



# **Hsin-Li Chemical Industrial Corp.**

## **2022 Annual Report**

**Published on Apr. 24, 2023**

This annual report is available on <http://mops.twse.com.tw>  
<http://www.hsinli.com.tw/>

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◎ Name of CPAs and name, address, website, and telephone number of the accounting firm for the most recent year's financial statements:  
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Name of accounting firm: KPMG Taiwan  
Address: 12F-6, No. 211, Zhongzheng 4th Rd., Qianjin Dist., Kaohsiung City  
Tel.: (07)2130888  
Website: <http://kpmg.com.tw/>

◎ Name of any exchanges where the Company's securities are traded offshore, and the method by which to access information on said offshore securities: None.

◎ Company website: <http://www.hsinli.com.tw/>

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## One. Letter to Shareholders

Dear Shareholders,

Thanks to all shareholders for your strong support and encouragement. Due to the unstable pandemic situation during 2022 compared with 2021, our revenue decreased by 10.86%. We will continue to revise our production and sales strategies to lower our operating costs and expenses so that we can continue to make profits.

We will enhance our efforts in research and development and innovation, brand marketing and increase the added value of our products with all our employees. We need your continuous support and encouragement. The Company's 2022 operating performance and 2021 business plan are specified below:

I. The 2022 business report:

1. The business plan implementation results

The Company's 2022 operating revenue amounted to NT\$325,363 thousand, net loss after tax was NT\$41,198 thousand, and loss per share was NT\$0.61, with a 10.86% decrease in operating revenue and a 7.2% increase in net income after tax compared with 2021.

2. Budget implementation:

Not applicable as the Company did not unpublished financial forecast for 2022.

3. Analysis on financial income and expense and profitability:

(1) Financial income

Unit: NT\$ thousand			
Item	2022	2021	Increase (decrease)
Operating revenue	325,363	365,000	(39,637)
Operating costs	263,655	303,264	(39,609)
Net operating income	17,250	18,589	(1,339)
Net income for this period	(41,198)	136,765	(177,963)

(2) Analysis of profitability

Item	2022	2021
Return on assets	-2%	11%
Return on equity	-5%	15%
Operating income as a percentage of paid-in capital	3%	3%
Net income before tax as a percentage of paid-in capital	-6%	20%
Profit margin	-12%	38%
Earnings per share (NTD)	-0.61	1.96

4. Research and development (R&D):

(1) New product development

① In addition to the existing products, the Company developed A700 & A7000 foamed products and solvent-free processed products, along with recycled base cloth and application for international GRS certification, in accordance with environmental protection requirements. Also, we focused on the R&D of water-based PU breathable membranes to satisfy clients' needs for various applications.

② With the ban on free plastic bags, countries are advocating for reducing the use of disposable plastic products and developing new plasticizer-free, non-toxic, eco-friendly, and recyclable PVB products, which can be applied to furniture and handbags with international GRS certification.

(2) Improvement to R&D capability and product expansion

On the basis of our existing products, we strive to expand our market, strengthen the integration of upstream and downstream players, form alliances with businesses in the same industry, and accelerate the R&D progress, while continuing to invest in R&D to improve product functions

and expanding the product markets with strategic alliances with other companies to enhance the Company's growth momentum.

## II. Summary of the 2023 business plan

### 1. Business policy

- (1) Form strategic alliances with competitors to cut costs and increase gross profit.
- (2) Optimize human resources and reinforce the overall management system to improve the internal motivation for profits.
- (3) Make good use of our assets to increase the Company's profits.
- (4) Integrate upstream and downstream players to accelerate the verification process of new products.
- (5) Respond to international brands' needs and work with raw material manufacturers to develop recycled products.
- (6) Keep abreast of the development trends of market products and actively develop new products in different fields.
- (7) Strengthen target management to reduce inventories and increase inventory turnover.

### 2. Estimated sales volume

A total of 500,000 yards of PVC leather; 8.5 million yards of dry PU synthetic leather; 300,000 yards of wet PU synthetic leather.

### 3. Important production and marketing policies

#### (1) Production

Increases PVC products with high physical properties of polymer and high softness and satisfy top international clients' more needs.

#### (2) Marketing

Speed up the upstream and downstream integration process, go all out to meet clients' needs with our specialties and work with them at the same time, and avoid the vicious cycle of competition.

### 4. The Company's development strategies

- (1) Jointly develop anti-UV, high wear-resistant, and scratch-resistant interior and exterior materials for scooters and cars with clients to step into the automotive market.
- (2) Actively develop water-based products, such as water-based waterproof and breathable membranes to transform the Company into a solvent-free eco-friendly plants as soon as possible.
- (3) Respond to global environmental protection issues by setting up an ESG task force to actively conduct carbon footprint and carbon inventory for our products and factories.
- (4) Respond to the government's environmental protection policy by building a solar power system to improve the Company's ESG rankings.

### 5. Regarding the overall economic situation, due to the pandemic, the Russo-Ukrainian War, the rising raw materials, and inflation, the entire consumer market has adopted a more conservative approach, so we will be more cautious in our business operations. In addition to development of products and markets, we will strive to reduce costs more effectively and our enhance competitiveness, to achieve great performance every year.

Finally, I would like to express my sincere gratitude toward all our shareholders, directors, and supervisors, and all employees, and wish you and your family good health, happiness, and all the best.

Chairman: Chang, Yu-Ming

## **Two. Company Profile**

I. Date of incorporation: June 22, 1973.

II. Company history:

(I) Company history

- The Company was incorporated on June 22, 1973, with our history outlined as follows:
- 1973: The Company was incorporated with a capital of NT\$4.5 million.
- 1974: Completed the setup of our first flocking equipment and flocking our factories and offices.
- 1979: Established a fiber plant to produce fleece.
- 1980: Completed the establishment of a flow production system, from dyeing and finishing, fiber, synthetic resin, to flocking for our synthetic resin plant.
- 1983: Produced PVC leather.
- 1986: Established a research building, a knitted fabric plant, and DOP recycling equipment.
- 1988: Built a second plant to produce PVC latex leather and PVC latex cloth.
- 1992: The Securities and Exchange Commission approved the Company's public offering.
- 1994: Established the 4th plant to produce wet PU synthetic leather and dry PU synthetic leather.
- 1997: Invested in environment improving equipment, added three-level chemical wastewater treatment, waste gas washing and recycling, and electrostatic DOP recycling treatment facilities, and engaged in landscaping, etc.
- 1999: Had the Company's stock listed on Taipei Exchange.
- 2000: Invested in businesses in mainland China and the Dongguan Plant formally went into mass production.
- 2008: Conducted capital reduction, with the paid-in capital being reduced to NT\$700 million.
- 2013: Launched the first production line of PU membrane.
- 2015: Capitalized earnings by issuing new shares, with the paid-in capital increasing to NT\$707 million.
- 2015: Launched the second production line of PU membrane and renovated the plant and facilities.
- 2017: Sold the equity of our subsidiary, Diamond Star, and Dongguan Zengli Plastic Products Co., Ltd., in which Diamond Star invested.
- 2017: Conducted cash capital reduction, with the paid-in capital being reduced to NT\$200 million.
- 2018: Capitalized earnings, with the paid-in capital increasing to NT\$700 million.
- 2022: Cancelled treasury shares to reduce capital, with the paid-in capital being reduced to NT\$675 million; issued first domestic convertible unsecured corporate bonds; set up solar power facilities.
- Consolidated plants and adjusted production lines in 2023; relocated the Company to the Xuejia Industrial Park; put solar power facilities into operations to generate power.

(II) Mergers and acquisitions, investments in affiliates, and business restructuring during the most recent year and up to the publication date of this annual report: None.

(III) Major transfer of or change in shares by directors, supervisors, or major shareholders, each with more than 10% ownership interest, change in management rights, or material changes in the management method or business scope: None.

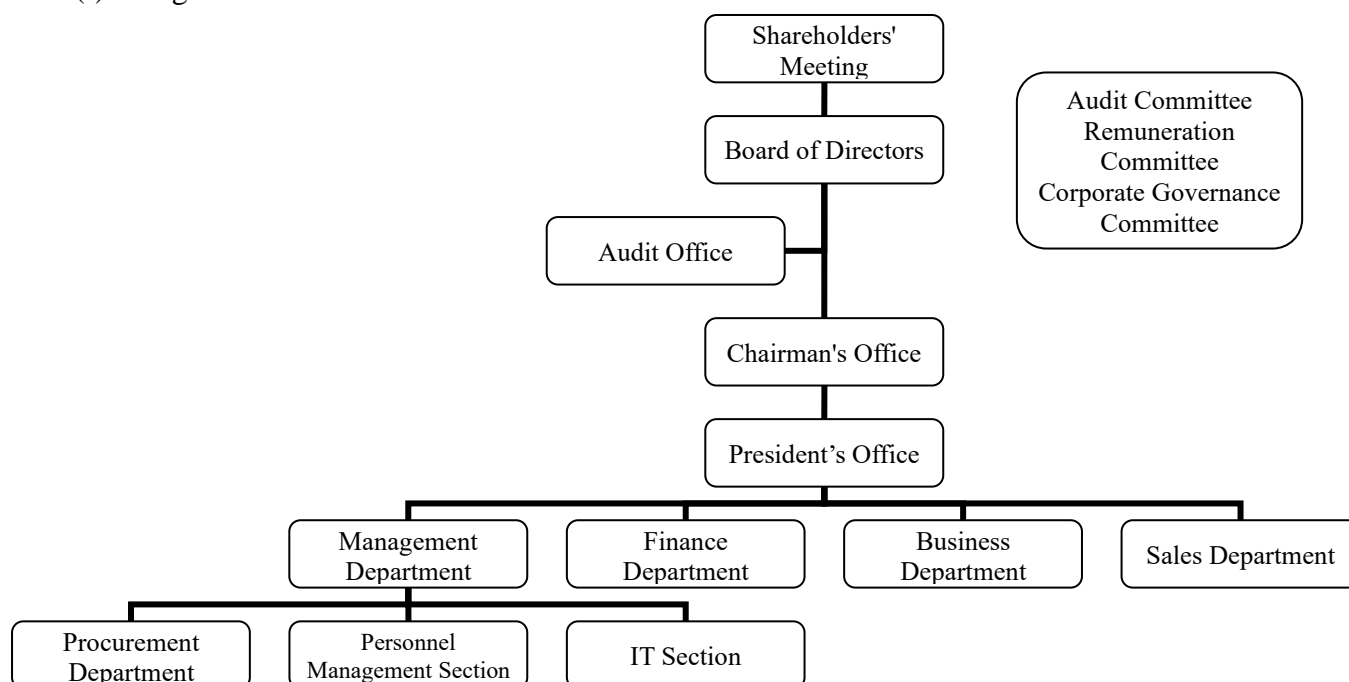
(IV) Other important matters that can affect shareholders' equity and the impact thereof on the Company: None.



## Three. Corporate Governance Report

### I. Organization

#### (I) Organizational structure



#### (II) Main business of each major department

Department	Main responsibilities	
Audit Office	Carry out the Company's audit work and audit and evaluate whether our internal control system is effective, sound, and reasonable.	
Chairman's Office	Establish corporate management policies and ensure achievement of business goals.	
President's Office	Plan project improvements, assist with improvements, and follow up on improvement results.	
Sales Department	Is responsible for promotion of all types of synthetic leather products, market information collection, as well as customer development and services.	
Business Department	Is responsible for production of various types of synthetic leather products, product scheduling and inventory management, equipment maintenance, new product research and development, and quality inspection and improvement.	
Finance Department	Comprehensively manage stock affairs, costs, accounting, taxation, capital movement, and fund application.	
Management Department	IT Section	Design, maintain, and manage computer hardware and software.
	Procurement Department	Is responsible for supplier management, raw material price parity, and procurement matters.
	Personnel Management Section	Handle the Company's human resources, general affairs, and general affairs.

