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HWA FONG RUBBER

Annual Shareholder's Meeting 2021

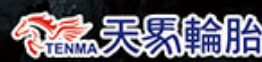


Hwa Fong Rubber Ind. Co., Ltd.

No. 300, Sec. 2, Chung-Shan Rd., Ta-Tsun Township,

Changhua County 515002, Taiwan

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Hwa Fong Rubber Ind. Co., Ltd.

2021 Annual Shareholders 'Meeting

Meeting Procedure

- I. Call meeting to order
- II. Chairman's address
- III. Reported Matters
- IV. Acknowledged Matters
- V. Matters for Discussion
- VI. Extemporaneous Motions
- VII. Adjournment

Hwa Fong Rubber Ind. Co., Ltd.

2021 Annual Shareholders' Meeting

Meeting Agenda

Time: June 17, 2021, (Thursday), at 9:30 a.m.

Place: No. 20, Sec. 1, Zhongshan Rd., Chung Chuang Village, Huatan Township, Changhua County
(the Company's Huatan Plant)

I. Call Meeting to Order (report of shareholding attendance)

II. Chairman's Address

III. Reported Matters

1. 2020 Business Report of the Company
2. 2020 Annual Final Accounting Books and Statements Audited by Audit Committee
3. The Company's Making of Endorsements/Guarantees for Other Companies
4. Exceeded Fund Loaning for Other Companies and Improvement Implementation of the
Subsidiary "Hwa Fong Rubber (Hong Kong) Inc. Co., Ltd."
5. The Company's Conducting of the Sound Operation Plan and the Implementation Effectiveness
6. Amendment of Procedure for Board of Directors Meetings

IV. Acknowledged Matters

1. 2020 Business Report and Annual Final Accounting Books and Statements
2. 2020 Appropriation of Loss proposal

V. Matters for Discussion

1. Amendment of Rules of Procedure for Shareholders' Meetings Proposal
2. Amendment of Articles of Incorporation
3. Amendment of Regulations Governing the Acquisition and Disposal of Assets

VI. Extemporaneous Motions

VII. Adjournment

Reported Matters

ONE

Proposal: 2020 Business Report, for your approval

Explanation: 2020 business report of the Company, please refer to P.7-8 of the agenda (attachment 1).

TWO

Proposal: 2020 Annual Final Accounting Books and Statements Audited by Audit Committee, for your approval

Explanation: Audit committee's audit report, please refer to P.9 of the agenda (attachment 2).

THREE

Proposal: The Company's Making of Endorsements/Guarantees for Other Companies, for your approval

Explanation: As of December 31, 2020, sum of the Company's making of endorsements/guarantees for affiliated companies was NT\$ 640,550 thousand, and details are as the following statement in accordance with the Company's Rules of Procedure for Making of Endorsements/Guarantees, for your approval and reference.

Counter parties of endorsements/guarantees	Financial Institutions of business transaction	Balance of endorsements/guarantees		Endorsement balance accounted for net worth rate
		US dollar (thousand)	NTD (thousand)	
Hwa Fong Rubber (Hong Kong) Inc. Co., Ltd.	EnTie Commercial Bank (approved by board of directors on January 10, 2020)	3,000	85,290	12.26%
Hwa Fong Rubber (Hong Kong) Inc. Co., Ltd.	Taichung Commercial Bank Co., Ltd. (approved by board of directors on January 4, 2018)	10,000	284,300	
Hwa Fong Rubber (China) Inc. Co., Ltd.	EnTie Commercial Bank (approved by board of directors on November 8, 2018)	3,000	85,290	8.99%
Hwa Fong Rubber (China) Inc. Co., Ltd.	E.SUN BANK (approved by board of directors on January 10, 2020)	5,000	142,150	
Counter party of endorsements/guarantees	Financial Institutions of business transaction	RMB (thousand)	NTD (thousand)	
Hwa Fong Rubber (China) Inc. Co., Ltd.	Sunny Financial Lease (China) (approved by board of directors on August 13, 2018)	10,000	43,520	
Sum			640,550	21.25%

Note: (1) The Company's total amount of endorsements/guarantees approved by a shareholders' meeting was NT\$ 3,015,149 thousand.

(2) The limit of endorsements/guarantees made by the Company for a single enterprise was 1,507,575 thousand.

FOUR

Proposal: Exceeded Fund Loaning for Other Companies and Improvement Implementation of the Subsidiary “Hwa Fong Rubber (Hong Kong) Inc. Co., Ltd.”, for your approval

Explanation:

1. Conducting in accordance with No. Financial-Supervisory-Securities-Auditing-1090339716 of April 24, 2020, and the Company’s improvement implementation of exceeded fund loaning for other companies was reported to the board of directors and a shareholders’ meeting.
2. The Company’s subsidiary “Hwa Fong Rubber (Hong Kong) Inc. Co., Ltd.” (hereinafter referred to as Hwa Fong Hong Kong) loaned funds of US\$ 7,300,000 to Hwa Fong Rubber (Singapore) Inc. Co., Ltd. (hereinafter referred to as Hwa Fong Singapore), accumulated accrued interest was US\$ 6,752,632.15, and the sum was US\$ 14,052,632.15 in 1997. After 2019 financial statements of the subsidiary “Hwa Fong Hong Kong” were audited, it was confirmed that the subsidiary’s net worth of shareholder’s equity changed into negative value, and caused that the balance of original funds loaning to Hwa Fong Singapore did not meet the limited amount of the subsidiary’s Regulations Governing Loaning of Funds.
3. To improve the deficiency of exceeded fund loaning of the subsidiary’s Hwa Fong Hong Kong, the Company separately reported the improvement implementation plan to the board of directors of the Company on May 13 and August 13, 2020, and after the debt-to-equity swap improvement plan was formally reported to the board of directors on January 18, 2021, the local accountants of the location of Hwa Fong Singapore were appointed to conduct related convertible matters, and the modification was completed on April 28, 2021, for your approval and reference.

FIVE

Proposal: The Company’s Conducting of the Sound Operation Plan and the Implementation Effectiveness, for your approval

Explanation: To improve the Company’s financial structure, and to strengthen the operational structure, and conducted reduction of capital and appropriation of loss, and reduction for conducting of the sound operation plan and the implementation effectiveness, please refer to P.10 of the agenda (attachment 3), for your approval and reference.

SIX

Proposal: Amendment of Procedure for Board of Directors Meetings Proposal, for your approval

Explanation: The Company revised Procedure for Board of Directors Meetings in accordance with the amended regulations of the competent authority, for the comparison of related amended articles, please refer to P.11-12 of the agenda (attachment 4), for your approval and reference.

Acknowledged Matters

Proposed by board of directors

ONE

Proposal: 2020 Business Report and Financial Statements Proposal, for your approval

Explanation:

1. 2020 annual financial statements (and consolidated financial statements) were audited by the accountants Hsu, Chien-Yeh and Wu, Sung-Yuan of PwC Taiwan, and to issue an auditors' report that includes our opinion, together with the business report were audited by the Company's audit committee, and the audit report has been offered.
2. Business report, accountants' audit report and the preceding financial statements, please refer to P.7-8 (attachment 1) and P.13-37 (attachment 5) of the agenda.
3. For your approval

Resolution:

Proposed by board of directors

TWO

Proposal: 2020 Appropriation of Loss Proposal, for your approval

Explanation:

1. 2020 net income after tax of the Company was NT\$ 371,600,572, after added accumulated deficits of the last fiscal year of NT\$ 754,093,585, changes in ownership interests in subsidiaries of NT\$ 2,283,650 and actuarial loss of defined benefit plan of NT\$ 3,301,962, ending accumulated deficit was NT\$ 388,078,625.
2. 2020 appropriation of loss statement, please refer to P.38 of the agenda (attachment 6).
3. For your approval

Resolution:

Matters for Discussion

Proposed by board of directors

ONE

Proposal: Amendment of Rules of Procedure for Shareholders' Meetings Proposal, for your decision

Explanation:

1. The Company revised Rules of Procedure for Shareholders' Meetings in accordance with the amended regulations of the competent authority, for the comparison of related amended articles, please refer to attachment 7 (P.39 of the agenda) "Comparison of Amended Articles of Rules of Procedure for Shareholders' Meetings of Hwa Fong Rubber Ind. Co., Ltd."
2. For your decision

Resolution:

Proposed by board of directors

TWO

Proposal: Amendment of Articles of Incorporation Proposal, for your decision

Explanation:

1. Due to the variation of the industrial environment where the Company lies in, the enterprise is in the phase of steady growth, and considered the future financial plan, and distributable earnings were drafted to distribute by each half fiscal year, so amended Articles of Incorporation, for comparison of related amended articles, details are stated in attachment 8 (please refer to P.40-42 of the agenda) as "Comparison of Amended Articles of Articles of Incorporation of Hwa Fong Rubber Ind. Co., Ltd."
2. For your decision

Resolution:

Proposed by board of directors

THREE

Proposal: Amendment of Regulations Governing the Acquisition and Disposal of Assets Proposal, for your decision

Explanation:

1. To adapt to the Company's operation plan and its future plan, and amended the Company's Regulations Governing the Acquisition and Disposal of Assets, for comparison of related amended articles, details are stated in attachment 9 (please refer to P.43 of the agenda) as "Comparison of Regulations Governing the Acquisition and Disposal of Assets of Hwa Fong Rubber Ind. Co., Ltd."
2. For your decision

Resolution:

Extemporaneous Motions

Adjournment

Hwa Fong Rubber Ind. Co., Ltd.

2021 Business Report

Looking back in 2020, COVID-19 has raged around the world, international financial market has been volatile, US stocks have triggered the second circuit breaker, crude oil futures fell to negative value for the first time, Taiwan stock index hit a record high, and the US double reverse survey, etc., an international political and economic situation was turbulent progressively, and Taiwan can't keep out of the affair, and in addition, poor sales in the global overall auto market, and environmental protection policy of Mainland China has tended to be strict, and various environmental factors have brought challenges to the operational capacity and core competitiveness of the enterprise itself.

2020 Operating Results

2020 consolidated net operating revenue of the Company was NT\$ 4,882,864 thousand, compared with the consolidated net operating revenue of the year 2019 of NT\$ 5,264,937 thousand, decreased by NT\$ 382,073 thousand; the consolidated net profit after tax was NT\$ 561,919 thousand, and compared with the consolidated net profit after tax of the year 2019 of NT\$ 148,280 thousand, increased by NT\$ 413,639 thousand.

2020 net revenue of the Company was NT\$ 2,096,167 thousand, compared with the net revenue of the year 2019 of NT\$ 2,182,612 thousand, decreased by 3.96%; under the rigorous cost control, operating costs decreased by 11.67%, compared with the year 2019, however, net income of operating margin increasing was NT\$ 109,735 thousand, increased by 22.88%; 2020 operating expenses slightly increased by 2.64%, compared with the last year, and operating net profit was NT\$ 280,598 thousand, compared with the last year, increased by NT\$ 101,786 thousand, it substantially grew; in the aspect of non-operating income and expenses, mainly came from other income of NT\$ 75,267 thousand and benefits of recognized subsidiaries, associates and joint ventures by using equity method of NT\$ 157,939 thousand, and caused net income of non-operating income and expenses of NT\$180,535 thousand; annual operating results is net income after tax of NT\$ 371,601 thousand, and compared with the last year, it was a substantial growth.

2020 Production and Sales Situation & Operation Statement of the Company are as follows:

(1) Production and Sales Situation:

Unit: thousand

Item	Year	2020 Production volume	2020 Sales volume	2019 Sales volume	Sales volume Increase (decrease)	%
Bicycle tire		1,055	1,077	1,284	-207	-16.12%
Agricultural/industrial tire		1,068	1,028	1,055	-27	-2.56%
Motorcycle tire		2,476	2,509	2,489	20	0.80%
Truck/auto tire		44	46	70	-24	-34.29%
Radial tire		342	331	321	10	3.12%
Other rubber products		-	380	414	-34	-8.21%

(2) Operation Statement:

Unit: NT\$ 1,000

Item	Year	2020 Amount	2019 Amount	Increased (decreased) amount	%
Operating revenue		2,096,167	2,182,612	(86,445)	-3.96%
Operating costs		1,506,594	1,705,605	(199,011)	-11.67%
Operating margin - net income		589,390	479,655	109,735	22.88%
Operating expenses		308,792	300,843	7,949	2.64%
Operating net profit		280,598	178,812	101,786	56.92%
Non-operating income and expenses		180,535	(106,439)	286,974	269.61%
Net income (loss) before tax		461,133	72,373	388,760	537.16%
Net income (loss)		371,601	10,891	360,710	3312.00%

Looking ahead in 2021, although the vaccines of COVID-19 has been launched, various countries still need abundant vaccine doses and vaccination time, otherwise the issue of raging COVID-19 around the world is hard to eliminate in a short time, and the international political economic events are treacherous and changeable, no matter the U.S. double reverse survey, the fluctuation in financial market and weak sales in auto market, etc., the preceding events occurred in 2020, but all are classified as proceeding events, needed to be solved by wise political leaders, and due to the turbulence and instability in the political situation, the economic development has been strongly influenced and it has shown that whether high-tech industry or conventional industry will encounter more difficult environment and challenges this year.

