Law and add the duties upon the shareholders. The third parties who are not shareholders cannot perform actions based on The Company Law. If the company has to take on responsibilities to third parties for damage compensation because the violation of duties by a director, then the company can ask for compensation from the director that caused the damages.</p> <p>3. Managers normally do not have fiduciary duties from the company. There is no enforcement power even if there are regulations in company law since the managers are not the party in the company law. Agreement with the managers on the aforementioned duties should be made by the method of contract.</p> <p>According to the explanations above, although the important matters, which protects stockholders' equity, has been stipulated in Article 26.5 of The Company Law, if a director performs business operations which violates loyal duties and results in damages to others,</p>

Matters for protecting stockholders' equity Items in the checklist	Content stipulated in Company Law	Reasons for the differences and explanations
		<p>then the others may not have the basis of the asking rights to that director with Cayman laws, however, they may ask for compensation directly. Also, the basis of the asking rights cannot be created even if there are regulations in The Company Law stipulated that a director should take on joint responsibility for compensation to others as the company.</p> <p>In addition, although Article 26.5 of The Company Law has stipulated that the duties in that article is also applicable to the managers, still, agreement with the managers should be made by the method of contract in accordance with Cayman laws. Hence, if the matters regarding the responsibility of the managers stated here, which protects stockholders' equity, are to be implemented, special agreements should be made between the company and the managers by contracts.</p>
<p>Where a juristic person acts as a shareholder of a company, its authorized representative may also be elected as a director or supervisor of the company. If there is a plural number of such authorized representatives, each of them may be so elected, but such authorized representatives may not concurrently be selected or serve as the director or supervisor of the company.</p>	<p>Article 27.4 of The Company Law: "If a Member is judicial person, the authorised representative of such Member may be elected as Director. If such Member has more than one authorised representative, each of the authorised representatives of such Member may be elected as Directors respectively."</p>	<p>Article 27.4 of The Company Law stipulates the correspondence of shareholders as juridical person.</p> <p>According to the front subparagraph of Paragraph 2 of Article 28-4 of Taiwan Stock Exchange Corporation Rules Governing Review of Securities Listings: "A foreign issuer shall either install an audit committee or a supervisor." Our company has established an audit committee comprised of all of the Independent Directors, hence, there is no need to establish a supervisor additionally. Hence, the regulations in the aforementioned law do not include supervisors. The difference should not cause major negative impact on stockholders' equity rights.</p>

## (VII) Others

The registration of our company and relevant information for explanations of general differences in China and Taiwan stipulated in the regulations for protection of R.O.C.

stockholders' equity can be inquired from Market Operation Post System  
(<http://mops.twse.com.tw/mops/web/t132sb02>)

## **Consolidated Financial Statement and Accounting Audit Report for 2020**

Stock code: 1340

**Victory New Materials Limited Company  
and Subsidiaries  
Consolidated Financial Statements  
For the years ended December 31, 2020 and 2019  
Together with Independent Auditors' Report**

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For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

**Victory New Materials Limited Company and Subsidiaries**  
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**Victory New Materials Limited Company and Subsidiaries**  
**Letter of Representation**

For the year ended December 31, 2020, pursuant to “Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises”, the entities that are required to be included in the consolidated financial statements of affiliates, are the same entities required to be included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standards No. 10, “Consolidated Financial Statements”. In addition, the relevant information required to be disclosed in the consolidated financial statements of affiliates is included in the aforementioned consolidated financial statements. Accordingly, it is not required to prepare a separate set of consolidated financial statements of affiliates.

Hereby declare,

Victory New Materials Limited Company

Chairman

March 31, 2021

## Independent Auditors' Report

Victory New Materials Limited Company

### Opinion

We have audited the accompanying consolidated balance sheets of Victory New Materials Limited Company (the "Company") and its subsidiaries (collectively referred as the "Group") as of December 31, 2020, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2020, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with the "Regulations Governing the Preparations of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

### Basis for opinion

We conducted our audits in accordance with the "Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants" and generally accepted auditing standards in the Republic of China. Our responsibilities under those standards are further described in the **Independent auditors' responsibilities for the audit of the consolidated financial statements** section of our report. We are independent of the Group in accordance with the Code of professional Ethics for Certificate Public Accountants in the Republic of China (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with this Code. Based on our audits, we believe that our audits provide a reasonable basis for our opinion.

## **Independent Auditors' Report (Continued)**

### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters. We determined the key audit matters should be communicated in our audit report are as follows:

### **Evaluation of cash and cash equivalents**

Please refer to Note 4(6) to the consolidated financial statements for the accounting policies of evaluation of cash and cash equivalents; and please refer to Note 6(1) to the consolidated financial statements for the details description of cash and cash equivalents accounts.

As of December 31,2020, the balances of cash and cash equivalents of the Company and its subsidiaries is \$3,265,785 thousand, accounting for 59% of the total consolidated assets, due to the significant proportion of balances and the inherent risks; we therefore considered the cash and cash equivalents as the key audit matters for the year.

Our audit procedures included, but not limited to, obtaining the list of bank deposits balances in the account of the Company and its subsidiaries, and verifying to the bank statements; checking the receipt and payment vouchers of major cash and cash equivalents transaction; to check all bank confirmations whether it matches the bank deposit balance in the account, and check whether there are restrictions on bank deposits.



## **Independent Auditors' Report (Continued)**

### **Other matters**

The Group's consolidated financial statements for the year ended December 31, 2019 were audited by other auditors and the Independent Auditors' Report was issued on April 29, 2020 with an unqualified opinion.

### **Responsibilities of management and those charged with governance for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the "Regulations Governing the Preparations of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

## **Independent Auditors' Report (Continued)**

### **Independent auditors' responsibilities for the audit of the consolidated financial statements**

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for the one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
2. Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

## **Independent Auditors' Report (Continued)**



4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the footnote disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentations.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of audit of the Group. We remain solely responsible for our audit opinion.

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

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

## Independent Auditors' Report (Continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2020 and are therefore the key audit matters. We describe these matters in our 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.

	
Chen, Kuang-Hui	Kuo, Chen-Yu

For and on behalf of ShineWing CPAs

March 31, 2021

Taipei, Taiwan

Republic of China

### Notice to Readers

The accompanying consolidated financial statements are not intended to present the financial position, results of financial operations and cash flows in accordance with accounting principles and practice generally accepted in countries and jurisdictions other than the Republic of China. The standard, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and independent auditors' report are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, ShineWing CPAs cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

**Victory New Materials Limited Company and Subsidiaries**

**Consolidated balance sheets**

December 31, 2020 and 2019

(Expressed in thousands of New Taiwan dollars)

Assets	Notes	December 31,			
		2020	%	2019	%
Current assets					
Cash and cash equivalents	6.(1)	\$ 3,265,785	59	\$ 3,683,876	60
Financial assets at amortized cost - current	6.(2)	-	-	184,400	3
Accounts receivable, net	6.(3)	190,054	3	309,314	5
Other receivables	6.(4)	3,352	-	2,327	-
Inventories	6.(5)	9,664	-	16,784	-
Prepayments	6.(8)	58,199	1	40,990	1
		3,527,054	63	4,237,691	69
Non-current assets					
Property, plant and equipment	6.(6)	1,386,499	25	1,171,598	19
Right-of-use asset	6.(7)	643,669	12	650,731	11
Prepayments for equipment	6.(8)	-	-	21,012	-
Refundable deposits	6.(8)	8,543	-	41,471	1
		2,038,711	37	1,884,812	31
Total assets		\$ 5,565,765	100	\$ 6,122,503	100

(Continued on next page)

**Victory New Materials Limited Company and Subsidiaries**

**Consolidated balance sheets**

December 31, 2020 and 2019

(Expressed in thousands of New Taiwan dollars)

(Continued from previous page)

Liabilities and equity	Notes	December 31,			
		2020	%	2019	%
Current liabilities					
Accounts payable	6.(10)	\$ 30,482	1	\$ 96,222	2
Other payables	6.(11)	85,167	2	102,982	2
Current tax liabilities	6.(22)	2,637	-	1,400	-
Current lease liabilities	6.(7)	25,031	-	28,870	-
		143,317	3	229,474	4
Non-current liabilities					
Deferred tax liabilities	6.(22)	478	-	5,863	-
Lease liabilities, non-current	6.(7)	-	-	30,272	-
		478	-	36,135	-
Total liabilities		143,795	3	265,609	4
Equity attributable to shareholders of the parent					
Ordinary shares	6.(13)	1,529,229	27	1,529,229	25
Capital surplus	6.(14)	2,540,814	46	2,540,814	42
Retained earnings:	6.(15)				
Legal reserve		435,041	8	435,041	7
Special reserve		680,309	12	453,403	7
Unappropriated earnings		962,068	17	1,578,716	26
Other equity interest		( 725,491 )	( 13 )	( 680,309 )	( 11 )
Total equity		5,421,970	97	5,856,894	96
Total liabilities and equity		\$ 5,565,765	100	\$ 6,122,503	100

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

**Victory New Materials Limited Company and Subsidiaries**

**Consolidated statement of comprehensive income**

For the years ended December 31, 2020 and 2019

(Expressed in thousands of New Taiwan dollars)