## II. Information on directors, the President, Vice Presidents, Assistant Vice Presidents, and the heads of various departments and branches

### (I) Information on directors (1)

Date: March 29, 2023

Job title	Nationality	Name	Gender/Age	Date elected	Term of office	Date first elected	Shareholding when elected		Number of shares currently held		Current shareholding of spouse or minor children		Shareholding by nominee arrangement		Major education and experience	Concurrent positions at the Company or other companies	Spouse or relatives within second degree of kinship who are other managers, directors, or supervisors of the Company			Remarks
							Number of shares	Shareholding	Number of shares	Shareholding	Number of shares	Shareholding	Number of shares	Shareholding			Job title	Name	Relations	
Chairman	R.O.C.	He Rui Investment Ltd.	Male 41–50 years old	2021.7.8	3	2018.6.22	329,000	0.47%	329,000	0.49%	-	-	-	-	Bachelor's degree, Department of Mechanical and Electro-Mechanical Engineering, National Sun Yat-sen University EMBA, National Sun Yat-sen University	Chairman of Sun Yad Construction Co., Ltd. Chairman of U-Best Innovative Technology Co., Ltd. Chairman of Feei Cherng Enterprise Co., Ltd. Chairman of Myson Century, Inc.	None	None	None	None
		Representative: Chang, Yu-Ming					-	-	-	-	-	-	-							
Director	R.O.C.	Lin, Ching-Lung	Male 71–80 years old	2021.7.8	3	2000.6.17	2,667,192	3.81%	2,667,192	3.95%	1,394,246	2.07%	-	-	Master's degree, Business Administration, University of Oklahoma The Company's former Chairman		None	None	None	None
Director	R.O.C.	Wu, Yi-Jen	Male 71–80 years old	2021.7.8	3	1997.6.21	1,670,354	2.39%	1,670,354	2.47%	-	-	-	-	Master's degree, Business Administration, John F. Kennedy University	The Company's Honorary Chairman	None	None	None	None
Director	R.O.C.	U-Best Innovative Technology Co., Ltd.	Male 61–70 years old	2021.7.8	3	2015.6.24	10,180,219	14.54%	10,180,219	15.08%	-	-	-	-	National Sinying Senior High School Business Executive, Chunghwa Telecom Co., Ltd.	Representative of the director, Sun Yad Construction Co., Ltd.	None	None	None	None
		Representative: Chao, Tien-Tsung					12,997	0.02%	12,997	0.02%	-	-	-	-						
Independent Director	R.O.C.	Wu, Chang-Cheng	Male 51–60 years old	2021.7.8	3	2015.6.24	-	-	-	-	-	-	-	-	Doctoral degree, National Chiao Tung University President of Truelight Corporation	President of uSenlight Corporation	None	None	None	None
Independent Director	R.O.C.	Chen, Chih-Chang	Male 51–60 years old	2021.7.8	3	2021.7.8	-	-	-	-	-	-	-	-	Doctoral degree, Business Administration, National Yunlin University of Science and Technology Master's degree, Public Administration, Eastern Washington University Chair of the Department of Business Administration, National Taiwan University	Chairman of TISO Technologies Co., Ltd. Independent Director, Chang-You Industrial Co., Ltd. Independent Director, Man Zai Industrial Co., Ltd.	None	None	None	None
Independent Director	R.O.C.	Hsu, Chi-Jeng	Female 41–50 years old	2021.7.8	3	2021.7.8	-	-	-	-	-	-	-	-	Department of Accounting, Tainan University of Technology Assistant Manager, Underwriting Department, MasterLink Securities Corporation	Assistant Vice President, Underwriting Department, Firstrade Securities Inc. Independent Director, Clean Air Technology Limited Independent Director, Myson Century, Inc.	None	None	None	None

Note: Independent Director Chen, Chih-Chang resigned as an independent director on February 16, 2023.

## Major shareholders of institutional shareholders

April 24, 2023

Name of institutional shareholder	Major shareholders of institutional shareholders	
	Name of shareholder	Shareholding
He Rui Investment Ltd.	Chang, Yu-Ming	48.95%
	Chang, Hui-Feng	2.11%
	Chang, Pai-Hung	24.47%
	Chang, Jen-Wei	24.47%
U-Best Innovative Technology Co., Ltd.	Sun Yad Construction Co., Ltd.	16.14%
	Voyage Investment Limited	2.50%
	Myson Century, Inc.	2.15%
	Tseng, Chun-Jung	2.10%
	Zhong Qing Technology Co., Ltd.	1.44%
	Hsin-Li Chemical Industrial Corp.	1.43%
	Sung, Chuan-Kung	1.17%
	Boromi Optronics Corp.	1.13%
	Chen, Su-Ling	0.99%
	Kuo, Che-Liang	0.93%

## Major shareholders of major institutional shareholders

April 24, 2023

Name of institutional shareholder	Major shareholders of institutional shareholders	
	Name of shareholder	Shareholding
Sun Yad Construction Co., Ltd.	Zhong Qing Technology Co., Ltd.	8.16%
	U-Best Innovative Technology Co., Ltd.	7.77%
	Voyage Investment Limited	4.45%
	He Rui Investment Ltd.	2.71%
	Jing Hong Ltd.	1.20%
	Tseng, Chieh-Wei	1.13%
	Chang, Yu-Ming	1.06%
	Feei Cherng Enterprise Co., Ltd.	0.97%
	Chen, Ya-Chin	0.96%
	Chang Chao, Su-Chu	0.85%
Zhong Qing Technology Co., Ltd.	Chang, Yu-Ming	39.17%
	Chang, Jen-Wei	24.21%
	Chang, Pai-Hung	21.58%
	Chang, Hui-Feng	12.31%
	Chang, Yue-Hua	2.72%
	Metropolis Internet Technology	0.01%
Voyage Investment Limited	Chang, Hui-Feng	0.48%
	Chang, Yu-Chen	11.00%
	Lai, Hsiu-Chiung	16.00%
	Chang, Yu-Ching	12.00%
	Chang Chao, Su-Chu	6.28%
	Chang, Yue-Hua	10.28%
	Chang, Pai-Hung	21.48%
	Chang, Jen-Wei	21.48%
	Chang, Yu-Ming	1.00%
	Chang, Hui-Feng	0.48%
Myson Century, Inc.	Sun Yad Construction Co., Ltd.	17.06%
	Voyage Investment Limited	10.00%
	Zhong Qing Technology Co., Ltd.	6.31%
	He Rui Investment Ltd.	5.32%
	Chang, Yu-Ming	5.13%
	Yang, Hung-Chin	2.10%
	Huang, Sen-Yuan	1.70%
	Chang, Chun-Ming	1.49%
	Metropolis Internet Technology	1.49%

	Kao, Tung-Min	1.34%
Hsin-Li Chemical Industrial Corp.	U-Best Innovative Technology Co., Ltd.	15.08%
	Feei Cherng Enterprise Co., Ltd.	10.33%
	Voyage Investment Limited	5.74%
	Shangyu Construction Co., Ltd.	5.05%
	Lin, Ching-Lung	3.95%
	Myson Century, Inc.	3.81%
	Wu, Kuo-Wei	2.96%
	Wu, Yi-Jen	2.48%
	Chang, Shuo-Wen	2.07%
	Ho, Chun-Ch	2.07%
Boromi Optronics Corp.	Shangyu Construction Co., Ltd.	100.00%

## Information on directors (2)

### I. Disclosure of directors' professional qualifications and independent directors' independence:

Qualifications Name	Professional qualification and experience (Note 1)	Independence (Note 2)	Number of other public companies where the individual serves as an independent director concurrently
Chairman: Chang, Yu-Ming Representative of He Rui Investment Ltd.	<ol style="list-style-type: none"> <li>Department of Mechanical and Electro-Mechanical Engineering, National Sun Yat-sen University; EMBA, National Sun Yat-sen University.</li> <li>Extensive experience in business administration and the former Chairman and CEO of U-Best Innovative Technology Co., Ltd., former Chairman and President of Myson Century, Inc., and former Chairman of Feei Cherng Enterprise Co., Ltd.</li> <li>Not under any of the circumstances mentioned in Article 30 of the Company Act.</li> </ol>	<ol style="list-style-type: none"> <li>Concurrently as the Chairman of director, U-Best Innovative Technology Co., Ltd.</li> <li>Concurrently as a director of the Company's affiliate</li> <li>The other parts were verified in accordance with the independence requirements referred to in the "Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies" promulgated by the Financial Supervisory Commission (FSC) and held satisfying such requirements.</li> </ol>	None
Director: Lin, Ching-Lung	<ol style="list-style-type: none"> <li>Master's degree, Business Administration, University of Oklahoma.</li> <li>Has worked at the Company since September 1975 as a Vice President, the President, and the Chairman with extensive experience in business administration.</li> <li>Not under any of the circumstances mentioned in Article 30 of the Company Act.</li> </ol>	The qualifications were verified in accordance with the independence requirements referred to in the "Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies" promulgated by the FSC and held satisfying such requirements.	None
Director: Wu, Yi-Jen	<ol style="list-style-type: none"> <li>Master's degree, Business Administration, John F. Kennedy University.</li> <li>Has worked at the Company since December 1973 as a Vice President, the President, and the Chairman with extensive experience in business administration.</li> <li>Not under any of the circumstances mentioned in Article 30 of the Company Act.</li> </ol>	The qualifications were verified in accordance with the independence requirements referred to in the "Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies" promulgated by the FSC and held satisfying such requirements.	None
Director: Chao, Tien-Tsung Representative of U-Best Innovative Technology Co., Ltd.	<ol style="list-style-type: none"> <li>National Sinying Senior High School</li> <li>Former Business Executive, Chunghwa Telecom Co., Ltd.</li> <li>Not under any of the circumstances mentioned in Article 30 of the Company Act.</li> </ol>	<ol style="list-style-type: none"> <li>Concurrently as a representative of an institutional director of the Company's affiliate</li> <li>The other parts were verified in accordance with the independence requirements referred to in the "Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies" promulgated by the FSC and held satisfying such requirements.</li> </ol>	None

Independent director: Wu, Chang-Cheng	<ol style="list-style-type: none"> <li>1. Doctoral degree, National Chiao Tung University</li> <li>2. President of Truelight Corporation, President of InveStar Holdings Inc., and President of uSenlight Corporation.</li> <li>3. Not under any of the circumstances mentioned in Article 30 of the Company Act.</li> </ol>	According to the Company's Articles of Incorporation and "Corporate Governance Best Practice Principles," the directors shall be elected under the candidate nomination system. When nominating and electing the Board members, the Company has received the written statement,	None
Independent director: Chen, Chih-Chang	<ol style="list-style-type: none"> <li>1. Doctoral degree, Business Administration, National Yunlin University of Science and Technology.</li> <li>2. Director of Bothhand Enterprise Inc., Chairman of TISO Technologies Co., Ltd., supervisor of Metal System Co., Ltd., independent director of Tsang Yow Industrial Co., Ltd., and independent director of Man Zai Industrial Co., Ltd.</li> <li>3. Not under any of the circumstances mentioned in Article 30 of the Company Act.</li> </ol>	information about work experience, current certificate of employment and kinship chart from each director and, therefore, already verified the independence of them, their spouses, and relatives within 3rd degree of kinship as to the Company. Meanwhile, upon verification, the three independent directors identified in the left column were held satisfying the qualification requirements under the "Regulations	2
Independent director: Hsu, Chi-Jeng	<ol style="list-style-type: none"> <li>1. Department of Accounting, Tainan University of Technology.</li> <li>2. Assistant Manager, Underwriting Department, MasterLink Securities Corporation, Assistant Vice President, Underwriting Department, Firstrade Securities Inc., independent director, Clean Air Technology Limited, and independent director, Myson Century, Inc.</li> <li>3. Not under any of the circumstances mentioned in Article 30 of the Company Act.</li> </ol>	Governing Appointment of Independent Directors and Compliance Matters for Public Companies" promulgated by FSC and Article 14-2 of the Securities and Exchange Act within two years before they assume the positions and during their term of office. The independent directors have also been empowered to participate in the decision making and express opinions under Article 14-3 of the Securities and Exchange Act, in order to perform their job duties independently.	1

Note 1: Professional qualification and experience: Please specify the individual directors' and supervisor's professional qualification and experience. In the case of an Audit Committee member specialized in accounting or finance, please specify his/her educational background and work experience in accounting or finance, and whether he/she meets the circumstances referred to in Article 30 of the Company Act.

Note 2: Specify if independent directors are independent, including but not limited to whether they, their spouses, and relatives within the second degree of kinship serve as directors, supervisors, or employees of the Company or its affiliates; the number and percentage of the Company's shares held by the them and their spouses and relatives within the second degree of kinship (or by nominee arrangement); whether they, their spouses, or relatives within the second degree of kinship serve as directors, supervisors, or employees at a company with specific relations with the Company (see Article 3, paragraph 1, subparagraphs 5-8 of the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies); the amount of remuneration received for providing business, legal, financial, accounting, or other services to the company or its affiliates in the last two years.