In European market, the sales strategies, except the sales promotion of high gross profit increasing and high-added value products, also aimed to increase the cooperation with bicycle factories and orders. In addition to these two strategies mentioned above, and new product development completed in 2020 will increase customer selection and competitiveness of expanding the market.

In American market, as America has assessed anti-dumping duties of exported auto tires and light truck tires from Taiwan, Thailand, South Korea and Vietnam, and it caused that the Company suspended to export this type of products to America for sale, and presently it's still pending for the final verdict to reach a verdict, then the decided tax rate will be assessed, and it assures that this type of products whether will be continuously sold to America in the future. The Company internally has actively improved, reduced waste, and avoided unnecessary cost increasing, and the unit of R&D also has striven for the development of tire's new patterns and specifications, and expected to enhance the Company's overall competitiveness through it.

Encountering the variation of international political and economic situation, the Company still has actively invested in equipment and talents, etc., except the original market, also has striven to expand the market of ASEAN countries by means of capacity utilization rate increasing, development of tires with high-added value, and constant input of research and development, etc., and stayed the Company's international competitiveness, made every effort to break through the overall economic dilemma in 2021, and lived up to shareholders' support and expectation.

Chairman: Shen, Kuo-Jung

Managerial officer: Wang, Jiaw-Chyi

Accounting supervisor: Lee, Yuan-Chi

Attachment 2

Audit Committee's Auditor's Report

The board of directors prepared the Company's business report, financial statements (individual and consolidated financial statements) and earnings distribution proposal of the year 2020, and all were audited by the audit committee, and were reviewed and determined to be correct and accurate by the audit committee members, and the report was made in accordance with Article 14-4 of Securities and Exchange Act and Article 219 of the Company Act.

For your examination

Faithfully

2021 Annual Shareholders' Meeting of Hwa Fong Rubber Ind. Co., Ltd.

Convener of Audit Committee: Tsai, Hung-Wen

March 18, 2021

Hwa Fong Rubber Ind. Co., Ltd.

Implementation of Capital Reducing and the Sound Operation Plan & Implementation Effectiveness

1. Implementation: After approved by the solution of a special shareholders' meeting on December 9, 2020, the Company conducted capital reduction of NT\$ 530,000,000, eliminated the issued shares of 53,000,000 shares (included public issued shares of 39,216,793 shares and privately placed shares of 13,783,207 shares), and all were used to cover accumulated deficits, the capital reduction rate was 15.947085%, and paid-up capital after reduced capital was NT\$ 2,793,491,340. As it was approved by No. Financial-Supervisory-Securities-Auditing-1090379320 issued by Financial Supervisory Commission on January 12, 2021, and change registration of paid-in capital was implemented in accordance with Ching Shou Shang Tzu no. 11001020810 issued by Ministry of Economic Affairs on February 26, 2021, and approved by Tai Cheng Shang Yi Tzu letter no. 1100003505 issued by Taiwan Stock Exchange on March 2, 2021. In addition, the record date of exchanging new shares as a result of a capital decrease was fixed on March 26, 2021, new exchanged shares were listed to transact on March 29, 2021, and related matters of capital reduction were conducted.
2. Implementation effectiveness: As the sound operation plan was implemented, the Company's operation and profits have significant improvements, and the consolidated income statement is as follows:

Unit: NT\$ 1,000

Year Item	2020 Amount	2019 Amount	Increased (decreased) amount	%
Operating revenue	4,882,864	5,264,937	(382,073)	-7.26%
Operating costs	3,723,434	4,289,366	(565,932)	-13.19%
Operating margin - net income	1,159,430	975,571	183,859	18.85%
Operating expenses	554,366	610,065	(55,699)	-9.13%
Operating net profit	605,064	365,506	239,558	65.54%
Non-operating income and expenses	140,782	(72,794)	213,576	293.40%
Net income (loss) before tax	745,846	292,712	453,134	154.81%
Net income (loss)	561,919	148,280	413,639	278.96%
Net Income (loss) - Attributed to Stockholders of the Company	371,601	10,891	360,710	3312.00%

Attachment 4

Hwa Fong Rubber Ind. Co., Ltd.

Comparison of Amended Articles of Procedure for Board of Directors Meetings

Amended articles	Current articles	Explanation
Article 11 Paragraph 1 and 2 are omitted. If at any time during the proceeding of a board of directors meeting the directors sitting at the meeting are not more than half of the directors present at the meeting, then upon motion by the directors sitting at the meeting, the chair shall declare a suspension of meeting, in which case <u>paragraph 5</u> of Article 8 shall apply mutatis mutandis. The following contents were omitted.	Article 11 Paragraph 1 and 2 are omitted. If at any time during the proceeding of a board of directors meeting the directors sitting at the meeting are not more than half of the directors present at the meeting, then upon motion by the directors sitting at the meeting, the chair shall declare a suspension of meeting, in which case <u>paragraph 3</u> of Article 8 shall apply mutatis mutandis. The following contents were omitted.	Adjusted in accordance with the order of paragraphs.
Article 12 The following items shall be submitted for discussion by the Company's board of directors: 1. Corporate business plan. 2. Annual financial reports and <u>the financial report of the second quarter audited and attested by a certified public accountant (CPA).</u> The following contents were omitted.	Article 12 The following items shall be submitted for discussion by the Company's board of directors: 1. Corporate business plan. 2. Annual financial reports. The following contents were omitted.	Revised, and adjusted item 2 mentioned in paragraph 1 in accordance with Article 14-5 of Securities and Exchange Act.
Article 19 The history of drawing up and amending the Procedure was as follows: 1. The drafting of the Procedure approved by the board of directors was made on November 24, 2006. 2. The amendment approved by the board of directors was made on August 23, 2007. 3. The amendment approved by the board of directors was made on March 27, 2008. 4. The amendment approved by the board of directors was made on June 16, 2009. 5. The amendment approved by the board of directors was made on October 8, 2009. 6. The amendment approved by the board of directors was made on June 25, 2010.	Article 19 The history of drawing up and amending the Procedure was as follows: 1. The drafting of the Procedure approved by the board of directors was made on November 24, 2006. 2. The amendment approved by the board of directors was made on August 23, 2007. 3. The amendment approved by the board of directors was made on March 27, 2008. 4. The amendment approved by the board of directors was made on June 16, 2009. 5. The amendment approved by the board of directors was made on October 8, 2009. 6. The amendment approved by the board of directors was made on June 25, 2010.	Added amendment date.

7. The amendment approved by the board of directors was made on September 24, 2012. 8. The amendment approved by the board of directors was made on March 28, 2013. 9. The amendment approved by the board of directors was made on February 1, 2016. 10. The amendment approved by the board of directors was made on March 20, 2019. 11. The amendment approved by the board of directors was made on March 20, 2020. <u>12. The amendment approved by the board of directors was made on March 18, 2021.</u>	7. The amendment approved by the board of directors was made on September 24, 2012. 8. The amendment approved by the board of directors was made on March 28, 2013. 9. The amendment approved by the board of directors was made on February 1, 2016. 10. The amendment approved by the board of directors was made on March 20, 2019. 11. The amendment approved by the board of directors was made on March 20, 2020.	
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Attachment 5

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of Hwa Fong Rubber Industrial Co., Ltd.

Opinion

We have audited the accompanying parent company only balance sheets of Hwa Fong Rubber Industrial Co., Ltd. (the “Company”) as at December 31, 2020 and 2019, and the related parent company only statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the parent company only financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the reports of other auditors (please refer to ‘Other matter’ section of our report), the accompanying parent company only financial statements present fairly, in all material respects, the parent company only financial position of the Company as at December 31, 2020 and 2019, and its parent company only financial performance and its parent company only cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”.

Basis for opinion

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Only financial statements section of our report. We are independent of the Company in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. Based on our audits and the audit reports of other auditors, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the parent company only financial statements of the current period. These matters were addressed in the context of our audit of the parent company only financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

Key audit matters for the Group's parent company only financial statements of the current period are stated as follows:

Key audit matter –Evaluation on accounts receivable allowance loss

Description

Please refer to Note 4(9) for accounting policies for the evaluation of accounts receivable, Note 5(2) for the uncertainty of accounting estimates and assumptions related to accounts receivable, and Note 6(4) for details of accounts receivable. On December 31, 2020, the accounts receivable and allowance for uncollectible accounts of the Group, were NT\$193,750 thousand and NT\$2,070 thousand, respectively.

Part of the Group's business is to sell products through distributors in various regions. The financial situation of distributors will affect the recyclability risk of accounts receivable. Since the impact of accounts receivable on the overall financial statements is significant, and the expected credit risk loss measures the allowance loss of accounts receivable during the duration, the measurement process should be appropriate to distinguish the collection from groups and judge the application of relevant assumptions in the analysis and measurement process. The measurement of expected credit loss often involves subjective judgment, analysis, and estimation, and thus the measurement results affect the net amount of accounts receivable. Therefore, we consider the impairment evaluation on accounts receivable allowance loss as a critical audit matter.

How our audit addressed the matter

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

1. Obtain the expected loss rate calculated by the management according to the historical data and forward-looking information of similar credit risk groups to evaluate the rationality of accounts receivable provision.
2. Verify that Hwa Fong Group is used to evaluate the correctness of the accounts receivable age report to confirm that the report information is consistent with its policies.
3. To test the recoverability of accounts receivable by sampling and checking the cash receipts after the due date.
4. For overdue and uncollected accounts, learn about the customer's historical payment status, whether it can provide collateral and other repayments to assess the adequacy of the management's provision for losses.

Key audit matter –Evaluation of the loss of inventory allowance for a falling price

Description

Please refer to Note 4(11) for the accounting policies for inventory evaluation, Note 5(2) for the uncertainty of accounting estimates and assumptions for inventory evaluation, and Note 6(5) for details of the inventory accounting items. On December 31, 2020, the Group had inventories and allowance for impairment losses of NT\$338,849 thousand and NT\$37,961 thousand, respectively.

The inventory of Hwa Fong Group is measured by cost and net realizable value. In addition, provision for depreciation loss shall be made according to the degree of inventory de-aging for inventories over a specific period and individually identified obsolete inventories. Due to the impact of international raw material price fluctuation and market supply and demand, the cost of raw materials and the selling price of products may fluctuate sharply, resulting in a higher risk that the net realizable inventory value is lower than the book value and sluggish. Considering that Hwa Fong Group has a high degree of estimation uncertainty due to the diversification of product models, subjective judgment is often involved in evaluating the net realizable value of obsolete inventory items and their evaluation. Therefore, our accountant believes that evaluating the allowance for depreciation loss of inventory is one of the most important items in this year's audit.

How our audit addressed the matter

We performed the following audit procedures in respect of the above key audit matter:

1. To understand the operation and industrial characteristics of Hwa Fong Group and evaluate the rationality of the policies adopted to offset inventory evaluation losses.
2. Review the annual inventory plan and participate in the annual inventory to evaluate the effectiveness of management in controlling obsolete and damaged inventory.
3. Verify the correctness of the inventory age report used by Hwa Fong Group to confirm that the report information is consistent with its policy.
4. Obtain the statement of net realized value of each inventory, confirm that the calculation logic is consistent, test the basis of the estimation of net realized value of inventory, including checking the sales price, purchase price and other supporting documents, and recalculate and evaluate the rationality of inventory evaluation.