	Notes	For the year ended December 31,			
		2020	%	2019	%
<b>Revenue</b>	6.(16)	\$ 656,406	100	\$ 1,157,023	100
<b>Cost of revenue</b>	6.(5)	( 916,105 )	( 140 )	( 1,370,878 )	( 118 )
<b>Gross loss</b>		( 259,699 )	( 40 )	( 213,855 )	( 18 )
<b>Operating expenses</b>					
Selling expenses	6.(19)	( 8,041 )	( 1 )	( 12,232 )	( 1 )
General & administrative expenses	6.(19)	( 80,571 )	( 12 )	( 62,408 )	( 6 )
Research and development expenses	6.(19)	( 52,600 )	( 8 )	( 81,500 )	( 7 )
		( 141,212 )	( 21 )	( 156,140 )	( 14 )
<b>Loss from operations</b>		( 400,911 )	( 61 )	( 369,995 )	( 32 )
<b>Non-operating income and expenses</b>					
Other income	6.(17)	21,380	3	39,996	3
Other gains and losses	6.(18)	( 12,222 )	( 2 )	( 100,304 )	( 9 )
Finance costs	6.(21)	( 2,053 )	-	( 3,574 )	-
		7,105	1	( 63,882 )	( 6 )
<b>Loss before income tax</b>		( 393,806 )	( 60 )	( 433,877 )	( 38 )
<b>Income tax expense</b>	6.(22)	4,064	1	( 4,447 )	-
<b>Net loss for the year</b>		( 389,742 )	( 59 )	( 438,324 )	( 38 )
<b>Other comprehensive income (loss)</b>					
Component of other comprehensive income that will not be reclassified to profit or loss					
Exchange differences arising on translation to the presentation currency		( 45,182 )	( 7 )	( 226,906 )	( 19 )
Income tax expenses related to components that will not be reclassified to profit or loss		-	-	-	-
<b>Total other comprehensive loss for the year</b>		( 45,182 )	( 7 )	( 226,906 )	( 19 )
<b>Total comprehensive loss for the year</b>		( 434,924 )	( 66 )	( 665,230 )	( 57 )
<b>Net loss attributable to</b>					
Shareholders of the parent		( \$ 389,742 )	( 59 )	( \$ 438,324 )	( 38 )
<b>Total comprehensive loss attributable to</b>					
Shareholders of the parent		( \$ 434,924 )	( 66 )	( \$ 665,230 )	( 57 )
<b>Earnings per share (In New Taiwan dollars)</b>	6.(23)				
Basic earnings per share		( \$ 2.55 )		( \$ 2.87 )	

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

**Victory New Materials Limited Company and Subsidiaries**

**Consolidated statement of changes in equity**

For the years ended December 31, 2020 and 2019

-=(Expressed in thousands of New Taiwan dollars)

	Equity attributable to shareholders of the parent					Other equity interest	Total equity
	Retained earnings				Unappropriated earnings	Exchange differences on translating the financial statements of foreign operations	
	Ordinary shares	Capital surplus	Legal reserve	Special reserve			
Balance, January 1, 2019	\$ 1,390,208	\$ 2,540,814	\$ 421,571	\$ 318,151	\$ 2,332,587	(\$ 453,403)	\$ 6,549,928
Appropriation of prior year's earnings:							
Special capital reserve	-	-	-	135,252	( 135,252 )	-	-
Legal reserve	-	-	13,470	-	( 13,470 )	-	-
Cash dividends	-	-	-	-	( 27,804 )	-	( 27,804 )
Share dividends distributed by the Company	139,021	-	-	-	( 139,021 )	-	-
	1,529,229	2,540,814	435,041	453,403	2,017,040	( 453,403 )	6,522,124
Net loss for the year	-	-	-	-	( 438,324 )	-	( 438,324 )
Other comprehensive loss for the year	-	-	-	-	-	( 226,906 )	( 226,906 )
Total other comprehensive loss for the year	-	-	-	-	( 438,324 )	( 226,906 )	( 665,230 )
Balance, December 31, 2019	1,529,229	2,540,814	435,041	453,403	1,578,716	( 680,309 )	5,856,894
Appropriation of prior year's earnings:							
Special capital reserve	-	-	-	226,906	( 226,906 )	-	-
	1,529,229	2,540,814	435,041	680,309	1,351,810	( 680,309 )	5,856,894
Net loss for the year	-	-	-	-	( 389,742 )	-	( 389,742 )
Other comprehensive loss for the year	-	-	-	-	-	( 45,182 )	( 45,182 )
Total other comprehensive loss for the year	-	-	-	-	( 389,742 )	( 45,182 )	( 434,924 )
Balance, December 31, 2020	\$ 1,529,229	\$ 2,540,814	\$ 435,041	\$ 680,309	\$ 962,068	(\$ 725,491)	\$ 5,421,970

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



**Victory New Materials Limited Company and Subsidiaries**

**Consolidated statement of cash flows**

For the years ended December 31, 2020 and 2019

(Expressed in thousands of New Taiwan dollars)

	For the year ended December 31,	
	2020	2019
<b>Cash flows from operating activities</b>		
Income (loss) before income tax for the year	(\$ 393,806 )	(\$ 433,877 )
Adjustments for:		
Income and expenses having no effect on cash flows		
Depreciation	56,496	67,905
Interest income	( 21,143 )	( 39,996 )
Interest expense	2,053	3,574
Loss on disposal of property, plant and equipment	14	10,707
Loss on disposal of non-current assets held for sale	-	769
Impairment loss recognized on property, plant and equipment	-	97,169
Changes in operating assets and liabilities		
Decrease in accounts receivable	119,260	105,019
Decrease in other receivables	-	503
Decrease (increase) in inventories	7,120	( 2,550 )
Increase in prepayments	( 17,209 )	( 39,266 )
Decrease (increase) in accounts payable	( 65,740 )	2,625
Decrease in other payables	( 17,815 )	( 10,035 )
<b>Cash used in operations</b>	( 330,770 )	( 237,453 )
Interest received	20,118	54,010
Interest paid	( 2,053 )	( 3,574 )
Income taxes paid	( 84 )	( 7,416 )
<b>Net cash used in operating activities</b>	( 312,789 )	( 194,433 )

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**Victory New Materials Limited Company and Subsidiaries**

**Consolidated statement of cash flows**

For the years ended December 31, 2020 and 2019

(Expressed in thousands of New Taiwan dollars)

(Continued from previous page)

	For the year ended December 31,	
	2020	2019
<b>Cash flows from investing activities</b>		
Acquisition of financial assets at amortized cost	- (	1,731,939 )
Proceed from sale of financial assets at amortized cost	184,400	3,068,120
Proceed from disposal of non-current assets held for sale	-	4,481
Acquisition of property, plant and equipment	( 238,841 ) (	448,876 )
Proceed from disposal of property, plant and equipment	663	255
Acquisition of right-of-use asset	( 47,719 )	-
Decrease (increase) in prepayments for equipment	21,012 (	21,827 )
Decrease in refundable deposits	32,928	-
<b>Net cash (used in) generated from investing activities</b>	( 47,557 )	870,214
<b>Cash flows from financing activities</b>		
Repayment of lease liability	( 28,193 ) (	28,970 )
Payment of cash dividend	- (	26,390 )
<b>Net cash used in financing activities</b>	( 28,193 ) (	55,360 )
<b>Effect of exchange rate changes on cash and cash equivalents</b>	( 29,552 ) (	157,636 )
<b>(Decrease) increase in cash and cash equivalents</b>	( 418,091 )	462,785
<b>Cash and cash equivalents at beginning of year</b>	3,683,876	3,221,091
<b>Cash and cash equivalents at end of year</b>	<u>\$ 3,265,785</u>	<u>\$ 3,683,876</u>

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

# **Victory New Materials Limited Company and Subsidiaries**

## **Notes to the consolidated financial statements**

(Expressed in thousands of New Taiwan dollars, except as otherwise specified)

### **1. History and organization**

Victory New Materials Limited (the “Company”) was incorporated in the British Cayman Islands in June 2012. The Company was established after an organizational restructuring for listing on the Taiwan Stock Exchange (“TWSE”). The Company’s shares have been listed and traded on the TWSE since January 14, 2014. The functional currency of the Company is Renminbi. Since the Company’s shares are listed on the TWSE, in order to increase the comparison and consistency of the financial statements, the consolidated financial statements are presented in the New Taiwan dollar. The consolidated financial statements comprised the Company and its subsidiaries (collectively referred as the “Group”), the Group is primarily engaged in the manufacturing and trading of various types of shoe sole materials and other related business investment.

### **2. The date of authorization for issuance of the consolidated financial statements and procedures for authorization**

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on March 31, 2021.

### **3. Application of new standards, amendments and interpretations**

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IAS”) and interpretations as endorsed by the Financial Supervisory Commission (“FSC”).

A. IFRSs, IAS and interpretations endorsed by the FSC effective from 2020 are as follows:

New standards, interpretations and amendments	Main amendments	IASB effective date
Disclosure Initiative – Definition of Material (amendments to IAS 1 and IAS 8)	This amendment clarifies the definition of materiality. This information is material: if the	January 1, 2020

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omission, misstatement or confusion of information can be reasonably expected to influence the economic decisions made by the primary users of general-purpose financial statements based on the financial information provided by those financial statements, which provide financial information about a specific reporting entities.

Definition of a Businesses  
(amendments to IFRS 3)

The amendments clarify the definition of a business, that to be considered a business an acquired set of the activities and assets, must include, at a minimum, an input and a substantive process that together must significantly contribute to creating outputs; narrowed the definitions of a business by focusing on the outputs on goods and services provided to customers and removing the reference to the ability to reduce costs, removing the assessment of whether the market participants have capable of acquiring the business and continuing to produce outputs; remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. In addition, entities can choose to apply a concentration test, when the fair value of the acquired total assets is mostly derived from a

January 1, 2020

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	single asset (or a group of similar assets), no further evaluation is required to determine that the acquired asset is not a business.	
Interest Rate Benchmark Reform (amendments to IFRS 9, IAS 39 and IFRS 7)	This amendment is to provide certain reliefs related to hedging accounting, which will prevent those who have previously adopted hedging accounting from being terminated due to changes in interest rate indicators, and require disclosure of relevant information that uses this relief.	January 1, 2020
Covid-19 – Related Rent Concessions (amendments to IFRS 16)	<p>The amendment provide a practical expedient that permits lessees, if all of the following conditions are met to apply rent concessions occurring as a direct consequence of the covid-19 pandemic and may choose not to assess whether it is a lease modification, and any change in lease payments caused by the rent concession will be treated as a variable lease payment during the concession period:</p> <ol style="list-style-type: none"> <li>(1) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;</li> <li>(2) any reduction in lease payments affects only payments due on or before 30 June 2021; and</li> </ol>	June 1, 2020 (Early application from January 1, 2020 is allowed by FSC)

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- (3) there is no substantive change to other terms and conditions of the lease.

B. The Group assessed the above standards and interpretations and there is no significant impact to the Group's financial position and financial performance.

- (2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Group.