## II. Diversity and Independence of Board of Directors:

### (I) Board diversity:

The Company has stipulated in the "Corporate Governance Best Practice Principles" that the composition of the Board of Directors should be based on the diversity principles regardless of gender, race, and nationality. In addition to possessing the knowledge, skills, and qualities necessary to perform duties, to achieve the goal of corporate governance, the board members as a whole should possess the following:

1. Business judgment.
2. Accounting and financial analysis.
3. Business administration.
4. Crisis management.
5. Industry knowledge.
6. An international market perspective.
7. Leadership.
8. Decision-making.

The existing seven board members are all citizens of the R.O.C., including three independent directors and one female director (accounting for 42.9% and 14.3% of all directors, respectively),

all of whom possess the knowledge, skills, and qualities needed to perform their duties (please refer to directors' education and experience above) and specialize in accounting, finance, business, law, marketing, or industry technology. The diversity of board members is as follows:

Name of director	Gender	Age				Whether the term of office as an independent director exceeds three consecutive terms	Diverse core expertise				
		41–50	51–60	61–70	71–80		Financial accounting	Business	Law	Marketing	Industry technology
He Rui Investment Ltd. representative: Chairman Chang, Yu-Ming	Male	V				N/A	V	V		V	V
Director Lin, Ching-Lung	Male				V	N/A		V		V	V
Director Wu, Yi-Jen	Male				V	N/A		V		V	V
U-Best Innovative Technology Co., Ltd. representative: Director Chao, Tien-Tsung	Male			V		N/A		V		V	V
Independent director Wu, Chang-Cheng	Male		V			No		V		V	
Independent director Chen, Chih-Chang	Male		V			No	V	V		V	
Independent director Hsu, Chi-Jeng	Female	V				No	V	V	V	V	

(II) Independence of the board:

As per the Corporate Governance Best Practice Principles, more than half of all directors shall not be a spouse or relative within the second degree of kinship of any other director. They are not under any of the circumstances under the subparagraphs of Article 30 of the Company Act, and their qualifications were verified in accordance with the independence requirements referred to in the “Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies” promulgated by the FSC and held satisfying such requirements.

Additionally, it has been verified that the three independent directors all meet the requirements for the qualifications under the “Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies” promulgated by the FSC and Article 14-2 of the Securities and Exchange Act. All independent directors have been granted the right to fully participate in the decision-making process and express their opinions in accordance with Article 14-3 of the Securities and Exchange Act, thereby independently performing their duties.

(II) Information on the President, Vice Presidents, Assistant Vice Presidents, and the heads of various departments and branches

Date: March 29, 2023

Job title	Nationality	Name	Gender	Date of taking office	Shareholding		Shareholding of spouse or minor children		Shareholding by nominee arrangement		Major education and experience	Concurrent positions at other companies	Spouse or relatives within second degree of kinship who are other managers of the Company			Remarks
					Number of shares	Shareholding	Number of shares	Shareholding	Number of shares	Shareholding			Job title	Name	Relations	
President	R.O.C.	Cheng, Yu-Tang	Male	2021.7.8	-	-	-	-	-	-	Department of Industrial Management, University of Kang Ning Factory Manager, Kangwei Technology Co., Ltd. Special Assistant to the President, Boromi Optronics Corp. Project Assistant Manager, President's Office, U-Best Innovative Technology Co., Ltd.	None	None	None	None	-
Assistant Vice President of the Sales Department	R.O.C.	Wu, Min-Tsung	Male	1984.9.24	-	-	-	-	-	-	Business Administration, New Taipei Municipal Tamsui Commercial Industrial Vocational Senior High School Assistant Vice President of the Sales Department	None	None	None	None	-
Assistant Vice President of the Business Department	R.O.C.	Li, Shan-Lung	Male	1984.7.24	7,924	0.01%	13,307	0.02%	-	-	Department of Business Administration, Chung Yuan Christian University. Assistant Vice President of the Business Department	None	None	None	None	-
Manager of the Finance Department	R.O.C.	Chang, Chen-Ching	Female	2021.7.8	-	-	-	-	-	-	Department of Accounting, Soochow University Coordinator, Tatung Company Accounting Officer, Contrel Technology Co., Ltd. Financial Assistant Manager, U-Best Innovative Technology Co., Ltd.	None	None	None	None	-

Where the Chairman and the President or person in an equivalent position (top-level manager) are the same person, spouses, or relatives within the first degree of kinship, the reason for, reasonableness, necessity thereof, and countermeasures shall be disclosed: N/A.

III. Remuneration paid to directors, supervisors, the President, and Vice Presidents in the most recent year:

(I) Remuneration to general directors and independent directors (individuals' names and remuneration are disclosed)

Unit: NT\$ thousand

Job title	Name	Directors' remuneration								Sum of A, B, C, and D as a percentage of the net income after tax (%)		Remuneration received for serving as an employee concurrently								Sum of A, B, C, D, E, F, and G and the sum as a percentage of the net income after tax (%)		Remuneration from investees other than subsidiaries or from the parent company
		Base remuneration (A)		Severance and pension (B)		Remuneration to directors or supervisors (C)		Professional service fees (D)				Salary, bonus, and special allowance (E)		Severance and pension (F)		Remuneration to employees (G)						
		The Company	All companies in the financial statements	The Company	All companies in the financial statements	The Company	All companies in the financial statements	The Company	All companies in the financial statements	The Company	All companies in the financial statements	The Company	All companies in the financial statements	The Company (Note)	All companies in the financial statements (Note)	The Company		All companies in the financial statements		The Company	All companies in the financial statements	
Chairman	He Rui Investment Co., Ltd. Representative: Chang, Yu-Ming	-	-	-	-	-	-	206	206	-0.48	-0.48	2822	2822	-	-	-	-	-	-	-7.00	-7.00	None
Director	U-Best Innovative Technology Co., Ltd. Representative: Chao, Tien-Tsung	-	-	-	-	-	-	75	75	-0.17	-0.17	-	-	-	-	-	-	-	-	-0.17	-0.17	None
Director	Lin, Ching-Lung	600	600	-	-	-	-	72	72	-1.55	-1.55	-	-	-	-	-	-	-	-	-1.55	-1.55	None
Director	Wu, Yi-Jen	-	-	-	-	-	-	67	67	-0.15	-0.15	-	-	-	-	-	-	-	-	-0.15	-0.15	None
Independent Director	Wu, Chang-Cheng	-	-	-	-	-	-	145	145	-0.34	-0.34	-	-	-	-	-	-	-	-	-0.34	-0.34	None
Independent Director	Chen, Chih-Chang	-	-	-	-	-	-	153	153	-0.35	-0.35	-	-	-	-	-	-	-	-	-0.35	-0.35	None
Independent Director	Hsu, Chi-Jeng	-	-	-	-	-	-	153	153	-0.35	-0.35	-	-	-	-	-	-	-	-	-0.35	-0.35	None

- Please specify the policy, system, standard, and structure of remuneration to the independent directors, and the association between the amount of remuneration and the responsibilities and risks assumed, time spent, and other factors:  
We pay fixed remuneration to independent directors as per the Company's Directors and Committee Members Honoraria Standards without participating in the directors' remuneration paid out depending on the year's profits as per Article 28 of the Company's Articles of Incorporation.
- Except as disclosed in the above table, the remuneration received by the Company's directors for providing services to (the parent company, all companies in the financial statements, or investees the serving as a consultant in a non-employee capacity) in the most recent year: None.



(II) Remuneration paid to supervisors: N/A.

(III) Remuneration paid to the President and Vice Presidents in the most recent year (names and remuneration are disclosed individually)

Unit: NT\$ thousand

Job title	Name	Salary (A)		Severance and pension (B)		Bonus and special allowance (C)		Remuneration to employees (D)				Sum of A, B, C, and D as a percentage of the net income after tax (%)		Remuneration from investees other than subsidiaries or from the parent company
		The Company	All companies in the financial statements	The Company	All companies in the financial statements	The Company	All companies in the financial statements	The Company		All companies in the financial statements		The Company	All companies in the financial statements	
								Cash amount	Stock amount	Cash amount	Stock amount			
President	Cheng, Yu-Tang	2,088	2,088	-	-	-	-	-	-	-	-	-4.83	-4.83	None

(IV) Remuneration of the top five managers with the highest remuneration (names and remuneration are disclosed individually)

Unit: NT\$ thousand

Job title	Name	Salary (A)		Severance and pension (B)		Bonus and special allowance (C)		Remuneration to employees (D)				Sum of A, B, C, and D as a percentage of the net income after tax (%)		Remuneration from investees other than subsidiaries or from the parent company
		The Company	All companies in the financial statements	The Company	All companies in the financial statements	The Company	All companies in the financial statements	The Company		All companies in the financial statements		The Company	All companies in the financial statements	
								Cash amount	Stock amount	Cash amount	Stock amount			
President	Cheng, Yu-Tang	2,088	2,088	0	0	0	0	0	0	0	0	-4.83	-4.83	None
Assistant Vice President	Li, Shan-Lung	1,582	1,582	0	0	0	0	0	0	0	0	-3.84	-3.84	None
Assistant Vice President	Wu, Min-Tsung	1,281	1,281	0	0	0	0	0	0	0	0	-3.11	-3.11	None
Manager	Chang, Chen-Ching	804	804	0	0	0	0	0	0	0	0	-1.95	-1.95	None

Name of the manager who receives employee remuneration and distribution: No employee remuneration was distributed in 2022.

(V) An analysis of the total remuneration paid to the Company's directors, supervisors, the President, and Vice Presidents by the Company and all companies in the consolidated financial statements as a percentage of the net income after tax in the parent company only or individual financial statements for the most recent two years, and a description of the remuneration policy, standard, and package, the procedure for determining the remuneration, and the association between business performance and future risks:

1. An analysis of the total remuneration paid to the Company's directors, supervisors, the President, and Vice Presidents as a percentage of the net income after tax in the parent company only or individual financial statements for the most recent two years:

Unit: NT\$ thousand

Item \ Year	2021		2022		Increase (decrease)
	Total remuneration	As a % of net income after tax	Total remuneration	As a % of net income after tax	
Director	8,131	5.95%	4,293	-9.93%	(3,838)
Supervisor	20	0.01%	-	-	(20)
President and Vice Presidents	3,282	2.40%	2,588	-5.99%	(694)

Note: The Company is not required to prepare consolidated financial statements, and the amounts are based on the individual statements.

We determine directors, supervisors, the President, and Vice Presidents' remuneration as per each individual's participation in and contribution to the Company's operations while with reference to the general standard in the industry at home and abroad.

2. Remuneration policy, standard, and package, the procedure for determining the remuneration, and the association between business performance and future risks:

- (1) Analysis of the percentages:

The Company's 2022 net loss after tax was NT\$41,198 thousand and 2022 net income after tax was NT\$136,765 thousand. Compared to the loss for 2021, the loss increased by NT\$177,963 thousand in 2022, and the reduction in remuneration to directors and supervisors compared to 2021 is reasonable. The amount of remuneration to the President and Vice Presidents in 2022 decreased by NT\$694 thousand compared to 2021.

- (2) The association between remuneration policy, standard, and package/the procedure for determining the remuneration and business performance:

The remuneration to the Company's directors includes directors and supervisors' remuneration, honoraria, and non-recurring expenses, as well as salary, executive differential pay, severance pay, various bonuses, and incentives for serving as employees concurrently. Pursuant to Article 22 of the Articles of Incorporation, the Company may pay honoraria to directors at its discretion, the amount of which shall be determined by the Board of Directors. Pursuant to Article 28 of the Articles of Incorporation: Where the Company makes a profit for a year, to motivate employees and the management team, after a cumulative deficit is deducted from the Company's profit for the year, the Company shall provide not lower than 2%–5% of the balance, if any, for employee remuneration and no higher than 5% for directors' remuneration. In addition to considering the directors and supervisors performance evaluation results, we regularly submit the directors and supervisors remuneration to the Board of Directors for resolution based on the distribution principle suggested by the Remuneration Committee. The remuneration to managers includes salary and bonuses. Salary is determined with reference to the standards in the industry and based on individuals' job titles, ranks, education (experience), professional abilities, and responsibilities. Bonuses are determined based on manager performance evaluation indicators, including financial indicators (such as company revenue, pre-tax net income, and after-tax net income) and non-financial indicators (such as innovation, planning, responsibility, and major defects in compliance and operational risks of the departments they manage). After deliberation and approval by the Remuneration Committee, the remuneration proposal will be submitted to the Board of Directors for resolution.