Key audit matter - Impairment evaluation on property, plant and equipment on equity method

Description

Please refer to Note 4(15) for a detailed description of the accounting policies for impairment of investment in non-financial assets using the equity method. Note 6(6) for details of the accounting items of investment adopting the equity method.

Hwa Fong Rubber (China) Co., Ltd. (after this referred to as "China Hwa Fong") and Hwa Fong Rubber (Suzhou) Co., Ltd. (after this referred to as "Suzhou Hwa Fong "), subsidiaries of Hwa Fong Group, have been highly competitive in their respective industries in recent years. Due to the restrictions of China's environmental protection laws and regulations in 2020, the production has been restricted and the sales have been affected jointly, resulting in losses in the financial statements. Therefore, the property, plant, and equipment of China Hwa Fong and Suzhou Hwa Fong showed signs of impairment. As the book value of the relevant real estate, plant and equipment are significant, the accountant considers that impairment assessment is one of the most critical matters in this year's audit.

How our audit addressed the matter

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

1. To understand the rationality of the future cash flow estimation process of each CGU on which the management's asset impairment assessment is based on.
2. Discuss with the management about the future operation forecast of Hwa Fong (China) and Hwa Fong (Suzhou) and compare it with the historical results.
3. For the real estate and plant, to obtain the transaction market price of the adjacent areas, and evaluate the rationality of the management's taking the fair value less the cost of sale as the recoverable amount.
4. For the part of machinery and equipment, the evaluation management committee asks the external evaluation company to issue an evaluation report, which includes the following procedures:
 - (1) Experts' qualification, professional ability, independence, and competence in related field.
 - (2) The industry generally adopts the purpose and scope of the review expert opinion and the measurement method used.
 - (3) Check parameters of evaluation model and setting of calculation formula.
 - (4) Evaluate the reasonableness of the major assumptions used in the model.

Other matter - Scope of the audit

We did not audit the financial statements of certain investees accounted for using the equity method included in the only financial statements. Those financial statements were audited by other independent accountants whose reports thereon have been furnished to us, and our opinion expressed herein is based solely on the audit reports of the other independent accountants. On December 31, 2020 and 2019, the Company recognized the investments accounted for using equity method for the investees above amounting to NT\$768,818 thousand and NT\$637,424 thousand, respectively, constituting 12.49% and 11.94% of the entire parent company only assets, respectively. In the same period, recognized comprehensive income (loss) for investees above amounting to NT\$14,176 thousand and NT\$33,115 thousand, constituting 5.05% and 48.73% of the parent company only comprehensive income (loss) for the years then ended, respectively.

Responsibilities of management and those charged with governance for the only financial statements

Management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”, and for such internal control as management determines is necessary to enable the preparation of parent company only financial statements that are free from material misstatement, whether due to fraud or error

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

Those charged with governance, including the supervisors, are responsible for overseeing the Company’s financial reporting process.

Auditor's responsibilities for the audit of the parent company only financial statements

Our objectives are to obtain reasonable assurance about whether the parent company only financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ROC GAAS 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 parent company only financial statements.

As part of an audit in accordance with ROC GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the parent company only financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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.

Shiu, Jian-Ye

Wu, Sung-Yuan

For and on behalf of PricewaterhouseCoopers, Taiwan
March 19, 2021

HWA FONG RUBBER INDUSTRIAL CO., LTD. AND SUBSIDIARIES
PARENT COMPANY ONLY BALANCE SHEETS
YEARS ENDED DECEMBER 31, 2020 AND 2019
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Assets		Notes	December 31, 2020		December 31, 2019	
			Amount	%	Amount	%
Current assets						
1100	Cash and cash equivalents	6(1)	\$ 354,541	6	\$ 261,046	5
1136	Financial assets measured by amortized cost-current	6(3)(8)	147,289	2	3,400	-
1150	Notes receivable, net	6(4)	30,383	1	30,977	1
1170	Accounts receivable, net	6(4)	191,680	3	158,751	3
1180	Accounts receivable - related parties, net	7	104,519	2	101,791	2
1200	Other receivables		5,652	-	3,739	-
1210	Other receivables - related parties	7	210,534	3	196,409	4
1220	Current income tax assets		-	-	28,010	-
130X	Inventories	6(5)	300,888	5	275,838	5
1470	Other current assets	7	14,027	-	28,030	-
11XX	Total current assets		<u>1,359,513</u>	<u>22</u>	<u>1,087,991</u>	<u>20</u>
Non-current assets						
1535	Non-current financial assets at amortized cost	6(3) and 8	223,113	4	97,245	2
1550	Investments accounted for using equity method	6(6)	3,017,764	49	2,729,137	51
1600	Property, plant and equipment	6(7) and 8	1,426,963	23	1,336,914	25
1755	Right-of-use asset	6(8)	6,414	-	3,429	-
1840	Deferred income tax assets	6(24)	71,211	1	29,784	1
1900	Other non-current assets	6(26) and 8	48,391	1	52,777	1
15XX	Total non-current assets		<u>4,793,856</u>	<u>78</u>	<u>4,249,286</u>	<u>80</u>
1XXX	Total asset		<u>\$ 6,153,369</u>	<u>100</u>	<u>\$ 5,337,277</u>	<u>100</u>

(Continued)

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HWA FONG RUBBER INDUSTRIAL CO., LTD. AND SUBSIDIARIES
PARENT COMPANY ONLY BALANCE SHEETS
YEARS ENDED DECEMBER 31, 2020 AND 2019
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Liabilities and Equity		Notes	December 31, 2020		December 31, 2019	
			Amount	%	Amount	%
Current liabilities						
2100	Short-term loans	6(9) and 8	\$ 497,612	8	\$ 233,424	5
2110	Short-term tickets payable	6(10)	49,966	1	-	-
2130	Contract liabilities-current	6(18)	18,499	-	10,928	-
2150	Notes payable		-	-	2,313	-
2170	Accounts payable		101,489	2	117,871	2
2180	Accounts payable - related parties	7	3,566	-	1,374	-
2200	Other payables	6(11)	118,678	2	94,336	2
2220	Other payables-related parties	7	115	-	114	-
2230	Current income tax liabilities		48,155	1	40,006	1
2280	Lease liabilities-current	6(8)	3,055	-	1,736	-
2300	Current income tax liabilities	6(12)(18) and 8	83,201	1	55,094	1
21XX	Total current liabilities		924,336	15	557,196	11
Non-current liabilities						
2540	Long-term loans	6(12) and 8	1,235,073	20	1,228,535	23
2570	Deferred income tax liabilities	6(24)	219,118	3	193,795	3
2580	Lease liabilities-non-current	6(8)	3,421	-	1,797	-
2640	Net defined benefit liability, non-current	6(13)	47,183	1	50,839	1
2650	Investment accounted under the equity method	6(6)	670,184	11	529,529	10
2670	Other non-current liabilities		38,905	1	39,287	1
25XX	Total non-current liabilities		2,213,884	36	2,043,782	38
2XXX	Total Liabilities		3,138,220	51	2,600,978	49
Equity						
Share capital		6(14)				
3110	Common shares		3,323,492	54	3,323,492	62
Capital surplus		6(15)				
3200	Capital surplus		37,256	1	36,954	1
Retained earnings		6(16)				
3350	Unappropriated retained earnings		(388,079)(	6)(	754,094)(	14)
Other equity interest		6(17)				
3400	Other equity interest		42,480	-	129,947	2
3XXX	Total equity interest		3,015,149	49	2,736,299	51
Significant contingent liabilities and unrecognized contract commitments		9				
Significant events after the balance sheet date		11				
3X2X	Total liabilities and equity		\$ 6,153,369	100	\$ 5,337,277	100

The accompanying notes are an integral part of these parent company only financial statements.

HWA FONG RUBBER INDUSTRIAL CO., LTD. AND SUBSIDIARIES
PARENT COMPANY ONLY BALANCE SHEETS
YEARS ENDED DECEMBER 31, 2020 AND 2019
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Items	Notes	December 31, 2020		December 31, 2019	
		Amount	%	Amount	%
Revenue	6(18) and 7	\$ 2,096,167	100	\$ 2,182,612	100
5000 Operating costs	6(5)(23)	(1,506,594)	(72)	(1,705,605)	(78)
5900 Gross profit		589,573	28	477,007	22
5920 Realized gains (loss) from sale		(183)	-	2,648	-
5950 Gross profit (loss) from operations		589,390	28	479,655	22
Operating expenses	6(23) and 7				
6100 Selling expenses		(125,093)	(6)	(135,245)	(6)
6200 General and administrative expenses		(148,518)	(7)	(126,464)	(6)
6300 Research and development expenses		(34,924)	(2)	(38,026)	(2)
6450 Expected credit impairment loss	12(2)	(257)	-	(1,108)	-
6000 Total operating expenses		(308,792)	(15)	(300,843)	(14)
6900 Operating loss		280,598	13	178,812	8
Non-operating income and expenses					
7100 Interest income	6(19)	6,857	-	8,618	-
7010 Other income	6(20) and 7	75,267	4	19,241	1
7020 Other gains and losses	6(21)	(31,994)	(2)	(15,887)	(1)
7050 Finance costs	6(22)	(27,534)	(1)	(26,814)	(1)
7070 Share of profit of subsidiaries, associates and joint ventures accounted for using equity method	6(6)	157,939	8	(91,597)	(4)
7000 Total non-operating income and expenses		180,535	9	(106,439)	(5)
7900 Profit before income tax		461,133	22	72,373	3
7950 Income tax expense	6(24)	(89,532)	(4)	(61,482)	(3)
8200 Profit for the year		\$ 371,601	18	\$ 10,891	-
Other comprehensive income (loss), net Components of other comprehensive income (loss) that will not be reclassified to profit or loss					
8311 Gains (losses) on remeasurements of defined benefit plans	6(13)	(\$ 4,127)	-	\$ 3,080	-
8330 Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss		425	-	(8,682)	-
8349 Income tax related to components of other comprehensive (loss) income that will not be reclassified to profit or loss	6(24)	825	-	(616)	-
8310 Components of other comprehensive income that will not be reclassified to profit or loss		(2,877)	-	(6,218)	-
Components of other comprehensive income that may be reclassified to profit or loss					
8380 Share of other comprehensive income (loss) of subsidiaries, associates and joint ventures accounted for using equity method, components of other comprehensive income that may be reclassified to profit or loss		(109,865)	(6)	79,103	4
8399 Income tax relating to components of other comprehensive income (loss) that may be reclassified to profit or loss	6(24)	21,973	1	(15,821)	(1)
8360 Components of other comprehensive loss that may be reclassified to profit or loss		(87,892)	(5)	63,282	3
8300 Other comprehensive loss, net		(\$ 90,769)	(5)	\$ 57,064	3
8500 Total comprehensive income for the year		\$ 280,832	13	\$ 67,955	3
Basic earnings per share	6(25)				
9750 Total basic earnings per share		\$	1.33	\$	0.04
Diluted earnings per share	6(25)				
9850 Total diluted earnings per share		\$	1.33	\$	0.04

The accompanying notes are an integral part of these parent company only financial statements.

HWA FONG RUBBER INDUSTRIAL CO., LTD. AND SUBSIDIARIES
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
YEARS ENDED DECEMBER 31, 2020 AND 2019
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	<u>Note</u>	<u>Retained Earnings</u>				<u>Others</u>		<u>Total Equity</u>
		<u>Common Stock</u>	<u>Capital Reserve</u>	<u>Legal Reserve</u>	<u>Retained Earnings</u>	<u>Exchange Differences on Translation of Foreign Financial Statements</u>	<u>Unrealized gains (losses) on financial assets measured at fair value through</u>	
<u>Year 2019</u>								
Balance at January 1, 2019.		\$ 3,323,492	\$ 167,989	\$ 111,668	(\$ 1,004,392)	\$ 101,341	(\$ 34,724)	\$ 2,665,374
Net income for 2019					10,891	-	-	10,891
Other comprehensive income	6(17)	-	-	-	(6,266)	63,282	48	57,064
Total comprehensive income		-	-	-	4,625	63,282	48	67,955
Legal reserve used to offset accumulated deficits	6(16)	-	-	(111,668)	111,668	-	-	-
Capital surplus used to cover accumulated deficits	6(15)(16)	-	(126,250)	-	126,250	-	-	-
Changes in equity of associates and joint ventures accounted for using equity method	6(15)		(4,785)		7,755			2,970
Balance at December 31, 2019		\$ 3,323,492	\$ 36,954	\$ -	(\$ 754,094)	\$ 164,623	(\$ 34,676)	\$ 2,736,299
<u>Year 2020</u>								
Balance at January 1, 2020		\$ 3,323,492	\$ 36,954	\$ -	(\$ 754,094)	\$ 164,623	(\$ 34,676)	\$ 2,736,299
Net income for 2020		-	-	-	371,601	-	-	371,601
Other comprehensive income	6(17)	-	-	-	(3,302)	(87,892)	425	(90,769)
Total comprehensive income		-	-	-	368,299	(87,892)	425	280,832
Changes in equity of associates and joint ventures accounted for using equity method	6(15)		302		(2,284)	-	-	(1,982)
Balance at December 31, 2020		\$ 3,323,492	\$ 37,256	\$ -	(\$ 388,079)	\$ 76,731	(\$ 34,251)	\$ 3,015,149

The accompanying notes are an integral part of these parent company only financial statements.