A. New standards, interpretations and amendments as endorsed by the FSC effective from 2021 are as follows:

New standards, interpretations and amendments	Main amendments	IASB effective date
Amendments to IFRS 4, "Extension of the Temporary Exemption from Applying IFRS 9"	The temporary exemption from applying IFRS 9 been extended to January 1, 2023.	January 1, 2021
Interest Rate Benchmark Reform – Phase 2 (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	This amendment addresses the problems arising during the change of interest rate indicators, including one interest rate indicator replaced with another interest rate indicator. For the IBOR-based contracts, it provides accounting treatment for the changes in the basis for determining the contractual cash flow as a result of IBOR reform; and for those adopting hedging accounting, the reliefs are provided in phase 1 for the expiration date of the non-contractually specified risk components in the hedging relationship, an additional temporary relief for adopting the specific hedging accounting, and the additional IFRS 7 disclosures related to the IBOR reform.	January 1, 2021

B. The Group assessed the above standards and interpretations and there is no significant impact to the Group's financial position and financial performance.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

A. The Group has not yet applied the following new standards and amendments issued by IASB but not yet endorsed by the FSC:

New standards, interpretations and amendments	Main amendments	IASB effective date
Reference to the Conceptual Framework (amendments to IFRS 3)	<p>The amendments updated the definition of assets and liabilities reference to the "Conceptual Framework for Financial Reporting" issued in 2018 in respect of how an acquirer to determine what constitutes an asset or a liability during a business merger.</p> <p>Due to the above amendment, the amendment also added an exception to the recognition principle of IFRS 3 for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately.</p> <p>Due to the above index amendment, this amendment adds an exception to the recognition principle for liabilities and contingent liabilities. For certain types of liability and contingent liabilities, reference should be made to IAS 37 "Provisions, Contingent Liabilities and Contingent" or International Financial Reporting Interpretations Committee ("IFRIC") 21 Levies", instead of the aforementioned "Conceptual Framework of Financial Reporting" issued in 2018. At the same time, this amendment also clarifies that the acquirer shall not recognize</p>	January 1, 2022

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	contingent assets under IAS 37 on the acquisition date.	
Sale or Contribution of Assets Between An Investor and Its Associate or Joint Venture (amendments to IFRS 10 and IAS 28)	The amendment revised the accounting treatment in sales or purchase of assets between joint venture and its associate. The gains and losses resulting from transactions involving assets that constitute a business between an entity and its associate or joint venture must be recognized in full in the investor's financial statements.	To be determine by IASB
IFRS 17 'Insurance Contracts'	This Standard replaces IFRS 4 'Insurance Contracts' and establishes the principles for the recognition, measurement, presentation and disclosure of Insurance and reinsurance contracts that it issues by the entities. This standard applies to all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds; and investment contracts with discretionary participation features it issues, provided that the entity also issues insurance contracts. Embedded derivatives, distinct investment components and distinct performance obligations should be separated from insurance contracts. On initial recognition, Each portfolio of insurance contracts issued shall be divided into a minimum of three groups by the entities: onerous, no significant possibility of becoming onerous and the remaining contracts in the portfolio. This Standard requires a current measurement model where estimates are re-measured at each	January 1, 2023

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reporting period. Measurements are based on discounted contract and probability-weighted cash flows, risk adjustments, and the expected profit from the unearned portion of the contract (contractual service margins).

This Standard replaces IFRS 4 'Insurance Contracts' and establishes the principles for the recognition, measurement, presentation and disclosure of Insurance and reinsurance contracts that it issues by the entities. This standard applies to all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds; and investment contracts with discretionary participation features it issues, provided that the entity also issues insurance contracts. Embedded derivatives, distinct investment components and distinct performance obligations should be separated from insurance contracts. On initial recognition, each portfolio of insurance contracts issued shall be divided into a minimum of three groups by the entities: onerous, no significant possibility of becoming onerous and the remaining contracts in the portfolio. This Standard requires a current measurement model where estimates are re-measured at each reporting period. Measurements are based on discounted contract and probability-weighted cash flows, risk adjustments, and the expected profit from the unearned portion of the contract (contractual service margins).

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	<p>An entity may apply a simplified approach to the measurement for some of insurance contracts (premium allocation approach). The entity should recognize the revenue generated by a group of insurance contract during the period when the entity provides insurance coverage and when the entity releases the risk. The entity should recognize the loss immediately, if a group of insurance contracts becomes onerous. The entity should present insurance income, insurance service fees, and insurance finance income and expenses separately and its shall also disclose the amount, judgment and risk information from the insurance contract.</p>	
Insurance Contracts (amendments to IFRS 17)	<p>This amendment includes the deferral of effective date, the expected recovery of the cash flow obtained by insurance, the contractual service margin attributable to investment services, the reinsurance contract held, the recovery of losses and other amendments. These amendments have not changed the basics of the standard in principle.</p>	January 1, 2023
Classification of Liabilities as Current or Non-current (amendments to IAS 1)	<p>This amendment clarifies that the classification of liabilities is based on the rights existing at the end of the reporting period. At the end of the reporting period, the enterprise does not have the right to defer the settlement period of liabilities for at least 12 months after the reporting period, and the liabilities should be classified as current. In addition, this amendment defines "settlement" of a liability is the</p>	January 1, 2023

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	extinguishment of the liability with cash or other economic resources or the enterprise's own equity instruments.	
Property, Plant and Equipment - Proceeds before Intended Use (amendments to IAS 16)	This amendment prohibits enterprise from deducting the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management, such as samples produced for testing whether the asset is operating normally . The price of selling such items and the cost of production should be recognized in profit or loss. This amendment also stated that testing whether an asset is operating normally means assessing its technical and physical performance, and has nothing to do with the financial performance of the asset.	January 1, 2022
Onerous Contracts - Cost of Fulfilling a Contract (amendments to IAS 37)	This amendment clarifies that the cost of fulfilling the contract includes the cost directly related to the contract. The cost directly related to the contract is composed of the allocation of the incremental cost of fulfilling the contract and other costs directly related to the fulfilling of the contract.	January 1, 2022
Annual improvements - 2018-2020 cycle	(1) IFRS 1 "Subsidiary as first-time adopter"  This amendment allows the subsidiaries select to adopt IFRS 1 that are exempted from paragraph D16(a) of IFRS No. 1, when measuring cumulative conversion differences, should use the carrying amount of cumulative conversion differences included in the parent company's consolidated financial	January 1, 2022

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statements on the date of the parent company's convert to IFRS. This amendment also applies to affiliates and joint ventures that are exempted from paragraph D16(a) of IFRS 1.

- (2) Amendments to IFRS 9 "Fees in the '10 per cent' Test for Derecognition of Financial Liabilities"

This amendment stipulates that the expenses that should be included in the 10% test of financial liabilities are excluded. Enterprise may pay the costs or fees to third parties or lenders. According to this amendment, the cost or expense paid to third parties is not included in the 10% test.

- (3) IAS 41 "Taxation in Fair Value Measurements"

This amendment of IAS 41 is to remove the requirement of using pre-tax cash flows when measuring the fair value of a biological asset.

B. The Group assessed the above standards and interpretations and there is no significant impact to the Group's financial position and financial performance.

#### **4. Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

##### *(1) Compliance statement*

The consolidated financial statements of the Group have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC interpretations, and SIC

Interpretations as endorsed by the FSC.

*(2) Basis of preparation*

- A. Except for the financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income are measured by financial instruments measured at fair value, the accompanying consolidated financial statements have been prepared under the historical cost basis.
- B. The following significant accounting policies applied consistently to all periods of coverage of the consolidated financial statements.
- C. The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

*(3) Basis of consolidation*

A. Basis for preparation of consolidated financial statements

- (A) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
- (B) Inter-company transactions, balances and unrealized gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

- (C) Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interest. Total comprehensive income is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.
- (D) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity.
- (E) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognized in profit or loss. All amounts previously recognized in other comprehensive income in relation to the subsidiary are reclassified to profit or loss, on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognized in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of. The gains or losses should transfer directly to retained earnings if the gain or loss from disposal of underlying assets is transferred to retained earnings at disposal.

B. Subsidiaries included in the consolidated financial statements:

Name of investor	Name of subsidiary	Main business activities	Ownership (%)		Note
			2020	2019	
The Company	Super Light Shoe Soles Co., Ltd. (“Super Light”)	Holding Company	100%	100%	
The Company	Century Victory New Materials Co., Ltd. (“Century Victory”)	Manufactures and sells various shoe soles and related shoe materials	100%	100%	
Super Light	Chengchang Shoes Industry Co., Ltd. (“Chengchang HK”)	Holding Company	100%	100%	
Chengchang HK	Jinjiang Chengchang Shoes Industry Co., Ltd. (“Jinjiang Chengchang”)	Manufactures and sells various soles and related shoe materials	100%	100%	

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Significant restrictions: None.

F. Details of the Company's issued shares held by the subsidiaries: None

G. Subsidiaries that have non-controlling interests that are material to the Group: None

(4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company is Renmibi, in order to comply with local filing requirements and regulations, the consolidated financial statements are presented in New Taiwan dollars, which is the Group's presentation currency.

## Foreign currency translation and balances

- A. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction or valuation where items are re-measured, except for those that comply with cash flow hedging and net investment hedging and are deferred to other comprehensive gains and losses. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.
- B. Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in profit or loss.
- C. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

### *(5) Classification of current and non-current items*

- A. Assets that meet one of the following criteria are classified as current assets:
  - (A) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;
  - (B) Assets held mainly for trading purposes;
  - (C) Assets that are expected to be realized within twelve months from the balance sheet date; or
  - (D) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.



The Group classified its assets that do not meet above criteria as non-current assets.

B. Liabilities that meet one of the following criteria are classified as current liabilities:

(A) Liabilities that are expected to be paid off within the normal operating cycle;

(B) Liabilities arising mainly from trading activities;

(C) Liabilities that are to be paid off within twelve months from the balance sheet date; or

(D) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

The Group classified its liabilities that do not meet above criteria as non-current liabilities.

*(6) Cash and cash equivalents*

A. For the purpose of the statements of cash flows, cash and cash equivalents consists of cash on hand, cash in bank, time deposit maturing within three months, short-term, highly liquid investments, which were within three months of maturity when acquired, and repayable bank overdraft, as part of the cash management. Bank overdraft items listed under short-term borrowings in current liabilities on the balance sheet.