- (3) The Company's remuneration policy is based on the overall plan of the financial position, business performance, and future fund application needs with the future risks taken into consideration; the likelihood of such risks has been minimized. As of the publication date of this annual report, there was no event occurring that might cause the Company to assume responsibilities, obligations, or liabilities in the future.

## IV. Implementation of corporate governance

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

#### (1) Information on the operations of the Board of Directors:

The Board of Directors held nine meetings during 2022, and directors' attendance is as follows:

Job title	Name	Attendance in person	Attendance by proxy	Attendance (%)	Remarks
Chairman	He Rui Investment Ltd. representative: Chang, Yu-Ming	9	-	100	
Director	U-Best Innovative Technology Co., Ltd. representative: Chao, Tien-Tsung	9	-	100	
Director	Lin, Ching-Lung	9	-	100	
Director	Wu, Yi-Jen	8	-	88.89	
Independent Director	Wu, Chang-Cheng	9	-	100	
Independent Director	Chen, Chih-Chang	9	-	100	
Independent Director	Hsu, Chi-Jeng	9	-	100	

#### Additional information:

I. If the operations of the Board of Directors is under any of the circumstances below, the date of the board meeting, the session, the content of the proposal, all independent directors' opinions, and the Company's response to said opinions shall be specified:

- (I) Matters under Article 14-3 of the Securities and Exchange Act: Please refer to the important resolutions adopted by the Board of Directors.
- (II) Except for the above matters, other matters resolved by the Board of Directors with objection or reservation made by any independent directors, with records or a written statement: None.

II. In the event of directors' recusal from proposals, the name of director, the content of proposal, the reasons for recusal, and the participation in voting shall be specified:

Date of board meeting	Proposal	Reasons for recusal	Participation in voting
January 21, 2022	The proposal to discuss the matters reviewed at the 1st meeting of the Remuneration Committee in 2022.	It was to discuss directors' remuneration; directors' personal interest were involved and they should be recused from the discussion.	Directors Chang, Yu-Ming and Lin, Ching-Lung were recused from the discussion, and the proposal was unanimously approved after the voting.
March 29, 2022	The Company's provision of 2021 employee and director remuneration and distribution method.	It was to discuss directors' remuneration; directors' personal interest were involved and they should be recused from the discussion.	Chang, Yu-Ming, Lin, Ching-Lung, Chao, Tien-Tsung, and Wu, Yi-Jen The directors took turns to recuse themselves from the discussions and voting, and the proposal was unanimously approved after the voting.
January 13, 2023	The proposal to discuss the matters reviewed at the 1st meeting of the Remuneration Committee in 2023	It was to discuss directors' remuneration; directors' personal interest were involved and they should be recused from the discussion.	Director Chang, Yu-Ming recused himself from the discussions and voting, and the proposal was unanimously approved after the voting.

III. The objectives of enhancing the functions of the Board of Directors in the current year and the most recent year (such as establishing an audit committee or enhancing information transparency) and the implementation

- (I) The Company held a meeting on November 9, 2022 to enhance discussion and communication between independent directors and accountants/the chief internal auditor.
- (II) The Company adopted the Sustainable Development Best Practice Principles and the Ethical Corporate Management Best Practice Principles for the Board of Directors, Audit Committee, and Corporate Governance Committee on December 26, 2022 to improve corporate governance.
- (III) We actively provide information on various training courses and motivate directors and supervisors to actively participate in various corporate governance courses, thereby enhancing the board members' competencies. In 2022, all directors completed the required training courses.

(2) The implementation of the performance evaluation of the Board of Directors:

Evaluation cycle	Evaluation period	Scope of evaluation	Evaluation method	Contents of evaluation
Once per year	2022.1.1 – 2022.12.31	The Board of Directors, Individual board members, and functional committees	Internal board self-evaluation, board member self-evaluation, and peer-to-peer evaluation	(I) Board performance evaluation indicators: <ol style="list-style-type: none"> <li>1. Degree of involvement in the Company's operations</li> <li>2. Improvement to the quality of the Board of Directors' decision-making</li> <li>3. Composition and structure of the Board of Directors</li> <li>4. Election and continuing education of directors</li> <li>5. Internal control</li> </ol> (II) Individual board members self-performance evaluation indicators: <ol style="list-style-type: none"> <li>1. Alignment with the Company's goals and mission</li> <li>2. Awareness of responsibilities as a director</li> <li>3. Degree of involvement in the Company's operations</li> <li>4. Management of internal relations and communication</li> <li>5. Directors' professional and continuing education</li> <li>6. Internal control</li> </ol> (III) Functional committee evaluation indicators: <ol style="list-style-type: none"> <li>1. Degree of involvement in the Company's operations</li> <li>2. Awareness of responsibilities as a functional committee member</li> <li>3. Improvement to the quality of the functional committee's decision-making</li> <li>4. Composition and selection of members of the functional committees</li> <li>5. Internal control</li> </ol>

Evaluation results:

The evaluation results are excellent. The Board of Directors as a whole and functional committees are operating effectively. The results were reported to the Board of Directors on February 24, 2023 and placed on file.

(II) The operations of the Audit Committee

The Audit Committee held seven meetings during 2022, and the independent directors' attendance is as follows:

Job title	Name	Attendance in person	Attendance by proxy	Attendance (%)	Remarks
Independent Director	Wu, Chang-Cheng	7	-	100	-
Independent Director	Chen, Chih-Chang	7	-	100	-
Independent Director	Hsu, Chi-Jeng	7	-	100	-

Additional information:

I. If the operations of the Audit Committee is under any of the circumstances below, the date of the committee meeting, the session, the content of the proposal, all independent directors' opinions, and the Company's response to said opinions shall be specified

(I) Matters under Article 14-5 of the Securities and Exchange Act

Date and session	Proposal	Independent directors' opinions
2022.01.21 1st meeting during 2022	<ol style="list-style-type: none"> <li>1. Amendments to the Articles of Incorporation.</li> <li>2. Amendment to the Check/Remittance Seal and Management Regulations.</li> </ol>	All attending members approved the proposals as proposed.

2022.02.25 2nd meeting during 2022	<ol style="list-style-type: none"> <li>1. The 2021 business report and financial statements.</li> <li>2. The Company's statement of the internal control system.</li> <li>3. Amendments to the "Procedures for the Acquisition and Disposal of Assets".</li> <li>4. The proposal to formulate the Corporate Governance Best Practice Principles.</li> <li>5. The proposal to partially amend the approval hierarchy.</li> </ol>	All attending members approved the proposals as proposed.
2022.03.29 3rd meeting during 2022	<ol style="list-style-type: none"> <li>1. The 2021 statement of earnings distribution.</li> <li>2. Amendments to the Articles of Incorporation.</li> <li>3. Amendments to the Rules of Procedure for Shareholders' Meetings.</li> <li>4. Amendments to the Employee Substitute Management Regulations.</li> </ol>	All attending members approved the proposals as proposed.
2022.04.13 4th meeting during 2022	<ol style="list-style-type: none"> <li>1. Replacement of the accounting firm and the CPAs.</li> </ol>	All attending members approved the proposals as proposed.
2022.08.11 5th meeting in 2022	<ol style="list-style-type: none"> <li>1. Financial statements for 2022 Q2.</li> <li>2. The proposal to review the audit fees for the appointment of KPMG Taiwan for 2022.</li> </ol>	All attending members approved the proposals as proposed.
2022.11.09 6th meeting during 2022	<ol style="list-style-type: none"> <li>1. Financial statements for 2022 Q3.</li> <li>2. The general principles for the Company's pre-approval of the non-assurance service policy.</li> <li>3. Amendments to the Procedures for Handling Material Inside Information.</li> <li>4. Establishment of the Regulations Governing the Preparation of Financial Statements.</li> </ol>	All attending members approved the proposals as proposed.
2022.12.26 7th meeting in 2022	<ol style="list-style-type: none"> <li>1. The 2023 annual internal audit plan.</li> <li>2. Relevant regulations of the Company.</li> </ol>	All attending members approved the proposals as proposed.

(II) Except for the above matters, matters that have not been approved by the Audit Committee but have been approved by more than two-thirds of all directors: None.

II. In the event of independent directors' recusal from proposals, the name of independent director, the content of proposal, the reasons for recusal, and the participation in voting shall be specified: None.

III. Communication between independent directors and the chief internal auditor/CPAs (including material financial and business matters communicated and communication methods and results):

Time: 10:00 a.m. on November 9, 2022 (Wednesday)

Attended by:

Independent directors: Hsu, Chi-Jeng, Chen, Chih-Chang, and Wu, Chang-Cheng

CPA: Hsu, Chen-Lung

Chief internal auditor: Chuang, Shu-Chen

Minute taker: Chuang, Shu-Chen

Contents of the discussion:

Matters	Description of communication	Suggestions and corrections
I. Audit progress and findings	<ol style="list-style-type: none"> <li>1. The 2022 audit plan included 97 audit tasks; 82 tasks had been completed as of this meeting. After each audit, an audit report was submitted to the independent directors for review.</li> <li>2. As of this meeting, all audited items for the year ended December 31, 2022 had been completed in compliance with regulations, and there were no significant defects or irregularities.</li> </ol>	None
II. Discussion and communication with CPAs	Reported on the review results of the financial statements for 2022 Q3 and the internal control system audit results; discussed and communicated the impact of the newly amended laws and regulations.	None
III. Other matters for discussion	<ol style="list-style-type: none"> <li>1. Are there any enhanced audit items suggested or required?</li> <li>2. Are there any other suggestions or corrections?</li> </ol>	None

(III) The operations of corporate governance and the deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and the reasons therefor

Evaluation indicators	Operations			Deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and the reasons therefor
	Yes	No	Brief description	
I. Has the company formulated and disclosed the Corporate Governance Best Practice Principles in accordance with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies?	V		The Board of Directors approved the “Corporate Governance Best Practice Principles formulated” on February 25, 2022, which is disclosed in the Investors section on the Company's website.	Aligned
II. The Company's shareholding structure and shareholders' equity				
(I) Has the Company formulated internal operating procedures for handling shareholders' suggestions or questions or disputes and litigation with them and complied with the procedures?	V		(I) We have a spokesperson and acting spokesperson mechanism in place and disclosed an email in the Investors section on the Company's website to respond to shareholders' suggestions and disputes.	Aligned
(II) Does the company have a list of the major shareholders with ultimate control over the company and a list of the ultimate controllers of the major shareholders?	V		(II) Pursuant to Article 25 of the Securities and Exchange Act, the Company shall report changes in the shareholdings of insiders, including directors, managers, and shareholders, each with more than 10% ownership interest, to the MOPS designated by the competent authority on a monthly basis.	Aligned
(III) Has the company established and implemented a risk control and a firewall mechanisms between itself and affiliates?	V		(III) The Company has formulated the “Corporate Governance Best Practice Principles”, the “Internal Control System”, the “Procedures for Loaning of Funds and Making of Endorsements/Guarantees”, the “Procedures for Asset Acquisition and Disposal”, and the “Procedures for Monitoring of Subsidiaries” as per the “Corporate Governance Best Practice Principles” for TWSE/TPEX Listed Companies, the “Regulations Governing Establishment of Internal Control Systems by Public Companies”, and the “Regulations Governing the Acquisition and Disposal of Assets by Public Companies”, to clearly divide the duties, powers, and responsibilities between the Company and affiliates. We also built appropriate firewalls based on the risk assessment results and continue to implement them to monitor affiliates.	Aligned
(IV) Has the company formulated internal regulations to prohibit insiders from using information undisclosed in the market to buy and sell securities?	V		(IV) We have formulated the “Procedures for Handling Material Inside Information” and the “Insider Trading Prevention Management Procedures”, and our relevant internal personnel should abide by applicable laws and regulations and internal operating procedures and must not engage in insider trading using the undisclosed information, nor shall they disclose such information to others to prevent others from using the unpublished information to engage in insider trading.	Aligned
III. Composition and responsibilities of the Board of Directors				
(I) Has the board of directors formulated a diversity	V		(I) The Company’s Board of Directors consists of seven directors, including three independent	Aligned