HWA FONG RUBBER INDUSTRIAL CO., LTD. AND SUBSIDIARIES
PARENT COMPANY STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

		For the years ended December 31,	
	Notes	2020	2019
CASH FLOWS FROM INVESTING ACTIVITIES			
Profit before tax		\$ 461,133	\$ 72,373
Adjustments			
Depreciation expense	6(7)(8)(23)	103,684	110,061
Amortizations	6(23)	148	245
Expected credit (gain) loss	12(2)	257	1,108
Loss (gain) on disposal of property, plant and equipment	6(21)	(1,033)	58
Share of Profit of Associates Accounted for Using Equity Method)	6(6)	(157,939)	91,597
Interest expense	6(22)	27,534	26,814
Interest income	6(19)	(6,857)	(8,618)
Realized gain (loss) from sale		183	(2,648)
Changes in operating assets and liabilities			
Total changes in operating assets			
Notes receivable, net		594	2,699
Accounts receivable due from related parties	(	35,914)	20,741
Current inventories	(	25,050)	26,649
Other receivables due from related parties	(	16,038)	(3,399)
Income tax refund receivable		28,010	-
Other current assets		15,417	(2,351)
Changes in operating liabilities			
Current contract liabilities		7,571	10,928
Notes payable	(	2,313)	696
Accounts payable to related parties	(	14,190)	31,659
Other payables		18,562	(21,693)
Increase (decrease) in net defined benefit liability	(	7,784)	(8,496)
Other current liabilities	(	1,420)	644
Cash inflow generated from operations		394,555	349,067
Dividends received		46,427	48,425
Interest received		6,857	8,618
Dividends received	(	27,461)	(27,238)
Income taxes paid	(	74,687)	(10,752)
Net cash flows from (used in) operating activities		345,691	368,120
Cash flows from (used in) investing activities			
Investments accounted for using equity method	(	147,883)	-
Other receivables due from related parties		-	(179,580)
Acquisition of property, plant and equipment	6(26)	(173,226)	(89,437)
Proceeds from disposal of property, plant and		797	3,600
Increase in refundable deposits	(	7,987)	(7,402)
Current financial assets at amortized cost	(	143,889)	(3,400)
Non-current financial assets at amortized cost	(	125,868)	(69,915)
Cash used in investing activities	(	598,056)	(346,134)
Cash flows from (used in) financing activities			
Changes in current borrowings	6(27)	264,188	(275,452)
Proceeds from long-term debt	6(27)	67,900	995,320
Repayments of long-term debt	6(27)	(33,395)	(736,755)
Changes in short-term notes and bills payable	6(27)	49,966	-
Payments of lease liabilities	6(27)	(2,799)	(1,816)
Cash flows from (used in) financing activities		345,860	(18,703)
Net increase in cash and cash equivalents		93,495	3,283
Cash and cash equivalents at beginning of year		261,046	257,763
Cash and cash equivalents at end of year		\$ 354,541	\$ 261,046

The accompanying notes are an integral part of these parent company only financial statements.

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of Hwa Fong Rubber Industrial Co., Ltd. and Subsidiaries.

Opinion

We have audited the accompanying consolidated balance sheets of Hwa Fong Rubber Industrial Co., Ltd. and its subsidiaries (the “Group”) as at December 31, 2020 and 2019, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the reports of other auditors (please refer to ‘Other matter’ section of our report), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and 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 (ROC GAAS). Our responsibilities under those standards are further described in the Auditor’s 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 Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. Based on our audits and the audit reports of other auditors, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. 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.

Key audit matters for the Group’s consolidated financial statements of the current period are stated as follows:

Key audit matter – Evaluation on accounts receivable allowance loss

Description

Please refer to Note 4(11) for accounting policies on accounts receivable valuation, Note 5(2) for the uncertainty of accounting estimates and assumptions related to accounts receivable valuation, and Note 6(5) for details of accounts receivable valuation.

Part of the Group's business is to sell products through distributors in various regions. The financial situation of distributors will affect the recyclability risk of accounts receivable. Since the impact of accounts receivable on the overall financial statements is significant, and the expected credit risk loss measures the allowance loss of accounts receivable during the duration, the measurement process should be appropriate to distinguish the collection from groups and judge the application of relevant assumptions in the analysis and measurement process. The measurement of expected credit loss often involves subjective judgment, analysis, and estimation, and thus the measurement results affect the net amount of accounts receivable. Therefore, we consider the impairment evaluation on accounts receivable allowance loss as a critical audit matter.

How our audit addressed the matter

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

1. Obtain the expected loss rate calculated by the management according to the historical data and forward-looking information of similar credit risk groups to evaluate the rationality of accounts receivable provision.
2. Verify that Hwa Fong Group is used to evaluate the correctness of the accounts receivable age report to confirm that the report information is consistent with its policies.
3. To test the recoverability of accounts receivable by sampling and checking the cash receipts after the due date.
4. For overdue and uncollected accounts, learn about the customer's historical payment status, whether it can provide collateral and other repayments to assess the adequacy of the management's provision for losses.

Key audit matter - Evaluation of the loss of inventory allowance for a falling price

Description

Please refer to Note 4(13) of the consolidated financial report for detailed accounting policies for inventory evaluation, Note 5(2) for the uncertainty of accounting estimates and assumptions applied on inventory evaluation, and Note 6(6) for a detailed description of the inventory accounting subjects.

The inventory of Hwa Fong Group is measured by cost and net realizable value. In addition, provision for depreciation loss shall be made according to the degree of inventory de-aging for inventories over a specific period and individually identified obsolete inventories. Due to the impact of international raw material price fluctuation and market supply and demand, the cost of raw materials and the selling price of products may fluctuate sharply, resulting in a higher risk that the net realizable inventory value is lower than the book value and sluggish. Considering that Hwa Fong Group has a high degree of estimation uncertainty due to the diversification of product models, subjective judgment is often involved in evaluating the net realizable value of obsolete inventory items and their evaluation. Therefore, our accountant believes that evaluating the allowance for depreciation loss of inventory is one of the most important items in this year's audit.

How our audit addressed the matter

We performed the following audit procedures in respect of the above key audit matter:

1. To understand the operation and industrial characteristics of Hwa Fong Group and evaluate the rationality of the policies adopted to offset inventory evaluation losses.
2. Review the annual inventory plan and participate in the annual inventory to evaluate the effectiveness of management in controlling obsolete and damaged inventory.
3. Verify the correctness of the inventory age report used by Hwa Fong Group to confirm that the report information is consistent with its policy.
4. Obtain the statement of net realized value of each inventory, confirm that the calculation logic is consistent, test the basis of the estimation of net realized value of inventory, including checking the sales price, purchase price and other supporting documents, and recalculate and evaluate the rationality of inventory evaluation.

Key audit matter - Impairment evaluation on property, plant and equipment

Description

Please refer to Note 4(19) of the consolidated financial statements for details of the accounting policies for impairment of non-financial assets; Please refer to note 6(8) of the consolidated financial report for a detailed account description of the real estate, plant, and equipment.

Hwa Fong Rubber (China) Co., Ltd. (after this referred to as "China Hwa Fong") and Hwa Fong Rubber (Suzhou) Co., Ltd. (after this referred to as "Suzhou Hwa Fong"), subsidiaries of Hwa Fong Group, have been highly competitive in their respective industries in recent years. Due to the restrictions of China's environmental protection laws and regulations in 2020, the production has been restricted and the sales have been affected jointly, resulting in losses in the financial statements. Therefore, the property, plant, and equipment of China Hwa Fong and Suzhou Hwa Fong showed signs of impairment. As the book value of the relevant real estate, plant and equipment are significant, the accountant considers that impairment assessment is one of the most critical matters in this year's audit.

How our audit addressed the matter

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

1. To understand the rationality of the future cash flow estimation process of each CGU on which the management's asset impairment assessment is based on.
2. Discuss with the management about the future operation forecast of Hwa Fong (China) and Hwa Fong (Suzhou) and compare it with the historical results.

3. For the real estate and plant, to obtain the transaction market price of the adjacent areas, and evaluate the rationality of the management's taking the fair value less the cost of sale as the recoverable amount.
4. For the part of machinery and equipment, the evaluation management committee asks the external evaluation company to issue an evaluation report, which includes the following procedures:
 - (1) Experts' qualification, professional ability, independence, and competence in related fields.
 - (2) The industry generally adopts the purpose and scope of the review expert opinion and the measurement method used.
 - (3) Check parameters of evaluation model and setting of calculation formula.
 - (4) Evaluate the reasonableness of the major assumptions used in the model.

Other matter - Scope of the audit

We did not audit the financial statements of certain subsidiaries and investees accounted for using equity method that are included in the consolidated financial statements. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein is based solely on the audit reports of the other auditors. As of December 31, 2020 and 2019, the Group recognized the investments accounted for using equity method for aforementioned investees amounting to NT\$763,862 thousand and NT\$614,208 thousand, respectively, constituting 9.49% and 8.29% of the total consolidated assets, respectively; and recognized comprehensive income amounting to NT\$782,121 thousand and NT\$788,162 thousand, constituting 16.02% and 14.97% of the consolidated comprehensive income for the years then ended, respectively.

Other matter - Parent company only financial reports

We have audited and expressed an unqualified opinion on the parent company only financial statements of Hwa Fong Rubber Industrial Co., Ltd. as at and for the years ended December 31, 2020 and 2019.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the 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 charged with governance, including the supervisors, are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ROC GAAS 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 ROC GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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.

Shiu, Jian-Ye

Wu, Sung-Yuan

For and on behalf of PricewaterhouseCoopers, Taiwan
March 19, 2021

HWA FONG RUBBER INDUSTRIAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2020 AND 2019
 (EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Assets			December 31, 2020		December 31, 2019	
			Amount	%	Amount	%
Current assets						
1100	Cash and cash equivalents	6(1)	\$ 1,561,036	19	\$ 1,208,181	16
1110	Financial assets at fair value through profit or loss-current	6(2)	45,657	1	444	-
1136	Financial assets measured by amortized cost-current	6(4), 8	147,289	2	132,074	2
1150	Notes receivable, net	6(5)	34,518	-	70,569	1
1170	Accounts receivable, net	6(5)	766,673	10	779,900	11
1180	Accounts receivable, net-related parties	7(2)	4,138	-	4,066	-
1200	Other receivables		26,567	-	27,120	-
1210	Other receivables - related parties	7(2)	493	-	485	-
1220	Current income tax assets	6(27)	-	-	32,874	-
130X	Inventories	6(6)	956,274	12	1,028,387	14
1470	Other current assets		<u>31,516</u>	<u>-</u>	<u>44,862</u>	<u>1</u>
11XX	Total current assets		<u>3,574,161</u>	<u>44</u>	<u>3,328,962</u>	<u>45</u>
Non-current assets						
1535	Financial assets at amortized cost – non-current	6(4), 8	228,799	3	103,231	1
1550	Investments accounted for using equity method	6(7)	293,684	4	179,177	2
1600	Property, plant and equipment	6(8), 8	3,538,983	44	3,387,309	46
1755	Right-of-use asset	6(9)	49,531	1	65,188	1
1760	Investment property - net	6(10)	203,146	2	218,648	3
1780	Intangible assets		1,173	-	1,218	-
1840	Deferred income tax assets	6(28)	105,039	1	58,858	1
1900	Other non-current assets	6(30), 8	<u>55,201</u>	<u>1</u>	<u>58,858</u>	<u>1</u>
15XX	Total non-current assets		<u>4,475,556</u>	<u>56</u>	<u>4,078,447</u>	<u>55</u>
1XXX	Total assets		\$ 8,049,717	100	\$ 7,407,409	100