B. Cash equivalents refer to short-term, highly liquid investments that also meet the following conditions:

(A) Readily convertible to known amount of cash.

(B) Subject to an insignificant risk of changes in interest rates.

*(7) Financial assets at amortized cost*

- A. Financial assets at amortized cost are those that meet all of the following criteria:
  - (A) The objective of the Group's business model is achieved by collecting contractual cash flows.
  - (B) The assets' contractual cash flows represent solely payments of principal and interest.
- B. On a regular way purchase or sale basis, financial assets at amortized cost are recognized and derecognized using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. Interest income from these financial assets is included in finance income using the effective interest method. A gain or loss is recognized in profit or loss when the asset is derecognized or impaired.
- D. The Group's time deposits which do not fall under cash equivalents are those with a short maturity period and are measured at initial investment amount as the effect of discounting is immaterial.

*(8) Notes and accounts receivable*

- A. In accordance with terms and conditions of the contracts, entitle a legal right to unconditionally receive consideration in exchange of notes and receivables for transferred goods or rendered services.
- B. Short-term notes and accounts receivable without bearing interest are measured at initial invoice amount by the Group as effect of discounting is immaterial.

*(9) Impairment of financial assets*

On each balance sheet date, the Group's investment in debt instruments measured at fair value through other comprehensive income and financial assets measured at amortized cost, and accounts receivable or contractual assets, lease receivables, loan commitments and financial guarantee contracts with significant financial components, after considering all reasonable and corroborative information (including forward-looking), the loss allowance is measured on the 12-month expected credit losses for those who have not significantly increased the credit risk since the initial recognition. For those who have significantly increased the credit risk since the initial recognition, the loss allowance is measured by the expected credit losses during the period of existence; the accounts receivable or contract assets that do not contain significant financial components are measured by the lifetime expected credit loss.

*(10) Derecognition of financial assets*

The Group derecognizes a financial asset when:

- A. The contractual rights to receive the cash flows from the financial asset expired.
- B. The contractual rights to receive cash flows from the financial asset have been transferred and the Group has transferred substantially all risks and rewards of ownership of the financial asset.
- C. The contractual rights to receive cash flows from the financial asset have been transferred; however, the Group has not retained control of the financial asset.

*(11) Inventories*

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

sheet date.

*(12) Property, plant and equipment*

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.
- B. Subsequent costs are included in the asset's carrying amount or recognized as separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives.

Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of machinery and equipment, transportation equipment, are 5~10 years. The estimated useful lives of office equipment are 3~10 years.

*(13) Leasing arrangements (lessee) - right-of-use assets/lease liabilities*

- A. Lease assets are recognized as a right-of-use asset and lease liabilities at the date at which the leased asset is available for use by the Group. For short-term leases or leases of low-value assets, lease payments are recognized as

an expense on a straight-line basis over the lease term.

B. Lease liabilities include the net present value of the remaining lease payments at the commencement date, discounted using the incremental borrowing interest rate. Lease payments are comprised of fixed payments, less any lease incentives receivable. The Group subsequently measures the lease liability at amortized cost using the interest method and recognizes interest expense over the lease term. The lease liability is remeasured and the amount of remeasurement is recognized as an adjustment to the right-of-use asset when there are changes in the lease term or lease payments and such changes do not arise from contract modifications.

C. At the commencement date, the right-of-use asset is recognized at cost, includes:

(A) The initial measured amount of the lease liability; and

(B) Any lease payments made at or before the commencement date.

The right-of use assets is measured using the cost model subsequently and is depreciated from the commencement date to the earlier of the end of the asset's useful life or the end of the lease term. When the lease liability is remeasured, the amount of remeasurement is recognized as an adjustment to the right-of-use asset.

*(14) Impairment of non-financial assets*

The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to dispose or value in use. Except for goodwill, when the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortized historical cost would have been if the impairment had not been recognized.

*(15) Notes and accounts payable*

- A. Accounts payable refer to debts arising from purchase of raw materials, goods or services and notes due to operation and non-operation.
- B. Short-term notes and accounts payable without bearing interest are measured at initial invoice amount by the Group as effect of discounting is immaterial.

*(16) Employee benefits*

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognized as expenses in that period when the employees render service.

B. Pensions

Defined contribution plans

For defined contribution plans, the contributions are recognized as pension expenses when they are due on an accrual basis. Prepaid contributions are recognized as an asset to the extent of a cash refund or a reduction in the future payments.

C. Employees' compensation and directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal obligation or constructive obligation and those amounts can be reliably estimated. However, if the accrued amounts for employees' compensation and directors' and supervisors' remuneration are different from the actual distributed amounts as resolved by the shareholders at their shareholders' meeting subsequently, the differences should be recognized based on the accounting for changes in estimates.

(17) *Income tax*

- A. The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operated and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulation. It establishes provisions where appropriated based on the amounts expected to be paid to the tax authorities.
- C. Deferred income tax is recognized, using the balance sheet method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.
- D. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred income tax assets are reassessed.

E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.

*(18) Revenue recognition*

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

Revenue from the sale of goods comes from sale of various soles and related shoe materials. Sales is recognized as revenue when the goods are delivered to the customer's specific location and signed because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility for sales to future customers and bears the risks of obsolescence. Sales revenue and trade receivables are recognized concurrently.

*(19) Operating segments*

Operating segments are reported in a manner consistent with the internal reporting provided to the strategic business unit. The strategic business unit, who is responsible for allocating resources and assessing performance of the operation segments, has been identified as the board of directors that makes strategic decisions.

*(20) Earnings per shares*

The Group presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the net income attributable to shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares



held. Diluted EPS is determined by adjusting the statement of income attributable to shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares.

*(21) Dividends*

Dividends are recorded in the Company's financial statements in the period in which they are approved by the Company's shareholders. Cash dividends are recorded as liabilities; stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance.

**5. Critical accounting judgments, estimates and key sources of assumption uncertainty**

The preparation of these consolidated financial statements requires management to make critical judgments in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. The information is addressed below:

*(1) Critical judgments in applying the Group's accounting policies*

None.

*(2) Critical accounting estimates and assumptions*

The Group makes estimates and assumptions based on the expectation of future events that are believed to be reasonable under the circumstances at the end of the reporting period. The resulting accounting estimates might be different from the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

## Evaluation of inventories

As inventories are stated at the lower of cost and net realizable value, the Group must determine the net realizable value of inventories on balance sheet date using judgments and estimates. Due to the rapid changes in the environment, the Group assesses the value of inventory on the balance sheet date due to normal wear and tear, obsolescence, or no market sales value, and writes down the cost of inventory to the net realizable value. This inventory evaluation is mainly based on the estimated demand on product in a specific period in the future, therefore, there might be material changes to the evaluation.

As of December 31, 2020, the Group's carrying amount of inventories is \$9,664 thousand.

## 6. Details of significant accounts

### (1) Cash and cash equivalents

	December 31,	
	2020	2019
Cash on hand and working capital	\$ 1,235	\$ 676
Checking accounts and demand deposits	1,983,046	3,683,200
Time deposits	1,281,504	-
Total	<u>\$ 3,265,785</u>	<u>\$ 3,683,876</u>

A. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, therefore the probability of counterparty default is remote. The Group's maximum exposure to credit risk at balance sheet date is the carrying amount of all cash and cash equivalents.

B. Time deposits, for the purpose of meeting short-term commitments, are within three months of maturity when acquired, and can be readily converted into a fixed amount of cash and subject to insignificant risk of changes in value.

(2) *Financial assets at amortized cost - current*

	December 31,	
	2020	2019
Time deposits with original maturities of more than 3 months	\$ -	\$ 184,400

The range of interest rate for time deposits with original maturities of more than 3 months was 2.72925% as of December 31, 2019.

(3) *Accounts receivable*

	December 31,	
	2020	2019
Accounts receivable	\$ 190,054	\$ 309,314
Less: allowance for doubtful accounts	-	-
Total	\$ 190,054	\$ 309,314

A. The Group grants an interest free and average credit term of 60 - 120 days to its customer accounts.

B. The Group's maximum exposure to credit risk at December 31, 2020 and 2019 was the carrying amount of each class of accounts receivable and notes receivable.

C. The Group's aging analysis of accounts receivable is as follows:

	December 31,	
	2020	2019
Not past due	\$ 190,054	\$ 309,314
Past due less than 1 month	-	-
Past due less than 1 - 3 months	-	-
Past due less than 3 - 6 months	-	-
Past due less over 6 months	-	-
Total	\$ 190,054	\$ 309,314

D. The Group measures the allowance for doubtful notes and accounts receivable by using the provision matrix is as follows:

December 31, 2020	Expected credit loss rate	Total carrying amount	Allowance for doubtful accounts (Lifetime expected credit loss)		Amortized cost
Not past due	-	\$ 190,054	\$	-	\$ 190,054
Past due less than 1 month	-	-		-	-
Past due 1 - 3 months	-	-		-	-
Past due 3 - 6 months	-	-		-	-
Past due over 6 months	-	-		-	-
Total		\$ 190,054	\$	-	\$ 190,054

December 31, 2019	Expected credit loss rate	Total carrying amount	Allowance for doubtful accounts (Lifetime expected credit loss)		Amortized cost
Not past due	-	\$ 309,314	\$	-	\$ 309,314
Past due less than 1 month	-	-		-	-
Past due 1 - 3 months	-	-		-	-
Past due 3 - 6 months	-	-		-	-
Past due over 6 months	-	-		-	-
Total		\$ 309,314	\$	-	\$ 309,314

E. Information relating to credit risk, please refer to Note 12(2).

(4) *Other receivables*

	December 31,	
	2020	2019
Other receivables	\$ 3,352	\$ 2,327
Less: allowance for doubtful accounts	-	-
Total	\$ 3,352	\$ 2,327

(5) *Inventories*

	December 31,	
	2020	2019
Raw materials	\$ 8,693	\$ 13,082
Work-in-process	5,350	4,869
Finished goods	956	3,841
Less: allowance for decline in market value and obsolescence	( 5,335 )	( 5,008 )
Total	<u>\$ 9,664</u>	<u>\$ 16,784</u>

The cost of inventories recognized as expense (income) is as follows:

	For the year ended December 31,	
	2020	2019
Cost of sales	\$ 915,778	\$ 1,365,258
Impairment losses	327	5,008
Other	-	612
Total	<u>\$ 916,105</u>	<u>\$ 1,370,878</u>

(6) *Property, plant and equipment*

	Machinery and equipment	Transportation equipment	Office equipment	Property under construction	Total
Cost					
At January 1, 2020	\$ 238,602	\$ 19,122	\$ 4,767	\$ 1,111,791	\$ 1,374,282
Additions	5,670	3,385	25,404	204,382	238,841
Disposals and scrapped	( 2,341 )	( 4,547 )	-	-	( 6,888 )
Net exchange differences	( 1,847 )	( 148 )	( 36 )	( 8,606 )	( 10,637 )
At December 31, 2020	<u>\$ 240,084</u>	<u>\$ 17,812</u>	<u>\$ 30,135</u>	<u>\$ 1,307,567</u>	<u>\$ 1,595,598</u>
At January 1, 2019	\$ 256,293	\$ 19,864	\$ 4,952	\$ 731,897	\$ 1,013,006
Additions	11,493	-	-	423,022	434,515
Disposal and scrapped	( 19,184 )	-	-	-	( 19,184 )
Net exchange differences	( 10,000 )	( 742 )	( 185 )	( 43,128 )	( 54,055 )
At December 31, 2019	<u>\$ 238,602</u>	<u>\$ 19,122</u>	<u>\$ 4,767</u>	<u>\$ 1,111,791</u>	<u>\$ 1,374,282</u>

	Machinery and equipment	Transportation equipment	Office equipment	Property under construction	Total
Accumulated depreciation and impairment					
At January 1, 2020	\$ 180,386	\$ 17,863	\$ 4,435	\$ -	\$ 202,684
Depreciation	12,926	749	537	-	14,212
Disposals and scrapped	( 2,317)	( 3,894)	-	-	( 6,211)
Net exchange differences	( 1,412)	( 140)	( 34)	-	( 1,586)
At December 31, 2020	<u>\$ 189,583</u>	<u>\$ 14,578</u>	<u>\$ 4,938</u>	<u>\$ -</u>	<u>\$ 209,099</u>
At January 1, 2019	\$ 79,111	\$ 15,144	\$ 3,939	\$ -	\$ 98,194
Depreciation	22,345	1,582	207	-	24,134
Impairment loss	94,879	1,829	461	-	97,169
Disposals and scrapped	( 8,617)	-	-	-	( 8,617)
Net exchange differences	( 7,332)	( 692)	( 172)	-	( 8,196)
At December 31, 2019	<u>\$ 180,386</u>	<u>\$ 17,863</u>	<u>\$ 4,435</u>	<u>\$ -</u>	<u>\$ 202,684</u>
Net book value					
At December 31, 2020	<u>\$ 50,501</u>	<u>\$ 3,234</u>	<u>\$ 25,197</u>	<u>\$ 1,307,567</u>	<u>\$ 1,386,499</u>
At December 31, 2019	<u>\$ 58,216</u>	<u>\$ 1,259</u>	<u>\$ 332</u>	<u>\$ 1,111,791</u>	<u>\$ 1,171,598</u>

The Group assessed the impairment losses of property, plant and equipment for the years ended December 31, 2020 and 2019 were \$0 thousand and \$97,169 thousand respectively. As of December 31, 2020 and 2019, the recognized accumulated impairment losses were \$92,224 thousand and \$97,169 thousand respectively.

*(7) Leasing arrangements as lessee for the year ended December 31, 2020*

A. The leased assets by the Group are land and buildings with the lease period usually ranges from three to fifty years. Lease contracts are negotiated individually and contain a variety of terms and conditions. The leased assets are not to be subleased, pledged, disposed of, no other restrictions are imposed.

B. The carrying amounts of the right-of-use asset and the depreciation expense recognized are as follows:

	December 31, 2020	For the year ended December 31, 2020
	Carrying amount	Depreciation
Land and land use right	\$ 616,929	\$ 12,955
Buildings	26,740	29,329
Total	<u>\$ 643,669</u>	<u>\$ 42,284</u>

	December 31, 2019	For the year ended December 31, 2019
	Carrying amount	Depreciation
Land and land use right	\$ 586,691	\$ 13,258
Buildings	64,040	30,513
Total	<u>\$ 650,731</u>	<u>\$ 43,771</u>

C. Lease liabilities

	For the year ended December 31,	
	2020	2019
Current	\$ 25,031	\$ 28,870
Non-current	-	30,272
Total	<u>\$ 25,031</u>	<u>\$ 59,142</u>

D. Movements of the rights-of-use assets of the Group for the year 2020 and 2019 were as follows:

	Land and land use right	Buildings	Total
At January 1, 2020	\$ 586,691	\$ 64,040	\$ 650,731
Additions	47,719	-	47,719
Depreciation	( 12,955 )	( 29,329 )	( 42,284 )
Lease modification	-	( 7,510 )	( 7,510 )
Net exchange differences	( 4,526 )	( 461 )	( 4,987 )
At December 31, 2020	<u>\$ 616,929</u>	<u>\$ 26,740</u>	<u>\$ 643,669</u>

	Land and land use right	Buildings	Total
At January 1, 2019	\$ 599,949	\$ 91,634	\$ 691,583
Additions	-	2,919	2,919
Depreciation	( 13,258 )	( 30,513 )	( 43,771 )
Lease modification	-	-	-
At December 31, 2019	<u>\$ 586,691</u>	<u>\$ 64,040</u>	<u>\$ 650,731</u>

E. The right-of-use assets of the Group increased by \$47,719 thousand and \$2,919 thousand in 2020 and 2019 respectively.

F. The income and expenses related to the lease contracts are recognized as follows:

	For the year ended December 31,	
Items affecting profit or loss	2020	2019
Interest expense on lease liabilities	( \$ 2,053 )	( \$ 3,574 )
Expense on short-term lease	<u>\$ -</u>	<u>\$ -</u>
Expense on lease of low-value assets	<u>\$ -</u>	<u>\$ -</u>

G. The total cash outflow for the leases of the Group in 2020 and 2019 amounted to \$30,246 thousand and \$28,970 thousand respectively.

(8) Other assets

	December 31,	
	2020	2019
Current		
Prepayment	<u>\$ 58,199</u>	<u>\$ 40,990</u>
Non-current		
Refundable deposits	\$ 8,543	\$ 41,471
Prepayments for equipment	<u>-</u>	<u>21,012</u>
	<u>\$ 8,543</u>	<u>\$ 62,483</u>

The refundable deposit is mainly to pay compensation for the transfer of collective use rights, prepay the application deposit for bidding a land expropriation case and the pension insurance fees for the land expropriated



persons; and to offset assignment fee of the land-use right when the bid is won.

*(9) Impairment of non-financial assets*

A. The details of the Group recognized the impairment loss for the year ended December 31, 2020 and 2019 are as follows:

	For the year ended December 31	
	2020	2019
	Recognized in profit or loss	Recognized in other comprehensive income
Impairment loss – property, plant and equipment	\$ -	\$ -

	For the year ended December 31	
	2020	2019
	Recognized in profit or loss	Recognized in other comprehensive income
Impairment loss – property, plant and equipment	\$ 97,169	\$ -

B. In considering the plan of future operation of the machinery and equipment and the plan of existing production capacity, for prudent, the Group recognizes an impairment loss of \$94,879 thousand in 2019. The recoverable amount of the impaired property, plant and equipment assessed by the Group is measured by the fair value of the asset less the cost of disposal.

C. The transportation equipment and office equipment of the Group were old without useful value after assessment, for prudent, the Group recognized an impairment loss of \$2,290 thousand in 2019.

*(10) Accounts payable*

	December 31,	
	2020	2019
Accounts payable	\$ 30,482	\$ 96,222

(11) *Other payable*

	December 31,	
	2020	2019
Dividends payable	\$ 41,198	\$ 41,520
Salaries payable	17,779	27,796
Insurance payable	-	13,022
Other	26,190	20,644
Total	<u>\$ 85,167</u>	<u>\$ 102,982</u>

(12) *Pensions*

The employees of the subsidiary of the Group in Mainland China is a member of the retirement benefit plan operated by the Mainland China government. The subsidiary must allocate a specific proportion of the salary to this retirement benefit plan for funding this plan. The Group's obligation in this government-operated retirement benefit plan is to contribute a specific amount. The Company and other subsidiaries have not drawn up a retirement plan.

The Group contributed in accordance with the retirement benefit plan have been recognized in the consolidated statement of comprehensive income were \$14,008 thousand and \$15,641 thousand in 2020 and 2019 respectively.

(13) *Ordinary shares*

A. As of December 31, 2020, the Company's authorized capital was \$2,000,000 thousand with par value of \$10 per share, all of which are ordinary shares. As of December 31, 2020, total paid-in capital was \$1,529,229 thousand.

B. Movements in the number of the Company's ordinary shares outstanding are as follows:

	Number of ordinary shares (in thousand)	
	For the year ended December 31,	
	2020	2019
At January 1	\$ 152,923	\$ 139,021
Issuance of shares through capitalization of retained earnings	-	13,902
At December 31	<u>\$ 152,923</u>	<u>\$ 152,923</u>

(14) *Capital surplus*

	December 31,	
	2020	2019
Issuance of ordinary shares	\$ 2,532,902	\$ 2,532,902
The difference between actual acquisition and equity price on disposal of subsidiaries and the carrying amount	7,912	7,912
Total	<u>\$ 2,540,814</u>	<u>\$ 2,540,814</u>

Pursuant to the ROC Company Act, capital surplus arising from paid-up capital in excess of par value on issuance of ordinary shares and donations can be used to cover accumulated deficit or to issue new shares or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the Securities and Exchange Act of ROC requires that the amount of capital surplus to be capitalized mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

(15) *Retained earnings*

A. Legal reserve

Except for covering accumulated deficit or issuing new shares or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of shares or cash to shareholders is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.

B. Special reserve

When the Company distributes the earnings, in accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the current year balance sheet date. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified. If the aforesaid relevant assets are investment properties, the lands should be reversed during disposal or reclassification, and the part other than the lands should be reversed gradually during the period of use.