Evaluation indicators			Operations					Deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and the reasons therefor																																																													
	Yes	No	Brief description																																																																		
policy for the board structure and implemented them accordingly?			<p>directors. The excel at the industry knowledge, academic knowledge, finance, accounting, and business administration, which is aligned with the policy on the diversity of the board members.</p> <table border="1"> <thead> <tr> <th rowspan="2">Name of director</th> <th rowspan="2">Gender</th> <th colspan="5">Diverse core expertise</th> </tr> <tr> <th>Financial accounting</th> <th>Business</th> <th>Law</th> <th>Marketing</th> <th>Industry technology</th> </tr> </thead> <tbody> <tr> <td>Chairman Chang, Yu-Ming</td> <td>Male</td> <td>V</td> <td>V</td> <td></td> <td>V</td> <td>V</td> </tr> <tr> <td>Director Lin, Ching-Lung</td> <td>Male</td> <td></td> <td>V</td> <td></td> <td>V</td> <td>V</td> </tr> <tr> <td>Director Wu, Yi-Jen</td> <td>Male</td> <td></td> <td>V</td> <td></td> <td>V</td> <td>V</td> </tr> <tr> <td>Director Chao, Tien-Tsung</td> <td>Male</td> <td></td> <td>V</td> <td></td> <td>V</td> <td>V</td> </tr> <tr> <td>Independent director Wu, Chang-Cheng</td> <td>Male</td> <td></td> <td>V</td> <td></td> <td>V</td> <td></td> </tr> <tr> <td>Independent director Chen, Chih-Chang</td> <td>Male</td> <td>V</td> <td>V</td> <td></td> <td>V</td> <td></td> </tr> <tr> <td>Independent director Hsu, Chi-Jeng</td> <td>Female</td> <td>V</td> <td>V</td> <td>V</td> <td>V</td> <td></td> </tr> </tbody> </table>					Name of director	Gender	Diverse core expertise					Financial accounting	Business	Law	Marketing	Industry technology	Chairman Chang, Yu-Ming	Male	V	V		V	V	Director Lin, Ching-Lung	Male		V		V	V	Director Wu, Yi-Jen	Male		V		V	V	Director Chao, Tien-Tsung	Male		V		V	V	Independent director Wu, Chang-Cheng	Male		V		V		Independent director Chen, Chih-Chang	Male	V	V		V		Independent director Hsu, Chi-Jeng	Female	V	V	V	V		
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(II) Has the Company voluntarily established other functional committees in addition to the remuneration and the audit committees established in accordance with the law?	V		(II) The company established the Corporate Governance Committee and elected the committee members on August 11, 2021.					Aligned																																																													
(III) Has the Company formulated board performance evaluation regulations and evaluation methods, conducted performance evaluations annually and regularly, reported the results of performance evaluations to the board of directors, and adopted such results as a reference for deciding the remuneration of and nominating candidates for individual directors?	V		(III) The Company conducts the performance evaluation of the Board of Directors in accordance with the Regulations Governing the Evaluation of the Performance of the Board of Directors at the end of each year. The evaluation include the evaluation of the Board of Directors as a whole and the director self-evaluation. The performance of the Board of Directors as a whole, individual board members, and functional committees was evaluated with an internal self-evaluation method in 2022. The performance evaluation results were reported to the Board of Directors on February 24, 2023 and disclosed on the Company's website and in this annual report.					Aligned																																																													
(IV) Does the company regularly assess the independence of the CPAs?	V		(IV) The Company reviews the independence and suitability of the CPAs on an annual basis to check if they are the Company's directors, shareholders, or employees receiving salary from the Company and confirms that they are non-interested parties. We also require the CPAs to provide a "Declaration of Independence" and the "Audit Quality Indicators" to be included in our evaluation process. During the process of assessing the independence of CPAs in 2022, we completed the "Assessment of Independence of CPAs internally" and submitted it to the Board of Directors for resolution.					Aligned																																																													

Evaluation indicators	Operations		Deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and the reasons therefor	
	Yes	No		Brief description
IV. Has the company has appointed an appropriate number of competent corporate governance personnel and designated a corporate governance officer to be responsible for corporate governance affairs (including but not limited to providing directors and supervisors with the materials required for performance of their duties, assisting directors and supervisors with compliance, handling matters related to board meetings and the shareholders' meetings, and preparing minutes of board meetings and shareholders' meetings)?	V		The Board of Directors approved, on August 11, 2021, the appointment of Sung, Li-Lan from the Finance Department as the Corporate Governance Officer concurrently to manage the corporate governance business.	Aligned
V. Has the company has established communication channels with stakeholders and set up a section dedicated to stakeholders on the company's website to properly respond to stakeholders' major CSR issues of concern?	V		We have a spokesperson mechanism in place to handle relevant matters in accordance with regulations and is working on the establishment of a Stakeholders section on the Company's website.	Aligned
VI. Does the company appoint a professional stock affairs agency to handle the affairs related to shareholders' meetings?	V		We appointed Grand Fortune Securities Co.,Ltd. to handle the affairs related to the shareholders' meeting.	Aligned
VII. Information disclosures				
(I) Has the company set up a website to disclose information on financial business and corporate governance?	V		(I) We have set up a website and regularly update the latest financial and corporate governance information on the website.	Aligned
(II) Does the company adopt other methods to disclose information (such as setting up an English website, designating personnel to collect and disclose company information, implementing a spokesperson system, or placing the proceeding of investor conferences on the company website)?	V		(II) We have a spokesperson mechanism in place and disclose material information and financial information on the Market Observation Post System (MOPS).	Aligned
(III) Does the Company announce and submit an annual financial report to the competent authority within two months after the end of each fiscal year and announce and submit the financial reports for the Q1, Q2, Q3 and the operations of each month to the competent authority before a specified deadline?	V		(III) We disclose our annual financial reports, quarterly financial reports for Q1, Q2, and Q3, and the operating performance of each month prior to a deadline as required.	Aligned



Evaluation indicators	Operations		Deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and the reasons therefor	
	Yes	No		Brief description
VIII. Does the Company have other important information that facilitates the understanding of the operations of corporate governance (including but not limited to employee rights, employee care, investor relations, supplier relations, stakeholders' rights, directors' and supervisors' continuing education, the implementation of risk management policies and risk measurement standards, the implementation of client policies, and the company's purchase of directors and supervisors liability insurance)?	V		<p>1. Employee rights and interest and care The Company has established an "Employees Welfare Committee" to contribute to the benefit funds periodically for various activities. We value employees' rights and interest and harmonious labor relations and express our care for them. We are committed to providing employees with a safe and healthy work environment and organize plant-wide employee health checks to ensure the health and well-being of all employees.</p> <p>2. Investor relations Adhering to the principle of fairness and openness to all shareholders, we convene a shareholders' meeting per year in accordance with the Company Act and applicable laws and regulations and inform all shareholders to attend the shareholders' meeting in accordance with relevant regulations and encourage them to actively participate in the election of directors and supervisors at the shareholders' meeting or the voting on the proposal for amendments to the Articles of Incorporation. We also report on major financial activities to the shareholders' meeting, such as disposal of assets or endorsements/guarantees provided. We offer shareholders sufficient opportunities to ask questions or make proposals to achieve the effect of checks and balances. We formulated the Rules of Procedure for Shareholders' Meetings in accordance with the law, properly keep the minutes of the shareholders' meeting, and disclose relevant information on the MOPS. Also, to ensure that shareholders have the right to know, participate in, and make decisions on the Company's major issues, we have a spokesperson and an acting spokesperson in place and have designated personnel to respond to shareholders' suggestions, questions, and disputes. Since the Company's stock was publicly offered, we have adhered to the principle of information disclosures and appointed personnel to collect and disclose the Company's information, announce and report relevant information, and provide information that may affect investors' decisions in a timely manner.</p> <p>3. Supplier relations We pay attention to the reasonableness of the purchase prices and make decisions after complete comparison of the unit prices, specifications, payment terms, delivery time, product and service quality, or other information. We have established long-term close partnerships with suppliers on the basis of mutual trust and mutual benefit to jointly pursue sustainable and win-win growth.</p> <p>4. Protection of stakeholders We have disclosed the contact numbers and emails for stakeholders on the Company's website to establish communication channels with employees, shareholders, and other stakeholders to safeguard their relevant rights.</p> <p>5. Directors and supervisors' continuing education We promote the courses and channels of continuing education to directors from time to time and discloses the training situation on the MOPS.</p>	Aligned

Evaluation indicators	Operations		Deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and the reasons therefor
	Yes	No	
			<p>6. Implementation of risk management policies and risk measurement criteria The Company's risk management policies and procedures were approved by the Board of Directors on December 22, 2021 and are implemented accordingly. The risk management during 2022 was reported to the Board of Directors on December 26, 2022.</p> <p>7. Implementation of client policy We communicate with clients in real-time about their complaints, understand their needs, and set the deadline for closing clients' (appeals) complaints, to quickly and efficiently improve the interaction between the Company and clients, while reviewing and improving any defects at monthly business meetings.</p> <p>8. Purchase of directors and supervisors liability insurance We have purchased liability insurance for directors and supervisors since June 15, 2022 and reported and disclosed the information on the insurance purchased on the MOPS.</p>
<p>IX. Please specify any improvements made as per the results of the corporate governance evaluation announced by the Corporate Governance Center, Taiwan Stock Exchange Corporation, in the most recent year and put forth prioritized measures to improve those that have not yet improved: We are actively drawing up the improvement measures and setting future goals for those that need to be improved as per the corporate governance evaluation results and are working to meet the requirements set by the competent authorities.</p>			

◎ Directors and supervisors' continuing education during 2022 is as follows:

Job title	Name	Organizer	Course title	Hours
Chairman	Chang, Yu-Ming	Taiwan Investor Relations Institute	Corporate Governance courses	6
Director	Chao, Tien-Tsung	Taiwan Investor Relations Institute	Corporate Governance courses	6
Director	Lin, Ching-Lung	Taiwan Stock Exchange Corporation	Launch of Guidelines for Independent Directors and Audit Committee's Exercise of Powers and Directors/Supervisors Awareness-Raising Conference	3
		Taiwan Institute of Directors	ESG Governance and New Circular Economy	3
Director	Wu, Yi-Jen	Taiwan Institute of Directors	Discussion on ESG from the Perspectives of Taxation Governance and Risk Management	3
		Taiwan Academy of Banking and Finance	Green Energy Innovative Business Model of Corporate Governance	3
Independent Director	Wu, Chang-Cheng	Taiwan Institute of Directors	Discussion on ESG from the Perspectives of Taxation Governance and Risk Management	3
		Taiwan Institute of Directors	ESG Governance and New Circular Economy	3
Independent Director	Chen, Chih-Chang	Taiwan Investor Relations Institute	Corporate Governance courses	6
Independent Director	Hsu, Chi-Jeng	Taiwan Investor Relations Institute	Corporate Governance courses	6

◎ The information on the training received by the Corporate Governance Officer during 2022 is as follows:

Job title	Name	Organizer	Course title	Hours
Finance Section Chief	Sung, Li-Lan	Taiwan Institute for Sustainable Energy Research	Taishin 30's Net Zero Sustainable Development Forum - 2030 Achieving Sustainability Through Commitment to Net Zero	3
		Taiwan Stock Exchange Corporation	Industry-Specific Sustainable Development Roadmap Awareness-Raising Conference	2
		Taipei Exchange	Insider Equity Briefing Session for Companies Listed on Taipei Exchange or Emerging Stock Market	3
		Taiwan Institute of Directors	Discussion on ESG from the Perspectives of Taxation Governance and Risk Management	3
		Taiwan Investor Relations Institute	Individuals' Countermeasures Against the Inclusion of CFC's Retained Earnings	3
		Taiwan Investor Relations Institute	ESG Trend and Response Strategies	3
		Taiwan Institute of Directors	ESG Governance and Circular Economy	3

◎ Hsin-Li Chemical Industrial Corp. 2023 CPA Independence and Suitability Assessment Form

Assessment date: February 24, 2023

### I. Basic information

Name of CPA	Hsu, Chen-Lung
Major education and experience	Education: Bachelor's Degree, Department of Accounting, Chung Yuan Christian University; KPMG; Master's Degree, Institute of Management Science, National Chiao Tung University; CPA, Audit Services Department, KPMG Taiwan
Name of CPA	Chen, Kuo-Tsung
Major education and experience	Education: EMBA of National Sun Yat-Sen University and Bachelor of Accounting, Tamkang University Experience: CPA, Audit Services Department, KPMG Taiwan

II. Contents of assessment

With reference to Article 47 of the Certified Public Accountant Act and the Bulletin of Norm of Professional Ethics for Certified Public Accountant of the Republic of China No.10, it is stipulated that:

Indicators	Results
1. As of the last audit, the CPA has not been replaced for seven years.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
2. The CPA is not involved in material interests with the client.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
3. Any inappropriate relations with the client are avoided.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
4. The CPA ensures the honesty, impartiality, and independence of their assistants.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
5. The CPA avoids auditing the financial statements of the organization(s) where they served in the last two years.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
6. The CPA avoids their name being used by others.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
7. The CPA does not hold the shares of the Company and its affiliates.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
8. The CPA is not involved in loans with the Company or its affiliates.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
9. The CPA is not involved in joint investment or sharing interests with the Company or its affiliates.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
10. The CPA does not hold a full-time job with a fixed regular payment at the Company or its affiliates.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
11. The CPA is not involved in management at the Company or its affiliates.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
12. The CPA is not concurrently operating other businesses that may cause them to lose the independence.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
13. The CPA is not a spouse, lineal relative by blood, direct relative, or second-degree relative by marriage of any management personnel person at the Company.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
14. The CPA dose not charge any business-related commissions.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
15. As of today, the CPA has not been punished nor has their independence been undermined.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

III. Work performance and plans:

1. Completed the audit of the Company's financial statements and tax compliance for each period as planned.
2. Provided consultation services for the Company's finance and taxation from time to time.