(Continued)

HWA FONG RUBBER INDUSTRIAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2020 AND 2019
 (EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Liabilities and Equity			December 31, 2020		December 31, 2019	
			Amount	%	Amount	%
Current liabilities						
2100	Short-term borrowings	6(11), 8	\$ 799,496	10	\$ 413,004	5
2110	Short-term tickets payable	6(12)	49,966	-	-	-
2130	Contract liabilities-current	6(22)	70,350	1	46,584	1
2150	Notes payable		-	-	2,313	-
2170	Accounts payable		395,306	5	429,779	6
2200	Other payables	6(13)	322,300	4	315,125	4
2220	Other payables - related parties	7(2)	892	-	1,102	-
2230	Current income tax liabilities		99,684	1	77,594	1
2250	Current provisions	6(14)	64,056	1	-	-
2280	Lease liabilities-current		3,400	-	2,078	-
2300	Other current liabilities	6(15), 6(16), 6(22) and 8	<u>142,168</u>	<u>2</u>	<u>362,205</u>	<u>5</u>
21XX	Total current liabilities		<u>1,947,618</u>	<u>24</u>	<u>1,649,784</u>	<u>22</u>
Non-current liabilities						
2540	Long-term borrowings	6(16), 8	1,235,073	15	1,256,304	17
2570	Deferred income tax liabilities	6(28)	223,892	3	200,686	3
2580	Lease liabilities-non-current		4,148	-	2,931	-
2600	Other non-current liabilities	6(17)	<u>114,008</u>	<u>2</u>	<u>117,230</u>	<u>2</u>
25XX	Total non-current liabilities		<u>1,577,121</u>	<u>20</u>	<u>1,577,151</u>	<u>22</u>
2XXX	Total Liabilities		<u>3,524,739</u>	<u>44</u>	<u>3,226,935</u>	<u>44</u>
Equity attributable to owners of parent						
Share capital		6(18)				
3110	Common shares		3,323,492	41	3,323,492	45
Capital surplus		6(19)				
3200	Capital surplus		37,256	-	36,954	-
Retained earnings		6(20)				
3350	Unappropriated retained earnings		(388,079)	(5)	(754,094)	(10)
Other equity		6(21)				
3400	Other equity interest		(42,480)	1	(129,947)	2
31XX	Equity attributable to owners of the parent		3,015,149	37	2,736,299	37
36XX	Non-controlling interest		<u>1,509,829</u>	<u>19</u>	<u>1,444,175</u>	<u>19</u>
3XXX	Total equity		<u>4,524,978</u>	<u>56</u>	<u>4,180,474</u>	<u>56</u>
Significant contingent liabilities and unrecognized contract commitments						
		9				
Significant events after the balance sheet date						
		11				
3X2X	Total liabilities and equity		<u>\$ 8,049,717</u>	<u>100</u>	<u>\$ 7,407,409</u>	<u>100</u>

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

HWA FONG RUBBER INDUSTRIAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31, 2020 AND 2019

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT EARNINGS PER SHARE AMOUNT)

	Items	Notes	Years ended December 31,			
			2020		2019	
			Amount	%	Amount	%
4000	Operating revenue	6(22) and 7(2)	\$ 4,882,864	100	\$ 5,264,937	100
5000	Operating costs	6(6)(27)	(3,723,434)	(76)	(4,289,366)	(81)
5900	Gross profit		<u>1,159,430</u>	<u>24</u>	<u>975,571</u>	<u>19</u>
	Operating expenses	6(27)				
6100	Selling expenses		(277,916)	(6)	(230,896)	(4)
6200	General and administrative expenses		(277,916)	(6)	(230,896)	(4)
6300	Research and development expenses		(34,923)	(1)	(38,026)	(1)
6450	Expected credit impairment loss	12(2)	<u>8,811</u>	<u>-</u>	<u>(54,700)</u>	<u>(1)</u>
6000	Total operating expenses		<u>(554,366)</u>	<u>(12)</u>	<u>(610,065)</u>	<u>(12)</u>
6900	Operating profit		<u>605,064</u>	<u>12</u>	<u>365,506</u>	<u>7</u>
	Non-operating income and expenses					
7100	Interest income	6(23)	12,121	-	15,981	1
7010	Other income	6(24)	49,220	1	12,500	-
7020	Other gains and losses	6(25)	123,574	3	(44,597)	(1)
7050	Finance costs	6(26)	(47,064)	(1)	(65,022)	(1)
7060	Share of profit of associates and joint ventures accounted for using equity method	6(7)	<u>2,931</u>	<u>-</u>	<u>8,344</u>	<u>-</u>
7000	Total non-operating income and expenses		<u>140,782</u>	<u>3</u>	<u>(72,794)</u>	<u>(1)</u>
7900	Profit before income tax		745,846	15	292,712	6
7950	Income tax expense	6(28)	<u>(183,927)</u>	<u>(4)</u>	<u>(144,432)</u>	<u>(3)</u>
8200	Profit for the year		<u>\$ 561,919</u>	<u>11</u>	<u>\$ 148,280</u>	<u>3</u>

(Continued)

HWA FONG RUBBER INDUSTRIAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31, 2020 AND 2019

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT EARNINGS PER SHARE AMOUNT)

	Items	Notes	Years ended December 31			
			2020		2019	
			Amount	%	Amount	%
	Other comprehensive income (loss) , net					
	Components of other comprehensive income (loss) that will not be reclassified to profit or loss					
8311	Gains (losses) on remeasurements of defined benefit plans	6(17)	(\$ 4,127)	-	(\$ 18,564)	-
8320	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss	6(7)	465	-	53	-
8349	Income tax related to components of other comprehensive (loss) income that will not be reclassified to profit or loss	6(28)	825	-	(3,713)	-
8310	Components of other comprehensive income that will not be reclassified to profit or loss.		<u>(2,837)</u>	-	<u>(14,798)</u>	-
	Components of other comprehensive income that may be reclassified to profit or loss					
8361	Exchange differences on translation of foreign financial statements		189,097	(4)	144,596	3
8370	Share of other comprehensive income (loss) of associates and joint ventures accounted for using equity method, components of other comprehensive income that may be reclassified to profit or loss	6(7)	(170)	-	(107)	-
8399	Income tax relating to components of other comprehensive income (loss) that may be reclassified to profit or loss	6(28)	<u>21,973</u>	<u>1</u>	<u>(15,821)</u>	<u>(1)</u>
8360	Total components of other comprehensive loss that may be reclassified to profit or loss		<u>(167,294)</u>	<u>(3)</u>	<u>(128,668)</u>	<u>(2)</u>
8300	Other comprehensive loss for the year, net		<u>(\$ 170,131)</u>	<u>(3)</u>	<u>\$ 113,870</u>	<u>2</u>
8500	Total comprehensive income for the year		<u>\$ 391,788</u>	<u>8</u>	<u>\$ 262,150</u>	<u>5</u>
	Profit, attributable to:					
8610	Owners of the parent		\$ 371,601	7	\$ 10,891	-
8620	Non-controlling interest		<u>\$ 190,318</u>	<u>4</u>	<u>\$ 137,389</u>	<u>3</u>
			<u>\$ 561,919</u>	<u>11</u>	<u>\$ 148,280</u>	<u>3</u>
	Comprehensive income attributable to:					
8710	Owners of the parent		\$ 280,832	6	\$ 67,955	1
8720	Non-controlling interest		<u>\$ 110,956</u>	<u>2</u>	<u>\$ 194,195</u>	<u>4</u>
			<u>\$ 391,788</u>	<u>8</u>	<u>\$ 262,150</u>	<u>5</u>
	Basic earnings per share					
9750	Total basic earnings per share	6(29)	<u>\$ 1.33</u>		<u>\$ 0.04</u>	
	Diluted earnings per share					
9850	Total diluted earnings per share	6(29)	<u>\$ 1.33</u>		<u>\$ 0.04</u>	

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

HWA FONG RUBBER INDUSTRIAL CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
YEARS ENDED DECEMBER 31, 2020 AND 2019
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Equity Attributable to Shareholders of the Parent										
Year	Note	Common Stock	Retained Earnings			Others		Total	Non-controlling Interests	Total Equity
			Capital Reserve	Legal Reserve	Retained Earnings	Exchange Differences on Translation of Foreign Financial Statements	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income			
<u>Year 2019</u>										
Balance at January 1, 2019		\$ 3,323,492	\$ 167,989	\$ 111,668	(\$ 1,004,392)	\$ 101,341	(\$ 34,724)	\$ 2,665,374	\$ 1,297,308	\$ 3,962,682
Net income for 2019		-	-	-	10,891	-	-	10,891	137,389	148,280
Other Comprehensive Income		-	-	-	(6,266)	63,282	48	57,064	56,806	113,870
Total Comprehensive Income		-	-	-	4,625	63,282	48	67,955	194,195	262,150
Legal reserve appropriated		-	-	(111,668)	111,668	-	-	-	-	-
Capital surplus used to cover accumulated deficits		-	(126,250)	-	126,250	-	-	-	-	-
Changes in Equities of Long-term Investments	6(19)	-	(4,785)	-	7,755	-	-	2,970	285	3,255
Dividends of the Company received by its subsidiaries	4(3)	-	-	-	-	-	-	-	(47,613)	(47,613)
Balance at December 31, 2019		\$ 3,323,492	\$ 36,954	\$ -	(\$ 754,094)	\$ 164,623	(\$ 34,676)	\$ 2,736,299	\$ 1,444,175	\$ 4,180,474
<u>Year 2020</u>										
Balance at January 1, 2020		\$ 3,323,492	\$ 36,954	\$ -	(\$ 754,094)	\$ 164,623	(\$ 34,676)	\$ 2,736,299	\$ 1,444,175	\$ 4,180,474
Net income for 2020		-	-	-	371,601	-	-	371,601	190,318	561,919
Other Comprehensive Income		-	-	-	(3,302)	(87,892)	425	(90,769)	(79,362)	(170,131)
Total Comprehensive Income		-	-	-	368,299	(87,892)	425	280,832	110,956	91,788
Changes in Equities of Long-term Investments	6(19) 2,284)	-	302	-	(	-	-	(1,982)	(194)	(2,176)
Dividends of the Company received by its subsidiaries	4(3)	-	-	-	-	-	-	-	(45,108)	(45,108)
Balance at December 31, 2020		\$ 3,323,492	\$ 37,256	\$ -	(\$ 388,079)	\$ 76,731	(\$ 34,251)	\$ 3,015,149	\$ 1,509,829	\$ 4,524,978

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

HWA FONG RUBBER INDUSTRIAL CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

CASH FLOWS FROM OPERATING ACTIVITIES	Notes	Years ended December 31,	
		2020	2019
Profit before tax		\$ 745,846	\$ 292,712
Adjustments			
Depreciation expense	6(8)(9(27))	214,179	225,683
Amortizations	6(27)	535	613
Expected credit (gain) loss	12(2)	(8,811)	54,700
Share of Profit of Associates Accounted for Using Equity Method)	6(7)	(2,931)	(8,344)
Gains on Financial Assets (Liabilities) at Fair Value through Profit or Loss	6(2)(25)	(8,741)	(25)
Loss on disposal of property, plant and equipment	6(25)	(1,782)	(3,877)
Disposal of land use rights benefits	6(25)	(115,895)	-
Interest expense	6(26)	47,064	65,022
Interest income	6(23)	(12,121)	(15,981)
Dividend income		(872)	(11)
Reversal of impairment loss on non-financial assets	6(7)(25)	30,548	(25,830)
Changes in operating assets and liabilities			
Changes in operating assets			
Current financial assets at fair value through profit or loss		(36,472)	-
Notes receivable	36,051		(16,850)
Accounts receivable due from related parties	21,966		(54,356)
Other receivables	545		13,136
Inventories	72,113		(393)
Other current assets	13,346		13,101
Changes in operating assets and liabilities			
Contract liabilities	23,766		26,826
Notes payable		(2,313)	(61,728)
Accounts payable		(34,473)	13,608
Other payables	15,495		(33,474)
Debt provision	64,056		-
Other current liabilities		(616)	31,106
Other non-current liabilities		(7,349)	21,959
Cash inflow (outflow) generated from operations		1,053,134	537,597
Interest received	12,121		15,981
Dividends received	3,482		11
Interest paid		(47,502)	(67,921)
Income taxes paid		(123,179)	(71,538)
Net cash flows from (used in) operating activities	898,056		414,130