#### C. Distribution of retained earnings

In accordance with the Articles of Association, the current year's earnings, if any, shall be used to pay all taxes and offset prior years' operating losses, thereafter 10% of retained earnings shall be either set aside as legal reserve or appropriate to or reverse to special reserve according to the relevant regulations or as requested by the competent authorities. However, the Company shall not be subject to this requirement when the amount of legal reserve accumulated equal to the total authorized capital. For the remaining earnings plus and prior years' unappropriated retained earnings may be appropriated for at least 10% according to a proposal by the board of directors and approved in the shareholders' meeting as shareholders' dividends.

This distribution of shareholders' dividends shall be either in cash or shares, in which with cash dividends not less than 10% of the total dividend.

D. On June 30, 2020, the Company adopted the resolution of the 2019 earnings distribution at the annual shareholders' meeting, which proposed to distribute \$226,906 thousand from special reserve. In addition, on June 10, 2019, the Company adopted the resolution of the 2018 earnings distribution at the annual shareholders' meeting, which proposed to distribute \$13,470 thousand from legal reserve, \$135,252 thousand from special reserve, \$27,804 thousand for cash dividends and \$139,021 thousand for share dividends.

E. For details of information on employee's compensation and directors and supervisors' remuneration, please refer to Note 6(20).

(16) *Revenue*

	For the year ended December 31,	
	2020	2019
Revenue from customer contracts		
Sales revenue - goods	\$ 656,406	\$ 1,157,023

A. The Group's revenue from customer contracts recognized at a point in time in 2020 and 2019 were as follows:

	For the year ended December 31,	
	2020	2019
Revenue recognized at a point in time	\$ 656,406	\$ 1,157,023

(17) *Other income*

	For the year ended December 31,	
	2020	2019
Interest income		
Interest on bank deposits	\$ 21,143	\$ 39,996
Other income - other	237	-
Total	\$ 21,380	\$ 39,996

(18) *Other gains and losses*

	For the year ended December 31,	
	2020	2019
Net currency exchange gain(loss)	( \$ 11,695 )	\$ 3,113
Impairment loss on of property, plant and equipment	- ( 97,169 )	
Loss on disposal of property, plant and equipment	( 14 ) ( 10,707 )	
Loss on disposal of assets held for sale	- ( 769 )	
Other	( 513 )	5,228
Total	( \$ 12,222 )	( \$ 100,304 )

(19) *Additional disclosures related to cost of revenues and operating expenses are as follows:*

	For the year ended December 31,					
	2020			2019		
	Cost of revenue	Operating expenses	Total	Cost of revenue	Operating expenses	Total
Employee benefit expenses	\$ 239,003	\$ 51,856	\$ 290,859	\$ 283,444	\$ 36,533	\$ 319,977
Depreciation	39,214	17,282	56,496	51,196	16,709	67,905

(20) *Employee benefit expenses*

	For the year ended December 31,	
	2020	2019
Wages and salaries – Non-director employee	\$ 260,176	\$ 275,728
Director’s remuneration	10,859	10,420
Pension costs	14,008	15,641
Other personnel expenses	5,816	18,188
Total	<u>\$ 290,859</u>	<u>\$ 319,977</u>

A. In accordance with the Articles of Association, the Company’s accumulated deficits should be covered before distribution of current year earnings, no more than 3% of distributable earnings and no more than 1% of current year earnings shall be appropriated as employees’ compensation and directors’ remuneration respectively. The percentage of employees’ compensation and director’s remuneration as mentioned in the preceding paragraph and employees’ compensation distributed by way of stock or cash shall be resolved in the meeting of the board of directors attended by more than a two-thirds of directors; of which half of the attended directors shall agree such distribution; and report at the shareholder’s meeting.

The current year earnings referred to in the preceding paragraph refers to the current year profit before tax and before deduction of the distribution of employees’ bonus and directors’ remuneration

B. The compensation to employees were determined by the profit of the year. In 2020 and 2019, the employees’ compensation and directors’ remuneration of the Company was \$0 thousand, \$0 thousand, \$0 thousand and \$0 thousand, respectively.

The number of share dividend is calculated based on the closing price of the day before the resolution being made by the board and after considering the effect of ex-rights. If the actual amounts subsequently resolved by the shareholders differ from the proposed amounts by the board of directors, the differences are recorded in profit and loss in the subsequent year.

C. Please refer to Market Observation Post System for more information on the resolution related to the appropriation of distributable earnings as employees' compensation and directors' remuneration of the Company's board of directors and shareholders' meeting.

(21) *Finance costs*

	For the year ended December 31,	
	2020	2019
Interest expense:		
Interest on lease liabilities	\$ 2,053	\$ 3,574

(22) *Income tax*

A. Income tax expense

Components of income tax expense:

	For the year ended December 31,	
	2020	2019
Current income tax for the year		
Current income tax for the year	\$ 2,640	\$ 408
Adjustments for prior periods	( 1,358 )	677
Current income tax for the year	1,282	1,085
Deferred tax		
Relating to origination and reversal of temporary differences	( 5,346 )	3,362
Income tax (gain) expense	( \$ 4,064 )	\$ 4,447

B. Reconciliation between income tax expense and loss before income tax:

	For the year ended December 31,	
	2020	2019
Income before income tax	( \$ 393,806 )	( \$ 433,877 )
Income tax expense at statutory rate	( 57,242 )	( 62,477 )
Tax effect of adjusting items		
Permanent differences	-	12,191
Loss on unrecognized deferred tax assets	54,325	38,730
Unrecognized temporary differences	211	15,326
Adjustments for prior years	( 1,358 )	677
Income tax (gain) expense	( \$ 4,064 )	\$ 4,447

C. Current tax liabilities

	December 31,	
	2020	2019
Current tax liabilities	\$ 2,637	\$ 1,400

D. Deferred income tax assets and liabilities are as follows:

For the year ended December 31, 2020				
	At January 1	Recognized in profit or loss	Recognized in other comprehensive income	At December 31
Deferred tax liabilities				
Unrecognized foreign exchange gains	\$ 5,863	( \$ 5,385 )	\$ -	\$ 478
For the year ended December 31, 2019				
	At January 1	Recognized in profit or loss	Recognized in other comprehensive income	At December 31
Deferred tax liabilities				
Unrecognized foreign exchange gains	\$ 5,235	\$ 628	\$ -	\$ 5,863



E. The details of unrecognized deferred tax assets were as follows (in CNY\$ thousand):

	December 31,	
	2020	2019
Loss carry forward		
Expired in 2024	\$ 57,737	\$ 57,737
Expired in 2025	84,684	-
	<u>142,421</u>	<u>57,737</u>
Deductible temporary differences		
Inventories	1,248	1,120
Property, plant and equipment	21,728	21,728
Other	1,500	1,300
	<u>24,476</u>	<u>24,148</u>
Total	<u>\$ 166,897</u>	<u>\$ 81,885</u>

F. The Group's income tax filing has been completed within the filing period in according to the local governments of different jurisdiction.

G. The applicable income tax rate to the Group's subsidiary in Mainland China is 25% except for Jinjiang Chengchang, which was certified as a high-tech enterprise of Mainland China in 2020 and 2019, therefore the applicable income tax rate is 15%. Taxes of other jurisdictions are calculated based on the applicable tax rates of each relevant jurisdiction.

(23) *Earnings per share*

A. The calculation of earnings per share and weighted average number of ordinary share is as follows:

For the year ended December 31, 2020			
	Amount after tax	Weighted average number of ordinary shares used in computation of basic earnings (in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Loss attributable to the Company	( \$ 389,742 )	152,923	
Profit attributable to shares of the Company held by subsidiaries	-	-	
Loss attributable to the Company	( <u>\$ 389,742</u> )	<u>152,923</u>	( <u>\$ 2.55</u> )
<u>Diluted earnings per share</u>			
None			

For the year ended December 31, 2019			
	Amount after tax	Weighted average number of ordinary shares used in computation of basic earnings (in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Loss attributable to the Company	( \$ 438,324 )	152,923	
Profit attributable to shares of the Company held by subsidiaries	-	-	
Loss attributable to the Company	( \$ 438,324 )	152,923	( \$ 2.87 )
<u>Diluted earnings per share</u>			
None			

*(24) Changes in liabilities from financing activities*

The reconciliation of the Group's liabilities from financing activities is as follows:

	January 1, 2020	Cash flow	Other non-cash	December 31, 2020
Lease liabilities	\$ 59,142	( \$ 28,193 )	( \$ 5,918 )	\$ 25,031
	January 1, 2019	Cash flow	Other non-cash	December 31, 2019
Lease liabilities	\$ 87,202	( \$ 28,970 )	\$ 910	\$ 59,142

## 7. Related party transactions

Balances and amounts of transaction between the Company and subsidiaries had been eliminated upon consolidation and was not disclosed in this note. The Group and other related parties did not have transactions in the current period.

### (1) Key management compensation

	For the year ended December 31,	
	2020	2019
Salaries and other short-term employee benefits	\$ 10,859	\$ 10,420

## 8. Pledged of assets

None.

## 9. Significant contingent liabilities and unrecognized commitments

- A. A contract for construction project signed but not yet paid by a subsidiary, Jinjiang Chengchang was CN¥7,558 thousand.
- B. Jinjiang Chengchang signed an agreement with Huaqiao University in October, 2016. Huaqiao University was commissioned to conduct a research and development of plastic materials from October 16, 2016 to October 15, 2021. Jinjiang Chengchang should pay the joint research fee amounted to CN¥\$3,000 thousand in total. According to the payment schedule, Jinjiang Chengchang should pay CN¥\$500 thousand in the first year plus an annual increment rate of 10% of joint research fee from the second to the fifth year. In addition, Jinjiang Chengchang should pay for purchasing of specific equipment and instruments in accordance with the agreement. However, the research results were not satisfactory, and the management decided to terminate the research and development. Jinjiang Chengchang signed a termination agreement with Huaqiao University on April 18, 2019, which terminated the joint agreement on March 31, 2019. The rights and obligations of both parties were terminated at the date of the termination of the agreement, and both parties were not liable for the breach of the agreement. As of March 31, 2019, the accumulated joint research fee was CN¥1,050 thousand.