IV. Assessment results:

CPAs Hsu, Chen-Lung and Chen, Kuo-Tsung are independent from the Company and provide the Company with consultation services for finance, taxation, and certification in a timely and suitable manner.

(IV) If the company has established a remuneration committee, the composition, responsibilities, and operations of the committee shall be disclosed:

(1) Information on members of the Remuneration Committee

December 31, 2022

Criteria (Note 1)	Name	Qualifications	Independence (Note 3)	Number of other public companies where the individual serves as a member of the remuneration committee concurrently
		Professional qualification and experience (Note 2)		
Independent Director	Hsu, Chi-Jeng (convener)	<ol style="list-style-type: none"> <li>1. Department of Accounting, Tainan University of Technology.</li> <li>2. Assistant Manager, Underwriting Department, MasterLink Securities Corporation, Assistant Vice President, Underwriting Department, Firstrade Securities Inc., independent director, Clean Air Technology Limited, and independent director, Myson Century, Inc.</li> <li>3. Not under any of the circumstances mentioned in Article 30 of the Company Act.</li> </ol>	According to the Company's Articles of Incorporation and "Corporate Governance Best Practice Principles," the directors shall be elected under the candidate nomination system. When nominating and electing the Board members, the Company has received the written statement, information about work experience, current certificate of employment and kinship chart from each director and, therefore, already verified	1

Independent Director	Chen, Chih-Chang	1. Doctoral degree, Business Administration, National Yunlin University of Science and Technology. 2. Director of Bothhand Enterprise Inc., Chairman of TISO Technologies Co., Ltd., supervisor of Metal System Co., Ltd., independent director of Tsang Yow Industrial Co., Ltd., and independent director of Man Zai Industrial Co., Ltd. 3. Not under any of the circumstances mentioned in Article 30 of the Company Act.	the independence of them, their spouses, and relatives within 3rd degree of kinship as to the Company. Meanwhile, upon verification, the three independent directors identified in the left column were held satisfying the qualification requirements under the "Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies" promulgated by FSC and Article 14-2 of the Securities and Exchange Act within two years before they assume the positions and during their term of office. The independent directors have also been empowered to participate in the decision making and express opinions under Article 14-3 of the Securities and Exchange Act, in order to perform their job duties independently.	2
Independent Director	Wu, Chang-Cheng	1. Doctoral degree, National Chiao Tung University 2. President of Truelight Corporation, President of InveStar Holdings Inc., and President of uSenlight Corporation. 3. Not under any of the circumstances mentioned in Article 30 of the Company Act.		-

(2) Information on the operation of the Remuneration Committee

- ① There are three members in the Remuneration Committee.
- ② The term of office of the current term is from July 8, 2021 to July 7, 2024. During 2022, the Remuneration Committee held two meetings, and the committee members' qualifications and attendance are as follows:

Job title	Name	Attendance in person	Attendance by proxy	Attendance (%)	Remarks
Convener	Hsu, Chi-Jeng	2	-	100	-
member	Wu, Chang-Cheng	2	-	100	-
member	Chen, Chih-Chang	2	-	100	-

Additional information:

- I. Where the Board of Directors rejects or modifies the suggestions from the Remuneration Committee, please disclose the date and session of the meeting, contents of the motions, resolution made by Board of Directors' meeting, and how the Company has responded to Remuneration Committee's opinions (describe the differences and reasons, if any, should the Board of Directors approve a solution that is more favorable than the one proposed by the Remuneration Committee): None.
- II. For proposals resolved by the Remuneration Committee, if any members expressed objection or reservation with a record or written statement, the date of the Remuneration Committee meeting, the session, the content of the proposal, all members' opinions, and the response to the members' opinions shall be specified: None.

(3) Information on members and the operations of the Corporate Governance Committee

- ① Qualifications required for appointment and their responsibilities: The committee shall comprise at least three directors, of whom the majority shall be independent directors, and the appointment shall be approved by the Board of Directors by resolution. Members of the committee shall exercise the care of a prudent administrator to faithfully perform the following duties, be accountable to the Board of Directors, and report the implementation status to the Board of Directors on a regular basis:
  - I. Review of the Corporate Governance Best Practice Principles and related regulations as well as the effectiveness of their implementation.
  - II. Establishment, supervision, and review of corporate social responsibility policies, systems, or related management guidelines.
  - III. Establishment, monitoring, and review of ethical corporate management policies and preventive plans.
  - IV. Establishment, monitoring, and review of the environmental sustainability system and targets.
  - V. Establishment, supervision, and review of risk management policies and mechanisms.
  - VI. Any other tasks instructed by the Board of Directors to be handled by the committee.
- ② There are three members in the Corporate Governance Committee.
- ③ The term of office of the current term is from August 11, 2021 to July 7, 2024. During 2022, the Corporate Governance Committee held one meeting, and the members' attendance and matters discussed are as follows:

Job title	Name	Attendance in person	Attendance by proxy	Attendance (%)	Remarks
Convener	Chang, Yu-Ming	1	-	100	-
member	Hsu, Chi-Jeng	1	-	100	-
member	Chen, Chih-Chang	1	-	100	-

Additional information:

The committee's main proposals, including the date, term, details of the proposals, the members' suggestions or objections, the committee's resolution results, and the Company's response to the committee's opinions: None.

(V) The promotion of sustainable development and the deviation from the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies and the reasons therefor:

Items	Implementation			Deviation from the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies and the reasons therefor
	Yes	No	Brief description	
I. Has the company established a governance structure to promote sustainable development and set up a dedicated (concurrent) unit to promote sustainable development, governed by the senior management as authorized by the board of directors, which supervises the implementation?	V		The Company's Corporate Governance Committee governs the corporate governance, CSR, ethical management, environmental sustainability, and risk management task forces. The President assigns the heads of relevant units to take charge of the work of each task force and implement related plans. It reports the risk management situation to the Board of Directors on an annual basis.	No material difference.
II. Does the company conduct risk assessments of environmental, social, and corporate governance issues related to company operations as per the principle of materiality? Has the company formulated relevant risk management policies or strategies?	V		<p>I. Environmental protection We have formulated energy conservation and carbon reduction policies and raise employees' awareness of environmental protection and relevant issues.</p> <p>II. Social issues To achieve the organization's goals and meet the talent development needs, we have formulated and implemented reasonable employee benefit measures and formulated the work rules with a clear and effective reward and punishment mechanism, to cultivate professional and technical talents.</p> <p>III. Labor-employment relations We recruit personnel based on each department's needs for manpower, identify manpower needs, find outstanding talents in alignment with the Company's core values, and strive to retain talents, while objectively learning about the reasons for employees' resignation through interviews and collecting relevant information, analyzing the data, and providing follow-up improvement plans.</p> <p>IV. Corporate governance We have formulated the Corporate Governance Best Practice Principles in accordance with the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies", regularly conduct board performance self-evaluations, and disclose the results in the annual report of the shareholders' meeting.</p> <p>V. Customer privacy We ensure the confidentiality of trade secrets and prohibit employees from inquiring about or collecting information on suppliers' or clients' trade secrets, trademarks, patents, works, and other intellectual property rights not related to their jobs, and they shall not disclose such information to others to protect our trade secrets.</p> <p>VI. Socioeconomic compliance We have formulated relevant operating procedures for compliance with</p>	No material difference.

Items	Implementation			Deviation from the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies and the reasons therefor
	Yes	No	Brief description	
			laws and regulations and hold education and training on laws on a regular basis per year to enhance our employees' compliance with laws and regulations and reduce operational risks.	
III. Environmental issues (I) Has the company set up an appropriate environmental management system as per its industrial characteristics?	V		We adhere to the environmental protection concept in product R&D, design, production, and packaging and work to improve the use efficiency of various resources by adopting recycled raw materials, reducing waste, recycling resources, saving energy, and reducing water consumption.	No material difference.
(II) Is the company committed to improving the use efficiency of various resources and adopting recycled materials with low environmental impact?	V		The Company is committed to enhancing the power usage effectiveness and the efficiency of fuel oil and water usage, thereby improving the resource use efficiency. The Company's empty metal drums and wastewater are recycled and processed externally to increase the percentage of resources for reuse, thereby continuing to reduce the burden on the environment.	No material difference.
(III) Has the company assessed its current and future potential risks and opportunities of climate change and taken countermeasures against climate-related issues?	V		We have designated personnel to be in charge of environmental protection, safety, and health to be committed to improving energy conservation and carbon reduction and the use efficiency of equipment and saving energy.	No material difference.
(IV) Has the company counted the greenhouse gas emissions, water consumption, and total weight of waste over the past two years and formulated policies on energy conservation and carbon reduction, greenhouse gas reduction, water consumption reduction, or other waste management?	V		As per the data provided by the Water Department, the Company's total water consumption was 9564 m3 and the total carbon emissions were 1452 kg in 2022. To reduce the greenhouse gases, we replaced the heavy fuel oils for the boilers with natural gas. As natural gas is colorless, non-toxic, and non-corrosive with a high heating value and great combustion efficiency and emits less exhaust gas and pollutants after combustion, it is called green fuels. Our waste is non-hazardous waste. In 2022, the domestic waste produced was about 30.13 tons, and the mixed plastic waste was 4.60 tons.	No material difference.
IV. Social issues (I) Does the company formulate relevant management policies and procedures in accordance with applicable laws and the International Bill of Human Rights?	V		We have formulated relevant labor operating procedures in accordance with labor laws and regulations and a human rights policy (published on the company website) to protect workers and avoid situations that may undermine their basic rights.	No material difference.



Items	Implementation			Deviation from the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies and the reasons therefor
	Yes	No	Brief description	
(II) Has the Company formulated and implemented reasonable employee benefit measures (including remuneration, leave, and other benefits) and reflected business performance or achievements in employee remuneration appropriately?	V		<p>We value employees and care for them, with an complete employee retirement system and a friendly workplace. We also provide them with a complete salary, bonus, dividends, and benefit system, to motivate them to make contributions at work. Relevant benefit measures include labor insurance, health insurance, and group insurance for employees; bonuses upon three major holidays; employee health checks and employee travel; an Employee Welfare Committee that provide subsidies/allowances for marriage, childbirth, travel, injury, illness, or death. We also provide parental leave. In addition, to encourage efficient production and outstanding contribution, when the production efficiency and contribution have reached a certain level, we will pay out corresponding bonuses.</p> <p>We have properly reflected the business performance in the employee remuneration. As per the Articles of Incorporation, to motivate employees and the management team, after a cumulative deficit is deducted from the Company's profit for the year, the Company shall provide not lower than 2%–5% of the balance for employee remuneration.</p>	No material difference.
(III) Does the Company provide employees with a safe and healthy work environment and offer safety and health education to employees regularly?	V		<p>We regularly organize employee health checks and safety and health seminars per year. We have also signed on-site health services with nearby medical clinics. Occupational health physicians provided on-site health consultation services once per year and occupational health nurses once per month.</p>	No material difference.
(IV) Has the Company established an effective career development training program for employees?	V		<p>We attach great importance to employee training and development. To provide them with a clear career development roadmap, we invest sufficient resources in employee training.</p> <p>We provide new employee training on the Company's business policy, corporate social responsibility concept, and relevant policies, and then offer training courses depending on individual competencies.</p>	No material difference.