(Continued)

HWA FONG RUBBER INDUSTRIAL CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

		Years ended December 31,	
	Notes	2020	2019
Cash flows from (used in) investing activities			
Acquisition of property, plant and equipment	6(30)	(\$ 459,287)	(\$ 293,108)
Proceeds from disposal of property, plant and equipment		8,857	32,986
Increase (Decrease) in refundable deposits		(14,482)	18,123
Acquisition of financial assets at amortized cost-current		(143,889)	(94,746)
Proceeds from disposal of financial assets at amortized cost-current		128,674	88,940
Non-current financial assets at amortized cost		(125,568)	123,312
Acquisition of investments accounted for		(117,733)	
- Right-of-use assets		133,108	
Intangible assets		(410)	(1,333)
Net cash flows from (used in) investing activities		(590,730)	(125,826)
Cash flows from (used in) financing activities			
Short-term loans	6(31)	395,492	(275,452)
Increase in short-term notes and bills payable	6(31)	49,966	-
Repayments of long-term debt	6(31)	67,900	1,070,494
Repayments of long-term debt	6(31)	(300,031)	(791,270)
Decrease in lease payable	6(31)	(3,004)	(2,029)
Increase in non-controlling interest-capital increase of subsidiaries	4(3)	(45,108)	(47,613)
Net cash flows from (used in) financing activities		165,215	(45,870)
Effect of exchange rate changes on cash and cash equivalents		(119,686)	53,206
Net increase (decrease) in cash and cash equivalents		352,855	295,640
Cash and cash equivalents at beginning of period		1,208,181	912,541
Cash and cash equivalents at end of period		\$ 1,561,036	\$ 1,208,181

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

Hwa Fong Rubber Ind. Co., Ltd.

2020 Loss Appropriation Statement

Unit: NTD

	Amount	Remark
Beginning of period undistributed earnings	(\$754,093,585)	
Net profit after tax	371,600,572	
Changes in ownership interests in subsidiaries of the year 2020	(2,283,650)	
Actuarial loss of defined benefit plan of the year 2020	(3,301,962)	
Accumulated deficits	(388,078,625)	
Recover items:		
Legal reserve	0	
Special reserve	0	
Capital reserve - common stock premium	0	
Ending of period accumulated deficits	(388,078,625)	

Chairman: Shen, Kuo-Jung

Managerial
officer:

Wang, Jiaw-Chyi

Accounting
supervisor:

Lee, Yuan-Chi

Hwa Fong Rubber Ind. Co., Ltd.

Comparison of Amended Articles of Rules of Procedure for Shareholders' Meetings

Amended articles	Current articles	Explanation
Article 8 The chair shall call the meeting to order at the appointed meeting time, <u>and announce related information, such as the number of nonvoting rights and the number of shares in attendance, etc., at the same time.</u> However, when the attending shareholders do not represent a majority of the total number of issued shares, the chair may announce a postponement, provided that no more than two such postponements, for a combined total of no more than one hour, may be made. If the quorum is not met after two postponements and the attending shareholders still represent less than one-third of the total number of issued shares, a tentative resolution may be adopted pursuant to Article 175, paragraph 1 of the Company Act. When, prior to conclusion of the meeting, the attending shareholders represent a majority of the total number of issued shares, the chair may resubmit the tentative resolution for a vote by the shareholders' meeting pursuant to Article 174 of the Company Act.	Article 8 The chair shall call the meeting to order at the appointed meeting time, however, when the attending shareholders do not represent a majority of the total number of issued shares, the chair may announce a postponement, provided that no more than two such postponements, for a combined total of no more than one hour, may be made. If the quorum is not met after two postponements as referred to in the preceding paragraph, but the attending shareholders represent one-third or more of the total number of issued shares, a tentative resolution may be adopted pursuant to Article 175, paragraph 1 of the Company Act. When, prior to conclusion of the meeting, the attending shareholders represent a majority of the total number of issued shares, the chair may resubmit the tentative resolution for a vote by the shareholders' meeting pursuant to Article 174 of the Company Act.	To increase corporate governance and protect shareholder's equity, so revised it.

Hwa Fong Rubber Ind. Co., Ltd.
Comparison of Amended Articles of Articles of Incorporation

Amended articles	Current articles	Explanation
Article 21-1 <u>The Company's earnings distribution or loss recovery was conducted in the end of each half of fiscal year. The Company's earnings distribution proposal or loss appropriation proposal of the first half of the fiscal year, shall be submitted with the operation report and financial statements to the audit committee, and reported to the board of directors for approval after audited.</u> Due to the variation of the industrial environment where the Company lies in, the enterprise is in the phase of steady growth, and considered the Company's future fund needs and long-term financial plan, if there are earnings, tax contribution and loss recovery shall be made first, and then appropriated 10% as legal reserve, however, except when legal reserve achieved the Company's paid-in capital; besides, as the Company's operational needs and the regulations, designated special reserve, if there were earnings, consolidated beginning of period undistributed earnings, 20-90% of earnings can be appropriated by <u>the resolution</u> of the board of directors as earnings distribution of the current year. The cash dividends inside shall not be lower than 10% of total number of earnings distribution. When earnings mentioned in the preceding paragraph were distributed as dividends or designated legal reserve or capital reserve, all or a part may be paid in cash, and it shall be conducted after approved by the special resolution of the board of directors, and reported to a shareholders' meeting, <u>when the distribution was made in the form of issuing new shares, shall be reported to a shareholders' meeting, and</u>	Article 21-1 Due to the variation of the industrial environment where the Company lies in, the enterprise is in the phase of steady growth, and considered the Company's future fund needs and long-term financial plan, if there were earnings in <u>annual final accounts</u>, tax contribution and loss recovery shall be made first, and then appropriated 10% as legal reserve, however, except when legal reserve achieved the Company's paid-in capital; besides, as the Company's operational needs and the regulations, designated special reserve, if there were earnings, consolidated beginning of period undistributed earnings, 20-90% of earnings can be appropriated by the board of directors as earnings distribution of <u>the current year</u>. The cash dividends inside shall not be lower than 10% of total number of earnings distribution. When earnings mentioned in the preceding paragraph were distributed as dividends or designated legal reserve or capital reserve, all or a part may be paid in cash, and it shall be conducted after approved by the special resolution of the board of directors, and reported to a shareholders' meeting.	To meet the Company's operation situation and long-term financial plan, earnings distribution and loss recovery were changed to be conducted each half of the year, and adjusted contents to make it perfect.

<u>conducted after approved.</u>		
Article 26 The Articles of Incorporation was drawn up on March 8, 1959. The 1st amendment was made on April 8, 1962. The 2nd amendment was made on May 15, 1967. The 3rd amendment was made on August 10, 1970. The 4th amendment was made on October 20, 1972. The 5th amendment was made on September 20, 1973. The 6th amendment was made on June 20, 1976. The 7th amendment was made on December 3, 1977. The 8th amendment was made on April 15, 1979. The 9th amendment was made on June 21, 1981. The 10th amendment was made on May 23, 1982. The 11th amendment was made on June 12, 1983. The 12th amendment was made on February 10, 1985. The 13th amendment was made on February 5, 1986. The 14th amendment was made on February 13, 1988. The 15th amendment was made on May 22, 1991. The 16th amendment was made on June 28, 1991. The 17th amendment was made on May 15, 1992. The 18th amendment was made on May 14, 1993. The 19th amendment was made on July 8, 1994. The 20th amendment was made on May 17, 1995. The 21st amendment was made on May 24, 1996. The 22nd amendment was made on December 2, 1996. The 23rd amendment was made on May 23, 1997. The 24th amendment was made on	Article 26 The Articles of Incorporation was drawn up on March 8, 1959. The 1st amendment was made on April 8, 1962. The 2nd amendment was made on May 15, 1967. The 3rd amendment was made on August 10, 1970. The 4th amendment was made on October 20, 1972. The 5th amendment was made on September 20, 1973. The 6th amendment was made on June 20, 1976. The 7th amendment was made on December 3, 1977. The 8th amendment was made on April 15, 1979. The 9th amendment was made on June 21, 1981. The 10th amendment was made on May 23, 1982. The 11th amendment was made on June 12, 1983. The 12th amendment was made on February 10, 1985. The 13th amendment was made on February 5, 1986. The 14th amendment was made on February 13, 1988. The 15th amendment was made on May 22, 1991. The 16th amendment was made on June 28, 1991. The 17th amendment was made on May 15, 1992. The 18th amendment was made on May 14, 1993. The 19th amendment was made on July 8, 1994. The 20th amendment was made on May 17, 1995. The 21st amendment was made on May 24, 1996. The 22nd amendment was made on December 2, 1996. The 23rd amendment was made on May 23, 1997. The 24th amendment was made on	Added amendment date.

May 13, 1998. The 25th amendment was made on June 15, 1999. The 26th amendment was made on June 19, 2000. The 27th amendment was made on June 12, 2001. The 28th amendment was made on June 14, 2002. The 29th amendment was made on March 20, 2003. The 30th amendment was made on June 17, 2004. The 31st amendment was made on June 16, 2005. The 32nd amendment was made on June 19, 2008. The 33rd amendment was made on June 25, 2010. The 34th amendment was made on June 16, 2011. The 35th amendment was made on September 14, 2011. The 36th amendment was made on June 19, 2013. The 37th amendment was made on May 14, 2014. The 38th amendment was made on October 14, 2014. The 39th amendment was made on March 25, 2016. The 40th amendment was made on June 27, 2018. The 41st amendment was made on June 21, 2019. <u>The 42nd amendment was made on June 17, 2021.</u>	May 13, 1998. The 25th amendment was made on June 15, 1999. The 26th amendment was made on June 19, 2000. The 27th amendment was made on June 12, 2001. The 28th amendment was made on June 14, 2002. The 29th amendment was made on March 20, 2003. The 30th amendment was made on June 17, 2004. The 31st amendment was made on June 16, 2005. The 32nd amendment was made on June 19, 2008. The 33rd amendment was made on June 25, 2010. The 34th amendment was made on June 16, 2011. The 35th amendment was made on September 14, 2011. The 36th amendment was made on June 19, 2013. The 37th amendment was made on May 14, 2014. The 38th amendment was made on October 14, 2014. The 39th amendment was made on March 25, 2016. The 40th amendment was made on June 27, 2018. The 41st amendment was made on June 21, 2019.	
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Hwa Fong Rubber Ind. Co., Ltd.
Comparison of Amended Articles of Regulations Governing
the Acquisition and Disposal of Assets

Amended articles	Current articles	Explanation
Article 7 When the Company and each subsidiary individually purchase real property or securities for non-business use, and the amount restriction is as follows: 1. Total amounts of real property and <u>right-of-use assets</u> shall not exceed 50% of <u>total amount of</u> the Company's <u>shareholder's equity</u>. 2. Total amount of securities investment shall not exceed total amount of the Company's <u>shareholder's equity</u>. 3. Limits on individual securities investment, shall not exceed <u>60% of total amount of</u> the Company's <u>shareholder's equity</u>.	Article 7 When the Company and each subsidiary individually purchase real property or securities for non-business use, and the amount restriction is as follows: 1. Total amount of real property shall not exceed 50% of the Company's <u>net profit</u>. 2. Total amount of securities investment shall not exceed <u>30% of</u> the Company's <u>net profit</u>. 3. Limits on individual securities investment, shall not exceed <u>20% of</u> the Company's <u>net profit</u>.	To adapt accordingly to the Company's current operating status and plan, adjusted the limits on securities investment, and amended partial words.

Appendix 1

Hwa Fong Rubber Ind. Co., Ltd.