C. Jinjiang Chengchang signed an agreement with the scientific research team for developing new plastic foam materials. Jinjiang Chengchang agreed to pay regular professional services fee and the scientific research team should report the progress and results of the research and development regularly. However, the research results were not satisfactory, and the management decided to terminate the development. Jinjiang Chengchang signed a termination agreement with the scientific research team on April 18, 2019, which terminated the new plastic foam materials project on March 31, 2019. The rights and obligations of both parties were terminated at the date of termination of the agreement, and both parties were not liable for the breach of the agreement. The accumulated professional service fee was CN¥22,000 thousand and the related cost of research materials was CN¥16,166 thousand.

#### 10. Significant disaster loss

None.

#### 11. Significant events after the balance sheet date

None.

#### 12. Others

##### *(1) Capital management*

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to its best to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adopt different measurements including adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares etc. The Group monitors capital on the basis of the gearing ratio. The Group's gearing ratios as of December 31, 2020 and 2019 are as follows:

	December 31,	
	2020	2019
Total liabilities	\$ 143,795	\$ 265,609
Total assets	\$ 5,565,765	\$ 6,122,503
Gearing ratio	3%	4%

During a recent review of the gearing ratio, the debt-to-asset ratio on December 31, 2020 was lower compared to December 31, 2019 which caused by the decrease of rental payment of the Company's factory building, which reduced the lease liabilities.

(2) *Financial instruments*

A. Financial instruments by category

	December 31,	
	2020	2019
Financial assets at amortized cost		
Cash and cash equivalents	\$ 3,265,785	\$ 3,683,876
Financial assets at amortized cost - current	-	184,400
Accounts receivables	190,054	309,314
Other receivable	3,352	2,327
Refundable deposits	8,543	41,471
	<u>\$ 3,467,734</u>	<u>\$ 4,221,388</u>
<u>Financial liabilities</u>		
Financial liabilities at amortized cost		
Accounts payable	\$ 30,482	\$ 96,222
Other payable	85,167	33,666
	<u>\$ 115,649</u>	<u>\$ 129,888</u>
Lease liabilities	<u>\$ 25,031</u>	<u>\$ 59,142</u>

B. Financial risk management objectives and policies

The Group's financial instruments include equity and accounts receivables, other receivables, refundable deposits, accounts payable and other payables. Risk management is coordinated by the Group's finance department by entering domestic and international financial market operations and responsible to monitor and manage the financial risk according to the degree of risk and evaluating the breadth analysis of risk exposure. Such risk includes market risk (including exchange rate risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Group seeks to reduce the risk by employing a risk management and to analyze, identify and evaluate the related financial risk that potentially poses adverse effects on the Group. The Group has a relevant plan to hedges the adverse factors of financial risk.

(A) Market risk

Market risk is arising from movements in market prices, such as foreign exchange risk and interest rate risk that affecting the Group's earning or financial instruments held by the Group. The objective of market risk management is to control the market risk exposure within affordable range and to optimize the return on investment.

The major markets risks undertake by the Group's operation are foreign exchange risk, interest rate risk and equity price risk. In practice, a movement by a single change in risk variables is rare, hence change in risk variables are always interrelated. The following sensitivity analysis did not consider the interaction of related risks variables.

a. Foreign exchange risk

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on financial assets measured at fair value that are denominated in foreign currency. The Group's foreign exchange risk is mainly arising from the foreign exchange gains and losses against the cash and cash equivalents that are dominated in foreign currency.

Details of the unrealized exchange gains and losses of the Group's monetary items whose value would significant affected by exchange rate fluctuation are as follows:

For the year ended December 31, 2020				
	Foreign currency amount (in thousands)		Exchange rate	Unrealized exchange gains and losses (NT\$)
<u>Financial assets</u>				
US\$ : CN¥	\$	6,300	6.5295	( \$ 13,610 )
HK\$ : CN¥		11	0.8419	-
<u>Financial liabilities</u>				
NT\$ : CN¥	\$	41,520	0.2341	\$ -
For the year ended December 31, 2019				
	Foreign currency amount (in thousands)		Exchange rate	Unrealized exchange gains and losses (NT\$)
<u>Financial assets</u>				
US\$ : CN¥	\$	6,777	6.9762	\$ -
HK\$ : CN¥		1	0.8941	-
<u>Financial liabilities</u>				
NT\$ : CN¥	\$	41,520	0.2323	\$ 3,113

The sensitivity analysis of the Group's exchange risk mainly focuses on the relevant foreign currency appreciation or depreciation of main foreign currency items at the closing date of financial reporting period, and its impact on the Group's profit and loss and equity.

The determination of below sensitivity analysis is based on the Group's non-functional currency assets and liabilities with significant exchange rate exposure at the balance date. The relevant information is as follows:



December 31, 2020						
	Foreign currency amount	Exchange rate	Carrying amount (NT\$)	Variation	Effect on profit or loss	Effect on equity
<u>Financial assets</u>						
<u>Monetary items</u>						
US\$	\$ 6,300	27.8919	\$ 175,719	5%	\$ 8,786	\$ -
HK\$	11	3.5963	40	5%	2	-

December 31, 2019						
	Foreign currency amount	Exchange rate	Carrying amount (NT\$)	Variation	Effect on profit or loss	Effect on equity
<u>Financial assets</u>						
<u>Monetary items</u>						
US\$	\$ 6,777	29.980	\$ 203,174	5%	\$ 10,159	\$ -
HK\$	1	3.849	4	5%	-	-

#### b. Interest rate risk

The borrowing by the entities within the Group at with floating rate, exposes the Group to change in fair value risk and cash flow risk. The Group by maintaining an appropriate combination of floating rate to manage interest rate risk. The Group assesses its hedging activities on a regular basis to ensure hedging strategies are established consistently between interest rate and risk preferences and in most cost-effective manner.

The Group's exposure on financial liabilities rate risk is described in this Note for liquidity risk management below.

#### Sensitivity analysis

The following sensitivity analysis is based on interest rate risk exposure on the non-derivative instruments at the closing reporting date of reporting period. Regarding the liabilities with variable interest rate, the following analysis is on the basis of the assumption that the amount of liabilities outstanding at the reporting date was

outstanding throughout the year. The rate of change is expressed as the interest rate increase or decrease by 1% when key management report internally, which also represents management of the Group's assessment on the reasonably possible interval of interest rate change.

(B) Credit risk

Credit risk refers to the risk of financial loss to the Group arising from default by counterparties on the contract obligations. The Group's credit risk is attributable to its operating activities (mainly accounts receivables) and financial activities (mainly bank deposits).

Each unit of the Group follows credit risk policies, procedures and controls to manage credit risk. The credit risk assessment of all counterparties is based on factors such as the financial position, the rating of the credit rating agency, historical trading experience, the current economic environment and the Group's internal rating criteria etc.

The Group's accounts receivables mainly comprise receipts from customers on sales of goods. Based on the past experiences, the Group's management assessed these accounts receivable has no significant risk.

The finance department of the Group manages the credit risk of bank deposits, and other financial instruments in accordance with the Group's policies. The trading parties of the Group are determined by internal control procedures, most of them are brand manufacturers with large scale and good operating conditions; therefore, there is no significant credit risk.

The Group also continuously observes the financial and operating conditions of the accounts receivable. Based on past experience, the Group is exposed to a very low probability and amount of credit risk. As of December 31, 2020 and December 31, 2019, the customers whose single customer accounts for more than 10% of the total accounts receivable is as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Jinjiang Fenghua Shoes And Clothing Co., Ltd.	\$ 36,746	\$ 34,559
Tibet Baichuang Sports Development Co., Ltd.	35,929	47,959
Quanzhou Weifu Shoes Trading Co., Ltd.	27,067	--
Fujian Zhongshan Import and Export Trading Co., Ltd.	25,045	--
Fujian Phaeton Footwear Company Limited	19,941	--
Qiaodan Sports Co, Ltd	--	9,832
Jinjiang Xiexiang Trading Co., Ltd.	--	42,485

### (C) Liquidity risk

Liquidity risk refers to risk when the Group is unable to settle its financial liabilities by cash or other financial assets and failure to fulfill obligations associated with existing operations.

The Group manages its liquidity risk by maintaining adequate cash and cash equivalents in order to cope and mitigate the effects of the Group's operating cash flow fluctuations. The Group's management oversight banking facilities usage and ensure the terms of the loan agreement are followed.

### Table of liquidity and interest rate risk

The table below analyses the Group's non-derivative financial liabilities based on remaining period to the contractual maturity date during the agreed repayment period and in accordance to the possible earliest required date of repayment. The financial liabilities in below table prepared by undiscounted cash flows.

December 31, 2020				
	Less than	Between		Total of
	1 year	1 and 5 years	Over 5 years	undiscounted
				cash flows
<u>Non-derivative</u>				
<u>financial liabilities</u>				
Accounts payable	\$ 30,482	\$ -	\$ -	\$ 30,482
Other payables	85,167	-	-	85,167
Lease liabilities	25,031	-	-	25,031
Total	<u>\$ 140,680</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 140,680</u>

December 31, 2019				
	Less than	Between		Total of
	1 year	1 and 5 years	Over 5 years	undiscounted
				cash flows
<u>Non-derivative</u>				
<u>financial liabilities</u>				
Accounts payable	\$ 96,222	\$ -	\$ -	\$ 96,222
Other payables	102,982	-	-	102,982
Lease liabilities	28,870	30,272	-	59,142
Total	<u>\$ 228,074</u>	<u>\$ 30,272</u>	<u>\$ -</u>	<u>\$ 258,346</u>

The amount of above non-derivative financial assets and liabilities instruments with floating interest rate will be varied when the estimated rate became different at the end of reporting period.

(3) *Fair value information*

A. The different levels of valuation techniques which are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: The input value of this level is the public quotation (unadjusted) of the identical asset or liability in the active market. A market is regarded as active when the goods in the market are in same nature and the price information is readily available in the public market for both buyers and sellers. The fair values of the Group's investments in publicly listed securities and beneficiary certificate are included in this level.

Level 2: Inputs other than the observable publicly quoted prices included within Level 1 for assets and liabilities, either directly (such as price) or indirectly (such as derived from the price).

Level 3: Unobservable inputs for the asset or liability.