Items	Implementation			Deviation from the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies and the reasons therefor
	Yes	No	Brief description	
(V) Does the company comply with applicable laws and international standards regarding customer health and safety, customer privacy, as well as marketing and labelling of products and services? Has it formulated relevant policies and complaint procedures to protect consumers' rights and interest?	V		We have disclosed the contact numbers and emails for complaints on the Company's website, and established a channel to protect consumers' rights and interest and protect relevant people's rights. In addition, the Sales Department is responsible for responding to customer complaints and checking their needs as the basis for continuous improvement.	No material difference.
(VI) Has the Company formulated a supplier management policy, required suppliers to follow applicable regulations on issues, such as environmental protection, occupational safety and health, or labor rights? The implementation thereof?		V	The contracts between the Company and our major suppliers do not contain the clauses on the left, and we will revise our contracts where appropriate in the future depending on our operations.	We will make plans depending on our needs in the future.
V. Has the Company referred to the internationally accepted reporting standards or guidelines to prepare reports, such as ESG reports that discloses the Company's non-financial information? Has a third-party verification entity provided assurance or assurance opinion for said report?		V	The Company has not yet prepared reports, such as ESG reports that discloses the Company's non-financial information with reference to the internationally accepted reporting standards or guidelines. The Company plans to prepare the ESG report in 2024.	Plans to prepare the ESG report in 2024.
<p>VI. Where the Company has formulated its own sustainable development code in accordance with the "Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies", please specified the differences between the implementation and the principles: The Company's Board of Directors approved to adopt the "Sustainable Development Best Practice Principles" on December 26, 2022, and we implement it accordingly without material deviation.</p>				
<p>VII. Other important information that facilitates the understanding of the promotion of sustainable development:</p> <ol style="list-style-type: none"> <li>1. Environmental protection: We have personnel in place dedicated to environmental management and the planning, management, and auditing of environmental protection. We also have two Class B air pollution control and prevention personnel, one Class A waste personnel, and two Class B toxic chemical substances personnel in place and comply with laws and regulations, including the Waste Disposal Act and the Air Pollution Control Act to duly implement pollution prevention and control and maintain environmental quality.</li> <li>2. Community participation, social contribution, social service, and social charity: We regularly sponsor social charity activities in the community, provide graduation scholarships to from nearby elementary and junior high schools, and participate in various activities of local police and firefighter associations, thereby actively giving back to the local community.</li> <li>3. Consumer rights and interest: We learn about client satisfaction and ensure existing and potential clients' support, to improve the Company's competitiveness with proactive, rapid, and effective services.</li> <li>4. Human rights: All our employees enjoy equal employment opportunities, regardless of gender, religion, and political affiliation, and we provide them with a friendly work environment to ensure that they are free from discrimination and harassment.</li> <li>5. Safety and health: We comply with the government's regulations on labor safety and health and implement various safety and health tasks, while specifying labor safety and health details in the work rules.</li> </ol>				

(VI) The Company's implementation of ethical management and any deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and reasons therefor:

Item	Operations (Note 1)			Deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and the reasons therefor
	Yes	No	Brief description	
I. Formulation of ethical management policies and plans				
(I) Has the company formulated an ethical management policy approved by the board of directors and disclosed the policy and practice of ethical management in its regulations and public documents? Are the board of directors and the senior management committed to actively implementing the policy?	V		The Company established the “Ethical Corporate Management Best Practice Principles” on December 26, 2022 and disclosed it on the Company's website to make public our ethical management policies and practices as well as the commitment of the Board of Directors and management to actively implementing the policies.	No material difference.
(II) Has the Company established an assessment mechanism for the risk of unethical conduct to regularly analyze and evaluate the business activities with a higher risk of unethical conduct within the business scope and formulated a prevention plan accordingly, at least covering the prevention measures for the acts under each subparagraph under Article 7, paragraph 2 of the “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies”?	V		The Company’s “Ethical Corporate Management Best Practice Principles” have defined the code of conduct that all employees shall abide by, analyzed and assessed the business activities with higher risk of unethical conduct within the scope of business, required a commitment to abide by laws and ethical principles to safeguard the Company's assets, rights, and image, and specified punishments in the case of any violations.	No material difference.
(III) Has the Company clearly specified operating procedures, guidelines for conduct, and a violation punishment and complaint system in the unethical conduct prevention plan and duly implemented them? Does the Company regularly review and revise said plan?	V		Pursuant to the “Ethical Corporate Management Best Practice Principles” regarding unethical conduct, the Company's personnel, in the course of business, shall be prohibited from, directly or indirectly, providing, accepting, promising, or requesting any improper benefits, or engaging in other acts in violation of ethics, laws, or fiduciary obligations. Personnel inside or outside of the Company can report illegal and unethical conduct through email.	No material difference.
II. Implementation of ethical management				
(I) Does the Company evaluate each counterparties records for ethics? Has the Company specified the terms of ethical conduct in each contract signed with each counterparty?	V		Before engaging in business activities with suppliers, clients, or other transaction counterparties, we consider the legality of the transaction counterparties and whether they have a record of unethical conduct and only be carry out a transaction after the credit investigation is completed.	No material difference.
(II) Has the company established a dedicated (concurrent) unit under the board of directors to conduct ethical corporate management, regularly (at least once a year) report to the board of directors on its ethical management policies and prevention plans	V		The Company's Corporate Governance Committee governs the corporate governance, CSR, ethical management, environmental sustainability, and risk management task forces. The President assigns the heads of relevant units to take charge of the work of each task force and implement related plans. It reports the relevant situations to the Board of Directors on an annual basis.	No material difference.

Item	Operations (Note 1)			Deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and the reasons therefor
	Yes	No	Brief description	
for unethical conduct, and supervise the implementation?  (III) Has the company formulated policies to prevent conflicts of interest, provided appropriate methods for stating one's conflicts of interest, and implemented them appropriately?	V		We has formulated the employee work rules, which prohibit employees from requesting or accepting money, goods, or other illegitimate benefits by taking advantage of their power or opportunities of their job positions, so as to prevent the occurrence of unethical conduct. When engaging in transactions with related parties, we offer terms that are not better than those offered to general transaction counterparties. We provides smooth communication channels, allowing employees to communicate with managers at all levels or HR units through multiple channels.	No material difference.
(IV) Has the Company has established an effective accounting system and an internal control system for the implementation of ethical management and assigned the internal audit unit to formulate relevant audit plans based on the assessment results of the risk of unethical conduct and audit the compliance with the unethical conduct prevention plan accordingly or commissioned a CPA to perform such audits?	V		We have a rigorous accounting system and an accounting unit in place, and our financial statements are audited (reviewed) by CPAs to ensure the fairness. Each transaction payment is approved by personnel as delegated in compliance with applicable laws and the internal operating procedures.	No material difference.
(V) Does the company regularly hold internal and external education and training on ethical management?	V		We convey our business philosophy to our employees at regular meetings and adopt "sincere attitude, pragmatism, good quality, efficient delivery, and profit sharing with employees" as the Company's five major principles.	No material difference.
III. Implementation of the Company's whistleblowing system (I) Has the company formulated a specific whistleblowing and reward system, established a convenient whistleblowing method, and assigned appropriate personnel to handle the party accused?	V		We provide bonuses depending on the seriousness of the matters reported and disclosed a whistleblowing email on the Company's website and intranet. Employees can report to the responsible unit, the management, or the HR unit through multiple channels.	No material difference.
(II) Has the company formulated standard operating procedures for investigation of reported cases, the follow-up measures to be taken after the investigation	V		We keep each whistleblowers identity and content reported confidential, and the whistleblower shall provide at least the information below:	No material difference.

Item	Operations (Note 1)			Deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and the reasons therefor
	Yes	No	Brief description	
<p>is completed, and a confidentiality mechanism?</p> <p>(III) Does the company take measures to protect whistleblowers from being mistreated due to their whistleblowing behavior?</p>	V		<p>1. The name, national ID number, address, phone number, and e-mail of the whistleblower.</p> <p>2. The name of the accused person or other information sufficient to identify the accused person.</p> <p>3. Specific evidence available for investigation.</p> <p>The responsible personnel declare in writing that they will keep the identity of the whistleblower and the content reported confidential and promise to protect the whistleblower from being improperly treated due to the whistleblowing behavior.</p>	No material difference.
<p>IV. Enhanced information disclosure</p> <p>Has the company disclosed the content of its Corporate Governance Best Practice Principles and the effectiveness of the implementation of the principles on its website and the MOPS?</p>	V		We have disclosed the content of our “Ethical Corporate Management Best Practice Principles” on our website and the MOPS and will disclose the annual implementation status on the company website in the future.	No material difference.
<p>V. If the Company has formulated its own Corporate Governance Best Practice Principles as per the “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies”, please specify the difference between its operation and the principles: To establish a corporate culture of ethical corporate management for the Company's sustainable development, we have established these principles in accordance with the “Ethical Corporate Management Best Practice Principles” for TWSE/TPEX Listed Companies”. There is no material difference between the implementation and the principles.</p>				
<p>VI. Other important information that facilitates the understanding of the company's ethical corporate management: The Company's Board of Directors approved to adopt the “Ethical Corporate Management Best Practice Principles” on December 26, 2022.</p>				

- (VII) If the company has established corporate governance best practice principles or other relevant guidelines, it shall disclose where to access it:
1. The Company's Board of Directors passed the “Corporate Governance Best Practice Principles” on February 25, 2022; the “Insider Trading Prevention Management Procedures”, “Sustainable Development Best Practice Principles”, and the “Ethical Corporate Management Best Practice Principles” on December 26, 2022 and disclosed them in the Investors section of the company website.
  2. Where to access the principles:  
The Corporate Governance Best Practice Principles and relevant guidelines are disclosed on the Company's website: <http://www.hsinli.com.tw/>
- (VIII) Other important information that may facilitate the understanding of the operation of corporate governance may be disclosed together:  
Please visit our official website and the MOPS.

## (IX) The implementation of the internal control system

### 1. Statement of the Internal Control System

Hsin-Li Chemical Industrial Corp.  
Statement of the Internal Control System

Date: December 31, 2022

The Company's internal control system for 2022 as per the results of our self-assessment is hereby declared as follows:

- I. The Company is clearly aware that the establishment, implementation, and maintenance of an internal control system is the responsibility of the Company's Board of Directors and managers, and the Company has established such a system. It aims to provide reasonable assurance for the achievement of the objectives, namely the effectiveness and efficiency of operations (including profitability, performance, and asset security protection), the reliability, timeliness, and transparency of financial reporting, and compliance with applicable laws and regulations.
- II. Some limitations are inherent in all internal control systems. No matter how perfect the design is, an effective internal control system can only provide a reasonable assurance regarding the achievement of the above three intended objectives; moreover, due to changes in the environment and circumstances, the effectiveness of the internal control system may change accordingly. However, the Company's internal control system is equipped with a self-monitoring mechanism. Once a defect is identified, the Company will take action to rectify it.
- III. The Company judges whether the design and implementation of the internal control system is effective based on the criteria for judging the effectiveness of the internal control system set out in the "Regulations Governing Establishment of Internal Control Systems by Public Companies" (hereinafter referred to as the "Regulations"). Said criteria under the Regulations are divided into five constituent elements as per the management and control process: 1. control environment, 2. risk assessment, 3. control activities, 4. information and communication, and 5. monitoring activities. Each constituent element includes several items. For said items, please refer to the Regulations.
- IV. The Company has adopted the aforesaid judgment criteria for the internal control system to determine whether the design and implementation of the internal control system are effective.
- V. Based on the results of the assessment in the preceding paragraph, the Company is of the opinion that, as of December 31, 2022, the internal control system (including the supervision and management of its subsidiaries), including the understanding the effectiveness of operations and the extent to which efficiency targets are achieved, reliable, timely, and transparent reporting, and compliance with applicable rules and applicable laws and regulations, is effective and can reasonably assure the achievement of the foregoing objectives.
- VI. This statement will form the main content of the Company's annual report and prospectus and will be made public. If the disclosed content above is false or there is material information concealed deliberately or otherwise, the Company will be legally liable pursuant to Articles 20, 32, 171, and 174 of the Securities and Exchange Act.
- VII. This statement has been approved by the Company's Board of Directors on February 24, 2023. Among the six directors present, none of them expressed objections. All the others agreed with the content of this statement. Therefore, this statement is hereby declared.

Hsin-Li Chemical Industrial Corp.