Rules of Procedure for Shareholders Meetings (before amended)

Amendment approved by the shareholders' meeting on March 25, 2016

Amendment approved by the shareholders' meeting on June 12, 2020

1. The Company's shareholders' meeting agenda, unless otherwise provided for by the decrees and Articles of Incorporation, shall be conducted in accordance with the Rules.
2. When the Company calls a shareholders' meeting, shall adopt the way of electronic transmission and in the form of writing to exercise shareholders' voting power; when exercised their voting power in writing or with the way of electronic transmission, the method of exercising their voting power shall be described in the shareholders' meeting notice. A shareholder who exercises his/her/its voting power at a shareholders' meeting in writing or with the 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 respective of any extemporary motion(s) and/or the amendment(s) to the contents of the original proposal(s) at the said shareholders' meeting.
 - 2-1. When a shareholder in person or a proxy appointed by a shareholder attending a shareholders' meeting, and shall hand in sign-in cards instead of register. The number of shares in attendance shall be calculated according to the shares indicated by sign-in cards handed in plus the number of shares whose voting rights are exercised by correspondence or electronically.
3. Attendance and vote at shareholders' meetings shall be calculated based on numbers of shares.
4. The venue for a shareholders meeting shall be the premises of this Corporation, or a place easily accessible to shareholders and suitable for a shareholders meeting. The meeting may begin no earlier than 9 a.m. and no later than 3 p.m.
5. If a shareholders meeting is convened by the board of directors, the meeting shall be chaired by the chairperson of the board. When the chairperson of the board is on leave or for any reason unable to exercise the powers of the chairperson, the vice chairperson shall act in place of the chairperson; if there is no vice chairperson or the vice chairperson also is on leave or for any reason unable to exercise the powers of the vice chairperson, the chairperson shall appoint one of the managing directors to act as chair, or, if there are no managing directors, one of the directors shall be appointed to act as chair. Where the chairperson does not make such a designation, the managing directors or the directors shall select from among themselves one person to serve as chair.

If a shareholders meeting convened by a party with the power to convene, the meeting shall be chaired by a party with the power to convene.
6. The Company may appoint its attorneys, certified public accountants, or related persons retained by it to attend a shareholders meeting in a non-voting capacity.

Staff handling administrative affairs of a shareholders meeting shall wear identification cards or arm bands.
7. The Company shall make an uninterrupted audio and video recording of the proceedings of the

shareholders meeting, and the recorded materials shall be retained for at least one year.

8. The chair shall call the meeting to order at the appointed meeting time, however, when the attending shareholders do not represent a majority of the total number of issued shares, the chair may announce a postponement, provided that no more than two such postponements, for a combined total of no more than one hour, may be made. If the quorum is not met after two postponements as referred to in the preceding paragraph, but the attending shareholders represent one-third or more of the total number of issued shares, a tentative resolution may be adopted pursuant to Article 175, paragraph 1 of the Company Act, when the attending shareholders represent a majority of the total number of issued shares, the chair may resubmit the tentative resolution for a vote by the shareholders' meeting pursuant to Article 174 of the Company Act.

9. If a shareholders meeting is convened by the board of directors, the meeting agenda shall be set by the board of directors. Votes shall be cast on each separate proposal in the agenda (including extraordinary motions and amendments to the original proposals set out in the agenda). The meeting shall proceed in the order set by the agenda, which may not be changed without a resolution of the shareholders meeting.

The chair may not declare the meeting adjourned prior to completion of deliberation on the meeting agenda of the preceding two paragraphs (including extraordinary motions), except by a resolution of the shareholders meeting.

After the meeting was declared to adjourn, shareholders shall not elect another chair or resume the meeting at another venue.

10. Before speaking, an attending shareholder must specify on a speaker's slip the subject of the speech, his/her shareholder account number (or attendance card number), and account name. The order in which shareholders speak will be set by the chair.

A shareholder in attendance who has submitted a speaker's slip but does not actually speak shall be deemed to have not spoken.

When the content of the speech does not correspond to the subject given on the speaker's slip, the spoken content shall prevail.

When an attending shareholder is speaking, other shareholders may not speak or interrupt unless they have sought and obtained the consent of the chair and the shareholder that has the floor, the chair shall stop any violation.

11. Except with the consent of the chair, a shareholder may not speak more than twice on the same proposal, and a single speech may not exceed 5 minutes.

If the shareholder's speech violates the preceding rules or exceeds the scope of the agenda item, the chair may terminate the speech.

12. When a juristic person is appointed to attend as proxy, it may designate only one person to represent it in the meeting.

When a juristic person shareholder appoints two or more representatives to attend a shareholders meeting, only one of the representatives so appointed may speak on the same proposal.

13. After an attending shareholder has spoken, the chair may respond in person or direct relevant personnel to respond.

14. The chair shall allow ample opportunity during the meeting for explanation and discussion of proposals and of amendments or extraordinary motions put forward by the shareholders; when the chair is of the opinion that a proposal has been discussed sufficiently to put it to a vote, the chair may announce the discussion closed, call for a vote, and schedule sufficient time for voting.

15. Vote monitoring and counting personnel for the voting on a proposal shall be appointed by the chair, provided that all monitoring personnel shall be shareholders of the Company. The results of the voting shall be announced on-site at the meeting, and a record made of the vote.
16. When a meeting is in progress, the chair may announce a break based on time considerations.
17. Except as otherwise provided in the Company Act and in the Company's Articles of Incorporation, the passage of a proposal shall require an affirmative vote of a majority of the voting rights represented by the attending shareholders. At the time of a vote, if the shareholders voting by the way of electronic transmission represent objection or abstention, shall be consulted by the chair without objection, and regarded as passed, its effectiveness is the same as vote.
18. When there is an amendment or an alternative to a proposal, the chair shall present the amended or alternative proposal together with the original proposal and decide the order in which they will be put to a vote. When any one among them is passed, the other proposals will then be deemed rejected, and no further voting shall be required.
19. The chair may direct the proctors (or security personnel) to help maintain order at the meeting place. When proctors (or security personnel) help maintain order at the meeting place, they shall wear an armband bearing the word "Proctor."
20. These Rules shall take effect after submitted to and approved by a shareholders meeting. Subsequent amendments thereto shall be effected in the same manner.

Hwa Fong Rubber Ind. Co., Ltd. Articles of Incorporation (before amended)

Chapter 1 General Provision

Article 1: The Company organized in accordance with the Company Act, named “HWA FONG RUBBER IND. CO., LTD.”

Article 2: The Company’s operating business is as follow:

1. C804010 tires manufacturing
2. C804020 industrial rubber products manufacturing
3. C804990 other rubber products manufacturing
4. F114030 wholesale of motor vehicle parts and motorcycle parts, accessories
5. F114040 wholesale of bicycle and component parts thereof
6. F114050 wholesale of tires
7. F214030 retail sale of motor vehicle parts and motorcycle parts, accessories
8. F214040 retail sale of bicycle and component parts thereof
9. F214050 retail sale of tires and tubes
10. F399040 retail sale no storefront
11. F401010 international trade
12. JA01010 automobile repair
13. ZZ99999 all business items that are not prohibited or restricted by law, except those that are subject to special approval
14. E801010 building maintenance and upholstery
15. F111090 wholesale of building materials
16. G202010 parking area operators
17. H701010 housing and building development and rental
18. H701020 industrial factory buildings lease construction and development
19. H701040 specific area development
20. H701050 investment, development and construction in public construction
21. H701060 new towns, new community development
22. H701070 process zone expropriation and urban land readjustment agency
23. H701080 urban renewal reconstruction
24. H701090 urban renewal renovation or maintenance
25. H703090 real estate business
26. H703100 real estate rental and leasing
27. F113990 wholesale of other machinery and equipment
28. F114010 wholesale of motor vehicles
29. F114020 wholesale of motorcycles
30. F213990 retail sale of other machinery and equipment
31. F214010 retail sale of motor vehicles
32. F214020 retail sale of motorcycles
33. JA02030 bicycle repair

Article 3: The Company established the head office in Changhua County, shall establish branches in other proper places when it’s necessary.

Article 4: The Company’s announcement methods shall be implemented in accordance with Article

28 of the Company Act.

Chapter 2 Shares

Article 5: The Company's total capital was set as NT\$ 10 billion, separated into 1 billion shares, the price per share was NT\$ 10, and unissued shares were issued by authorized board of directors at several times.

Article 6: The Company's shares are all adopted registered share certificates, affixed respective signatures or personal seals of five or more directors, and issued in accordance with the regulations. The Company may be exempted from printing any share certificate for the shares issued, but shall be registered in Centralized Securities Depository Enterprises.

Article 7: The Company's securities affairs shall be conducted in accordance with Regulations Governing the Administration of Shareholder Services of Public Companies issued by the competent authority.

Article 8: A shareholder's name change and transfer shall not be conducted before 60 days of a regular shareholders' meeting, before 30 days of a special shareholders' meeting or within 5 days before the record date of dividends or other benefits distribution decided by the Company.

Article 9: Shareholders' meeting shall be of two kinds: a regular shareholders' meeting and a special shareholders' meeting, the regular shareholders' meeting shall be convened within six months after close of each fiscal year, and the special shareholders' meeting shall be convened in accordance with the regulations when it's necessary. When a shareholder cannot attend the shareholders' meeting for any reason, shall appoint a proxy issued by the Company to attend a shareholders' meeting in his/her/its behalf by executing a power of attorney stating therein the scope of power authorized to the proxy. Unless otherwise permitted by Article 177 of the Company Act, related matters shall be conducted in accordance with Regulations Governing the Use of Proxies for Attendance at Shareholder Meeting of Public Companies issued by the competent authority.

Chapter 3 Shareholders' meeting

Article 10: Resolutions at a shareholders' meeting shall, unless otherwise provided for related regulations, be adopted by a majority vote of the shareholders present, who represent more than one-half of the total number of voting shares.

However, when the following circumstances occurred, and the shareholders who

represent two-third of the total number of issued shares intends to attend the meeting in person or by a proxy, and by agreement of a majority of the votes represented by the attending shareholders.

(1) Purchased or merged other domestic and foreign companies.

(2) The dissolution or final accounts, demerger of the Company.

Article 10-1: When the Company holds a shareholders' meeting, it shall adopt exercise of voting rights by electronic means and may adopt exercise of voting rights by correspondence, a shareholder exercising voting rights by correspondence or electronic means will be deemed to have attended the meeting in person, but to have waived his/her rights with respect to the extraordinary motions and amendments to original proposals of that meeting, it means that it shall be conducted in accordance with Article 177-2 of the Company Act.

Article 11: A shareholder shall be entitled to one vote for each share held, except when the shares are restricted shares or are deemed non-voting shares under Article 179, paragraph 2 of the Company Act.

Article 12: Matters relating to the resolutions of a shareholders meeting shall be recorded in the meeting minutes, and the meeting minutes shall be conducted in accordance with Article 183 of the Company Act.

Article 13: The board of directors of a company shall have nine to thirteen directors who shall be elected by the shareholders' meeting from among the persons with disposing capacity, and the term of office of a director shall not exceed three years, but he/she may be eligible for re-election.

The number of directors mentioned above independent directors shall not be less than two persons, and less than one-fifth of the director seats, a candidates nomination system is adopted by a company for election of the directors (included independent directors) of the Company, and shareholders elected directors (independent directors) among a roster of director candidates.

Elections of directors at the Company shall be conducted with elections of independent directors and non-independent directors, and separately calculated the number of elected.

The professional qualifications, shareholding, part-time restrictions, nomination and election methods and other matters to be followed of the independent director shall be conducted in accordance with the relevant provisions of the securities authorities.

The preceding percentage of shareholdings of all the directors selected is subject to the provisions prescribed by the Securities Regulatory Agency.

Article 13-1: When the Company appointed the audit committee, shall not elect another supervisor

in accordance with Article 14-4 of Securities and Exchange Act, the audit committee shall be composed of the entire number of independent directors, it shall not be fewer than three persons in number, one of whom shall be the convener, and at least one of whom shall have accounting or financial expertise. Duty exercising of the audit Committee, organization rules or other matters for compliance, shall be conducted in accordance with related regulations or the Company's rules.

Article 14: The Company's election of directors shall adopt a cumulative voting, the number of votes exercisable in respect of one share shall be the same as the number of directors to be elected, and the total number of votes per share may be consolidated for election of one candidate or may be split for election of two or more candidates, a candidate to whom the ballots cast represent a prevailing number of votes shall be deemed a director elect.