As of December 31,2020, no financial and non-financial instruments that are measured by fair value.

B. Financial instruments not measured at fair value

The carrying amounts of cash and cash equivalents, accounts receivable, other receivables, refundable deposits, accounts payable and other payables are reasonable approximations of fair values.

### 13. Supplementary disclosures

*(1) Significant transactions information:*

No.	Items	Footnote
1	Loans to others	Table 1
2	Provision of endorsements and guarantees to others	None
3	Holding of marketable securities at the end of the period (excluding investment in subsidiaries, associates and joint ventures)	None
4	Purchase or sale of the same security with the accumulated cost exceeding \$300 million or 20% of paid-in capital or more	None
5	Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more	Table 2
6	Disposal of real estate reaching \$300 million or 20% of paid-in capital or more	None
7	Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more	None
8	Receivables from related parties reaching \$100 million or 20% of paid-in capital or more	Table 3
9	Derivative financial instruments undertaken	None
10	Significant inter-company transactions between the Company and subsidiaries	Table 4

*(2) Information on investments: Table 5*

*(3) Information on investments in Mainland China: Table 6*

*(4) Information of major shareholders: Table 7*

Table 1

## Victory New Materials Limited Company and Subsidiaries

## Loans to others

For the year ended December 31, 2020

(Expressed in thousands of New Taiwan dollars)

No.	Lender	Borrower	Financial statement account	Related party	Highest balance for the period (Note 3)	Ending balance	Actual borrowing amount	Interest rate (%)	Nature of financing (Note 1)	Business transaction amount	Reasons for short-term financing	Allowance for impairment loss	Collateral		Financing limit for each borrower (Note 2)	Aggregate financing limit (Note 2)	Note
													Item	Value			
1	JinJiang Chengchang	Century Victory	Other receivables from related parties	Yes	\$ 341,734 (CN¥80,000 thousand)	\$ 341,734 (CN¥80,000 thousand)	\$ 135,472 (CN¥31,714 thousand)	-	(2)	\$ -	Enrich capital for operating need	\$ -	-	-	\$ 5,136,769	\$ 5,136,769	

Note 1: Nature of financing was as follows:

- (1) Having business relationship.
- (2) Necessity of short-term financing.

Note 2: Aggregate financing limits should not exceed 40% of the Company's net worth. For whom have necessity of short-term financing, the loan amount to a single company shall not exceed 10% of the net value as shown in the lasted audited or reviewed financial statement .

For the loan to others who is held by a same parent company directly and indirectly with the 100% voting rights, the total loan amount and the loan amount to a single company shall not exceed the 100% percentage of the net value as shown in the latest audited or reviewed financial statements.

Note 3: The highest balance for the period was calculated with the year-end exchange rate.

Note 4: Transaction between the Company and its subsidiaries were excluded from the consolidated financial statements.

Table 2

Victory New Materials Limited Company and Subsidiaries  
Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more  
For the year ended December 31, 2020  
(Expressed in thousands of New Taiwan dollars)

No.	Buyer	Property	Event date	Transaction amount	Payment status	Counterparty	Relationship	Information on previous title transfer If counterparty is a related party				Pricing reference	Purpose of acquisition	Other terms
								Property owner	Relationship	Transaction date	Amount			
1	Jinjiang Chengchang	Property under construction	March 11, 2016	\$ 67,813 (CN¥132,925 thousand) (Note 1)	CN¥132,758 thousand paid	Fujian Minnan Construction Engineering Co., Ltd.	-	-	-	-	\$ -	Inquiry, price comparison and bargaining	To build a commercial office building	Note 2

Note 1: The amount was calculated with the year end exchange rate.

Note 2: Jinjiang Chengchang and Fujian Minnan Construction Engineering Co., Ltd. respectively signed the contracts of building no.1 and no.2 (with a total contract price of CN¥58,655 thousand) on March 11, 2016, and the contract of building no. 3 (with a total contract price of CN\$49,270 thousand) and supplemental contracts (with a total contract price of CN¥25,000 thousand) on January 24, 2017.



Table 3

Victory New Materials Limited Company and Subsidiaries  
Receivables from related parties reaching \$100 million or 20% of paid-in capital or more  
For the year ended December 31, 2020  
(Expressed in thousands of New Taiwan dollars)

No.	Company name	Related party	Relationship	Amount due from a related party	Turnover rate	Overdue		Amount received in subsequent period	Allowance for impairment loss
						Amount	Actions taken		
1	JinJiang Chengchang	Century Victory	The same parent company	\$ 135,472 (CN¥31,714 thousand)	(Note 1)	\$ -	-	\$ -	\$ -

Note 1: It is a loan, the calculation of turnover rate is not applicable.

Note 2: Transactions between the Company and its subsidiaries were eliminated on consolidated.

Table 4

Victory New Materials Limited Company and Subsidiaries  
Significant inter-company transactions between the Company and subsidiaries  
For the year ended December 31, 2020  
(Expressed in thousands of New Taiwan dollars)

No.	Investee company	Counterparty	Relationship (Note 1)	Transaction details			
				Financial statement accounts	Amount	Payment terms	% to total sales or total assets
1	JinJiang Chengchang	Century Victory	1	Other receivables	\$ 135,472 (CN¥31,714 thousand)	-	2%

Note 1: Relationship with related party is as follows:

- 1. From a subsidiary to a subsidiary

Note 2: Transaction between the Company and its subsidiaries were eliminated on consolidated.

Table 5

## Victory New Materials Limited Company and Subsidiaries

## Information on investments

For the year ended December 31, 2020

(Expressed in thousands of New Taiwan dollars)

No.	Investor company	Investee company	Location	Main business and products	Original investment amount		As of December 31, 2020			Net income (loss) of the investee	Share of profit (loss)	Note
					December 31, 2020	December 31, 2019	Number of shares	%	Carrying amount			
1	The Company	Super Light	Nevada, U.S.A.	Investment	\$ 1,896,514 (CN¥443,974 thousand)	\$ 1,911,308 (CN¥443,974 thousand)	100	100%	\$ 5,141,721	(\$ 363,579)	(\$ 363,579)	
2	Super Light	Chengchang HK	Hong Kong	Investment	\$ 1,022,221 (CN¥239,302 thousand)	\$ 1,030,195 (CN¥239,302 thousand)	--	100%	\$ 5,141,721	(\$ 363,579)	(\$ 363,579)	

Note 1: The amount was calculated at the year-end exchange rate.

Note 2: Net income of investees, investments accounted for using the equity method of investor and net assets of investee company between the investor and investee company have been eliminated on consolidation.

Note 3: Refer to Table 6 for information relating to investees in Mainland China.

Table 6

Victory New Materials Limited Company and Subsidiaries  
Information on investments in Mainland China  
For the year ended December 31, 2020  
(Expressed in thousands of New Taiwan dollars)

No.	Investee company	Main businesses and products	Paid-in capital (Note 1)	Method of investment (Note 2)	Accumulated outward remittance for investment from Taiwan as of January 1, 2020	Remittance of funds		Accumulated outward remittance for investment from Taiwan as of December 31, 2020	Net income (loss) of the investee	% Ownership of direct or indirect investment	Investment gain (loss) (Note 3)	Carrying amount as of December 31, 2020	Accumulated repatriation of investment income as of December 31, 2020
						Outward	Inward						
1	Jinjiang Chengchang	Manufacturing and sells various soles and related shoe materials	\$ 488,834 (HK\$135,926 thousand)	(3)(100% held by Chengchang HK)	\$ -	\$ -	\$ -	\$ -	(\$ 363,577)	100%	(\$ 363,577)	\$ 5,196,705	\$ -
2	Century Victory	Manufacturing and sells various soles and related shoe materials	223,135 (US\$8,000 thousand)	(3)(100% held by the Company)	-	-	-	-	( 6,758)	100%	( 6,758)	206,650	-

No.	Accumulated outward remittance for investment in mainland China as of December 31, 2020	Investment amount authorized by Investment Commission, Ministry of Economic Affairs	Upper limit on the amount of investment stipulated by Investment Commission, Ministry of Economic Affairs
1	Not applicable	Not applicable	Not applicable

Note 1: The amount was calculated at the year-end exchange rate.

Note 2: Three types of investment methods are as follows for indications:

- (1) Go and invest directly in Mainland China.
- (2) Invest in Mainland China through third-region companies.
- (3) Other methods.

Note 3: The amount is recognized based on the audited financial statements. .

Note 4: Net income of investees, investments accounted for using the equity method of investor and net assets of investee company between the investor and investee company have been eliminated on consolidation.

Table 7

Victory New Materials Limited Company and Subsidiaries  
Information of major shareholders  
For the year ended December 31, 2020  
(Expressed in thousands of New Taiwan dollars)

No.	Name of major shareholder	Number of shares held	Percentage of shareholding (%)
1	Cheng Yue Investment Limited (BVI)	27,501	17.98
2	Wang Wen Ling	7,775	5.08

Note 1: The information of major shareholders in the above table was calculated by the Taiwan Depository and Clearing Corp. based on the information of shareholders of the Company who hold more than 5% of ordinary shares and special shares and have been completed the non-physical registration and delivery (including treasury shares) on the last business day of the end of each quarter. As for the shares capital recorded in the Company's financial statements may vary from the Company's actual number of shares which completed the non-physical registration and delivery due to different calculation basis or differences.

Note 2: In the above table, if the shareholder entrust its shares to the trust, disclosure is made by the individual accounts of the trustee who opened the trust account by the grantor. As for the shareholders' declarations for insider equity holdings exceeding 10% in accordance with the Securities and Exchange Act, his shareholding includes his own shares plus the shares entrusted to the trust with voting right, etc. For the information on the declaration for insider equity, please refer to Market Observatory Post System.

## **14. Segment information**

### *(1) General information*

Except for Jinjiang Chengchang and Century Victory, the Group is specializing in investment holding. Jinjiang Chengchang and Century Victory are mainly engaged in the research and development, manufacturing and trading of various shoe soles and related shoe materials, which are main source of profit for the Company. The segmentation information provided to operational decision-makers for review and the measurement basis is the same information reported in the financial statements. Therefore, the operational segmentation information that should be reported in 2020 and 2019 can be referred to consolidated financial statements for the year ended December 31, 2020 and 2019.