Chapter 4 Director, Supervisor and Managerial Officer

Article 15: Directors organized the board of directors to exercise the duties of directors, and the directors shall be elected by the shareholders from among themselves or appoint one person as a chairman, one person as vice chairman, the chairman represent the Company to chair all business, however the vice chairman assists the chairman in all business. The proxy mentioned above, when one-third of term of office left, re-election shall be held within three months. When the number of vacancies in the board of directors of a company equals to one-third of the total number of directors, the board of directors shall call, within 30 days, a special meeting of shareholders to elect succeeding directors to fill the vacancies, his/her/its term of office is restricted to fulfill the unexposed term of office of the predecessor. After the Company issued stocks in public, the board of directors shall call a special shareholders' meeting for re-election within 60 days.

Article 16: A meeting of board of directors may be convened one time each quarter, and in calling a meeting of the board of directors, a notice shall set forth therein the subject(s) to be discussed at the meeting, and shall be given to each director no later than 7 days prior to the scheduled meeting date; however, in the case of emergency, a meeting of the board of directors may be convened at any time. The notice of the meeting of board of directors may be effected by means of writing, electronic transmission or E-mail, etc. Unless the first meeting of each term of the board of directors shall be convened in accordance with the proviso in Article 203 of the Company Act, other meetings shall be convened and chaired by the chairman, unless otherwise regulations provided for the Company Act, a resolution of the meeting of board of directors shall be agreed by a majority vote of the directors at a meeting of the board of directors attended by at

least a majority of the entire directors of the company, and the meeting minutes shall be made.

When a director cannot attend the meeting of the board of directors in person, a director may be represented by another director. In case a meeting of the board of directors is proceeded via visual communication network, then the directors taking part in such a visual communication meeting shall be deemed to have attended the meeting in person.

Article 17: Deleted

Article 18: The remuneration of directors, and shall be determined by the authorized board of directors to pay at such level as generally adopted by the enterprises of the same industry.

Article 19: The Company may appoint an executive director, several managerial officers (include general manger, vice general manager), his/her appointment, discharge and remuneration shall be conducted in accordance with Article 29 of the Company Act and related regulations. They may recruit consultants as business needs.

Article 19-1: The Company may purchase the liability insurance for directors and important staff with respect to liabilities resulting from exercising their duties during their terms of directorship.

Chapter 5 Accounting

Article 20: The end of December every year is the final accounts period of the Company, and the following final statements shall be drawn up by the board of directors at the end of each fiscal year, and submitted to the audit committee for audit before 30 days of the scheduled date of a regular shareholders' meeting and the audit report shall be offered, and reported to a shareholders' meeting for approval.

- (1) Business Report
- (2) Balance Sheet
- (3) Comprehensive Income Statement
- (4) Statements of Changes in Equity
- (5) Statements of Cash Flows
- (6) Earnings distribution or appropriation of loss proposal

Article 21: As the profitability of the current year, the Company shall not allocate less than 2% as employees' remuneration, and more than 5% as directors' remuneration. However, the company's accumulated losses shall have been covered.

Employees' compensation may be distributed in the form of shares or in cash, and qualification requirements of employees shall include the employees of parents or subsidiaries of the company meeting certain specific requirements.

The profitability of the current year mentioned in paragraph 1 means that income before

distributed employees and directors' remuneration was deducted from net income before tax.

Distribution of employees and directors' remuneration shall be conducted by a resolution by a majority voting of the directors present at a meeting of its board of directors attended by two-third of the directors of the company, and reported to a shareholders' meeting.

A company which has the profit distributed to employees in the form of shares by a resolution of the meeting of board of directors in accordance with the provision of the preceding paragraph may resolve, at the same meeting of the board of directors, to distribute the shares by way of new shares to be issued by the company or existing shares to be re-purchased by the company.

Article 21-1: Due to the variation of the industrial environment where the Company lies in, the enterprise is in the phase of steady growth, and considered the capital needs and the future financial plan of the Company, if there are earnings in annual final accounts, tax contribution and loss recovery shall be made first, and then appropriated 10% as legal reserve, however, except when legal reserve achieved the Company's paid-in capital; besides, as the Company's operational needs and the regulations, designated special reserve, if there were earnings, consolidated beginning of period undistributed earnings, 20-90% of earnings can be appropriated by the resolution of the board of directors as earnings distribution of the current year. The cash dividends inside shall not be lower than 10% of total number of earnings distribution.

When earnings mentioned in the preceding paragraph were distributed as dividends or designated legal reserve, capital reserve, all or a part may be paid in cash, and it shall be conducted after approved by the special resolution of the board of directors, and reported to a shareholders' meeting.

Chapter 6 Supplemental Provisions

Article 22: After approved by the board of directors, the Company may make guarantees for other companies.

Article 23: The Company's related reinvestment business shall have no restrictions.

Article 24: The Company's organizational regulations, rules and other chapters shall be prescribed by the board of directors.

Article 25: Unsettled matters of the Articles shall be conducted in accordance with the Company Act.

Article 26: The Articles of Incorporation was drawn up on March 8, 1959.

The 1st amendment was made on April 8, 1962.

The 2nd amendment was made on May 15, 1967.

The 3rd amendment was made on August 10, 1970.

The 4th amendment was made on October 20, 1972.

The 5th amendment was made on September 20, 1973.

The 6th amendment was made on June 20, 1976.

The 7th amendment was made on December 3, 1977.
The 8th amendment was made on April 15, 1979.
The 9th amendment was made on June 21, 1981.
The 10th amendment was made on May 23, 1982.
The 11th amendment was made on June 12, 1983.
The 12th amendment was made on February 10, 1985.
The 13th amendment was made on February 5, 1986.
The 14th amendment was made on February 13, 1988.
The 15th amendment was made on May 22, 1991.
The 16th amendment was made on June 28, 1991.
The 17th amendment was made on May 15, 1992.
The 18th amendment was made on May 14, 1993.
The 19th amendment was made on July 8, 1994.
The 20th amendment was made on May 17, 1995.
The 21st amendment was made on May 24, 1996.
The 22nd amendment was made on December 2, 1996.
The 23rd amendment was made on May 23, 1997.
The 24th amendment was made on May 13, 1998.
The 25th amendment was made on June 15, 1999.
The 26th amendment was made on June 19, 2000.
The 27th amendment was made on June 12, 2001.
The 28th amendment was made on June 14, 2002.
The 29th amendment was made on March 20, 2003.
The 30th amendment was made on June 17, 2004.
The 31st amendment was made on June 16, 2005.
The 32nd amendment was made on June 19, 2008.
The 33rd amendment was made on June 25, 2010.
The 34th amendment was made on June 16, 2011.
The 35th amendment was made on September 14, 2011.
The 36th amendment was made on June 19, 2013.
The 37th amendment was made on May 14, 2014.
The 38th amendment was made on October 14, 2014.
The 39th amendment was made on March 25, 2016.
The 40th amendment was made on June 27, 2018.
The 41st amendment was made on June 21, 2019.

Hwa Fong Rubber Ind. Co., Ltd.

Procedures for Election of Directors

Amendment approved by the shareholders' meeting on March 25, 2016

Amendment approved by the shareholders' meeting on June 21, 2019

- Article 1: The Company's election of directors shall be conducted in accordance with these Procedures.
- Article 2: The Company's election of directors shall be conducted at a shareholders' meeting.
- Article 3: The Company's election of directors, attendance card numbers printed on the ballots may be used instead of recording the names of voting shareholders.
- Article 4: The cumulative voting method shall be used for election of the directors at the Company. Each share will have voting rights in number equal to the directors to be elected, and may be cast for a single candidate or split among multiple candidates. A candidates' nomination system is adopted for election of independent directors of the Company.
- Article 5: The number of the Company's directors prescribed by the Company's Articles of Incorporation, those receiving ballots representing the highest numbers of voting rights will be elected sequentially according to their respective numbers of votes. When two or more persons receive the same number of votes, thus exceeding the specified number of positions, they shall draw lots to determine the winner, with the chair drawing lots on behalf of any person not in attendance.
Elections of independent directors and non-independent directors shall conduct at the same time, and separately calculated the number of elected, those receiving ballots representing the highest numbers of voting rights will be elected sequentially according to their respective numbers of votes.
- Article 6: Before the election begins, the chair shall appoint a number of persons with shareholder status to perform the respective duties of vote monitoring and counting personnel.
- Article 7: The ballots shall be prepared and provided by the Company, and each ballot shall be numbered by attendance card numbers, and filled in a shareholder's number of voting rights. When the elected is shareholder, the elected shall fill in the name and shareholder's account number in the column of "the elected" on the ballots; if he/she is not a shareholder, the name and I. D. number of the elected shall be filled in. However, when the government or a juristic shareholder is the elected, the column of the elected name on the ballots shall be filled in the name of the government or a juristic person, and filled in the name of the government or a juristic person and its representative's name; if there are several representatives, the representatives' names shall be separately filled in. When electors exercise voting by way of electronic transmission, candidate seats shall be checked, and the number of voting rights allotted shall be entered, checked candidate seats shall not exceed the number of elected, and total number of allotted voting rights shall not exceed total number of voting rights held by electors.
- Article 8: A ballot is invalid under any of the following circumstances:
- (1) The ballot was not prepared in accordance with the procedure.
 - (2) The number of filled elected exceeds the number of places that should be selected.
 - (3) Other words or marks are entered in addition to the account name (name) of the elected or shareholder's account number (I. D. number), and the number of voting rights allotted.
 - (4) A blank ballot is placed in the ballot box.

- (5) The writing is unclear and indecipherable or has been altered.
- (6) When the filled elected is shareholder, the name and shareholder's account number do not conform to the roster; when the filled elected is not shareholder, the name and I. D. number of the elected do not conform to the director candidate list.
- (7) The name of the filled elected is the same as other shareholder's name, and recognizable shareholder's account number or I. D. number are not filled in.
- (8) The filled elected is not the candidate listed in the candidate list.
- (9) Total number of voting rights voted by electors exceeds total number of voting rights held by electors.

Article 9: Election of directors, the ballot boxes shall be prepared and publicly checked by the vote monitoring personnel before voting commences.

Article 10: The voting rights shall be calculated by vote monitoring and counting personnel on site immediately after the end of the poll, and the results of the calculation, including the list of persons elected as directors, shall be announced by the chair on the site.
The ballots for the election referred to in the preceding paragraph shall be sealed with the signatures of the monitoring personnel and kept in proper custody for at least one year. If, however, a shareholder files a lawsuit pursuant to Article 189 of the Company Act, the ballots shall be retained until the conclusion of the litigation.

Article 11: These Procedures, and any amendments hereto, shall be implemented after approval by a shareholders meeting.

Appendix 4

Hwa Fong Rubber Ind. Co., Ltd. All Directors' Shareholding Statement

1. Total number of the Company's issued shares: 279,349,134 (as of the book closure date: April 19, 2021).
2. The minimum legally held shares held by the Company's shareholders: 11,173,965.
3. As of the book closure date (April 19, 2021) at 2021 annual shareholders' meeting, and individual and all directors' shareholding statements registered in the shareholders roster are as follows.

Current All Directors' Shareholding Statement

Total number of issued shares: 279,349,134 shares

Title	Name	Shareholding numbers	Shareholding ratios
Chairman	Feng Tsuan Co., Ltd.	8,884,210	3.18%
	Chairman/representative: Shen, Kuo-Jung		
Vice chairman	Vice chairman/representative: Chiu, Shih-Chien		
Director	Director/representative: Lin, Wen-Cheng		
	Director/representative: Wu, Pin-Yi		
	Director/representative: Laio Chen, Hsuan-Yu		
Director	Sumitomo Rubber Industries, Ltd.	28,428,574	10.18%
Director	Teng Feng Investment & Development Co., Ltd.	3,460,024	1.24%
	Director/representative: Yan, Ruei-Sian		
Director	Sheng Ta Investment Co., Ltd.	507,764	0.18%
	Director/representative: Yan, Ming-Shan		
Independent director	Tsai, Hung-Wen	-	-
Independent director	Yang, Wen-Kuang	-	-
Independent director	Huang, Chu-Chia	96,661	0.03%
Sum of all directors' shareholding numbers		41,377,233	14.81%

Appendix 5

Other Disclosure Matters

The influence of the Company's operational performance, earnings per share and shareholders' return on investment caused by the bonus shares:

The Company has no public financial forecast information of the year 2021, so it's not applicable.



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