Chairman: Chang, Yu-Ming

(signature/seal)

President: Cheng, Yu-Tang

(signature/seal)

2. Where a CPA is appointed to review the internal control system: None.

(X) Any legal penalty against the Company and its internal personnel, or any disciplinary penalty by the Company against its internal personnel for violation of the internal control system, during the most recent fiscal year or up to the publication date of this annual report, the main defects, and the improvements made: None.

(XI) Important resolutions by the shareholders' meeting and the Board of Directors in the most recent year and up to the publication date of the annual report:

1. Proposals for the shareholders' meeting

Date	Summary
Shareholders' meeting	
Proposal	
2022.6.30	<p>I. Date of the general shareholders' meeting: 2022.6.30</p> <p>II. Important resolutions:</p> <p>Ratifications:</p> <p>Proposal 1: Proposed by the Board of Directors</p> <p>Summary: The Company's 2021 business report and financial statements were submitted for ratification.</p> <p>Resolution: This proposal was voted on by shareholders on site and by electronic means: Vote for: 48,275,554 votes; vote against: 39,378 votes; abstentions: 44,214 votes; null ballots: 0. The number of votes for accounted for 99.83% of the total voting rights represented by shareholders present, which exceeded the percentage as required by law; thus, this proposal was approved as proposed.</p> <p>Implementation: The resolution results have been followed.</p> <p>Proposal 2: Proposed by the Board of Directors</p> <p>Summary: The Company's 2021 statement of earnings distribution was submitted for ratification.</p> <p>Resolution: This proposal was voted on by shareholders on site and by electronic means: Vote for: 48,275,554 votes; vote against: 39,378 votes; abstentions: 44,214 votes; null ballots: 0. The number of votes for accounted for 99.83% of the total voting rights represented by shareholders present, which exceeded the percentage as required by law; thus, this proposal was approved as proposed.</p> <p>Implementation: (1) The resolution results have been followed. (2) The ex-dividend record date is set on 2022.9.26, and the cash dividend payout date on 2022.10.18.</p> <p>Discussion 1:</p> <p>Proposal 1: Proposed by the Board of Directors</p> <p>Summary: The proposal to partially amend the Articles of Incorporation was submitted for discussion.</p> <p>Resolution: This proposal was voted on by shareholders on site and by electronic means: Vote for: 48,275,550 votes; vote against: 39,379 votes; abstentions: 44,217 votes; null ballots: 0. The number of votes for accounted for 99.83% of the total voting rights represented by shareholders present, which exceeded the percentage as required by law; thus, this proposal was approved as proposed.</p> <p>Implementation: The amended version was adopted</p> <p>Proposal 2: Proposed by the Board of Directors</p> <p>Summary: The proposal to partially amend the Rules of Procedure for Shareholders' Meetings was submitted for discussion.</p> <p>Resolution: This proposal was voted on by shareholders on site and by electronic means: Vote for: 48,275,541 votes; vote against: 39,379 votes; abstentions: 44,217 votes; null ballots: 0. The number of votes for accounted for 99.83% of the total voting rights represented by shareholders present, which exceeded the percentage as required by law; thus, this proposal was approved as proposed.</p> <p>Implementation: The amended version was adopted</p> <p>Proposal 3: Proposed by the Board of Directors</p> <p>Summary: The proposal to partially amend the Procedures for Asset Acquisition and Disposal was submitted for discussion.</p> <p>Resolution: This proposal was voted on by shareholders on site and by electronic means: Vote for: 48,275,550 votes; vote against: 39,379 votes; abstentions: 44,217 votes; null ballots: 0. The number of votes for accounted for 99.83% of the total voting rights represented by</p>

	shareholders present, which exceeded the percentage as required by law; thus, this proposal was approved as proposed. Implementation: The amended version was adopted
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2. Important resolutions by the Board of Directors during 2022 and up to the publication date of this annual report:

Date	Summary	Circumstances referred to in Article 14-3 of the Securities and Exchange Act	Objection or reservation by independent directors
2022.01.21 (1st meeting)	<ol style="list-style-type: none"> <li>1. Amendments to the Articles of Incorporation.</li> <li>2. Amendments to the “Company’s Check/Remittance Seal and Safekeeping Regulations”.</li> <li>3. The proposal to discuss the matters reviewed at the 1st meeting of the Remuneration Committee in 2022.</li> </ol> Resolution results: The directors present passed all the proposals without objection.	V V V	None
2022.02.25 (2nd meeting)	<ol style="list-style-type: none"> <li>1. The 2021 business report and financial statements.</li> <li>2. The Company’s statement of the internal control system.</li> <li>3. Amendments to the “Procedures for Asset Acquisition and Disposal”</li> <li>4. The proposal to formulate the “Corporate Governance Best Practice Principles”</li> <li>5. The proposal to take out a new loan of no more than NT\$50 million from Mega Bills Finance Co., Ltd.</li> <li>6. The proposal to set a record date of capital reduction after the Company’s first repurchase of treasury shares was completed and the shares were cancelled.</li> <li>7. The proposal to partially amend the approval hierarchy.</li> </ol> Resolution results: The directors present passed all the proposals without objection.	V V V V V V	None
2022.03.29 (3rd meeting)	<ol style="list-style-type: none"> <li>1. The Company’s provision of 2021 employee and director remuneration and distribution method.</li> <li>2. The 2021 statement of earnings distribution</li> <li>3. Amendments to the “Articles of Incorporation”</li> <li>4. Amendments to the “Rules of Procedure for Shareholders’ Meetings”</li> <li>5. Amendments to the “Employee Substitute Management Regulations”</li> <li>6. The proposal to take out a new loan of no more than NT\$50 million from Bank of Panhsin</li> <li>7. The proposal to set out the agenda for the 2022 general shareholders’ meeting</li> </ol> Resolution results: The directors present passed all the proposals without objection.	V V V V V V	None
2022.04.13 (4th meeting)	<ol style="list-style-type: none"> <li>1. Replacement of the accounting firm and the CPAs</li> </ol> Resolution results: The directors present passed all the proposals without objection.	V	None
2022.05.12 (5th meeting)	<ol style="list-style-type: none"> <li>1. The proposal to include new motions in the agenda for the 2022 general shareholders’ meeting</li> <li>2. The proposal to draw up a schedule for GHG inventory and verification</li> </ol> Resolution results: The directors present passed all the proposals without objection.	V	None
2022.08.11 (6th meeting)	<ol style="list-style-type: none"> <li>1. Financial statements for 2022 Q2.</li> <li>2. The proposal to review the audit fees for the appointment of KPMG Taiwan for 2022.</li> <li>3. The proposal to set the ex-dividend date and decide related matters.</li> <li>4. The proposal for renewal of the credit line from Mega International Commercial Bank.</li> <li>5. The proposal for renewal of the credit line from Taichung Commercial Bank.</li> </ol> Resolution results: The directors present passed all the proposals without objection.	V V	None
2022.10.25	<ol style="list-style-type: none"> <li>1. The proposal for renewal of the credit line from Mega International Commercial Bank.</li> <li>2. The proposal to purchase some floors of the office building, Shr-Hwa International Tower.</li> </ol>	V	None



	Resolution results: The directors present passed all the proposals without objection.		
2022.11.09 (8th meeting)	1. Financial statements for 2022 Q3. 2. The proposal to draw up the general principles for the Company's pre-approval of the non-assurance financial policy. 3. Amendments to the Procedures for Handling Material Inside Information. 4. Establishment of the Regulations Governing the Preparation of Financial Statements. 5. The credit line from Yuanta Commercial Bank. Resolution results: The directors present passed all the proposals without objection.	V V V V	None
2022.12.26	1. The proposal to draw up the 2023 annual internal audit plan. 2. The proposal to formulate relevant regulations of the Company. 3. The proposal to set the 2023 business targets. 4. The credit line from First Commercial Bank. Resolution results: The directors present passed all the proposals without objection.	V V	None

- (XII) During the most recent year and up to the date publication of this annual report, if the directors or supervisors had different opinions on important resolutions approved by the Board of Directors with records or written statements, the main content of the opinions: All the proposals discussed at the board meetings were passed by all the directors present without objection.
- (XIII) During the most recent year and up to the date publication of this annual report, a summary of the resignation and dismissal of the Company's Chairman, President, chief accounting officer, chief financial officer, chief internal auditor, corporate governance officer, or R&D officer: None.

## V. Information on CPA's audit fees

Unit: NT\$ Thousand

Name of accounting firm	Name of CPA	Audit period	Audit fees	Non-audit fees	Total	Remarks
KPMG Taiwan	Hsu, Chen-Lung Chen, Kuo-Tsung	2022.1.1– 2022.12.31	1060	280	1,340	Non-audit fees are about tax certification expenses.

- (I) If the CPA firm is replaced and the audit fees paid during the year in which the replacement occurs are less than those paid in the prior year, the amount of the decrease in the audit fees and the reason thereof shall be disclosed: None.
- (II) When the audit fees paid for the current year are lower than those paid for the prior year by 10% or more, the amount and percentage of the decrease and thereof shall be disclosed: None.

## VI. Replacement of CPAs

If the Company has changed the CPAs during the most recent two years and subsequent periods, the following information shall be disclosed:

- (I) About the former CPAs

Date of replacement	2022.04.13		
Reason for replacement	To meet the Company's needs for overall planning		
Client's termination of or CPA's refusal to the appointment	Party concerned	CPA	Client
	Situation		
	Termination of the appointment		V
	Refusal to the (continuous) appointment		
The opinion of the audit report other than the unqualified opinion issued within the latest two years and the reasons	None		

Different opinions from the issuer's	Yes		Accounting principles or practices
			Disclosures in financial reports
			Audit scope or steps
			Others
	None	V	
Remarks			
Other matters to be disclosed (matters that should be disclosed under Article 10, subparagraph 5, item 1-4)	None		

1. The former CPA had informed the Company that it lacked an appropriate internal control system, which made its financial statements unreliable: None.
2. The former CPA had informed the Company that they could not trust its statement or were unwilling to have any connection with the its financial statements: None.
3. The former CPA had informed the Company that the scope of the audit should be expanded, or that the information showed that if the scope of the audit was expanded, the credibility of the financial statements previously published or to be published may be undermined, but they failed to expand the scope due to the replacement of CPAs or other reasons: None.
4. The former CPA had informed the Company that the credibility of the financial statements previously published or to be published may be undermined based on the information collected, but they failed to address this issue due to the replacement of the CPAs or other reasons: None.

## (II) About the successors of CPAs

Name of Accounting firm	KPMG Taiwan
Name of CPA	Chen, Kuo-Tsung and Hsu, Chen-Lung
Date of appointment	2022.04.13
Consultation regarding accounting treatment methods or accounting principles for specific transactions and possible opinions issued for financial statements and results before appointment	None
Successors' different written opinions from the predecessors'	None

(III) Reply from the former CPAs to the matters under Article 10, subparagraph 5, items 1 and 2-3 of the Regulations: None.

VII. Directors, the President, Chief Financial Officer, or Chief Accounting Officer, who has been employed by the accounting firm or its affiliates during the most recent year: None.

VIII. The changes in the transfer or pledge of equity shares by directors, supervisors, managers, or shareholders each holding more than 10% of the shares issued by the Company during the most recent year and up to the publication date of this annual report:

(1) Movements in shareholdings of directors, supervisors, managers, and major shareholders

Job title	Name	2022		2023 up to April 24, 2023	
		Increase (decrease) in the number of shares held	Increase (decrease) in the number of shares pledged	Increase (decrease) in the number of shares held	Increase (decrease) in the number of shares pledged
Chairman	He Rui Investment Ltd.	—	—	—	—
	Representative: Chang, Yu-Ming	—	—	—	—
Director/ Major shareholder	U-Best Innovative Technology Co., Ltd.	—	—	—	—
	Representative: Chao, Tien-Tsung	—	—	—	—
Director	Lin, Ching-Lung	—	—	—	—
Director	Wu, Yi-Jen	—	—	—	—
Independent Director	Wu, Chang-Cheng	—	—	—	—
Independent Director	Chen, Chih-Chang	—	—	—	—
Independent Director	Hsu, Chi-Jeng	—	—	—	—
President	Cheng, Yu-Tang	—	—	—	—

Job title	Name	2022		2023 up to April 24, 2023	
		Increase (decrease) in the number of shares held	Increase (decrease) in the number of shares pledged	Increase (decrease) in the number of shares held	Increase (decrease) in the number of shares pledged
Assistant Vice President	Wu, Min-Tsung	—	—	—	—
Assistant Vice President	Li, Shan-Lung	—	—	—	—
Chief Financial-cum-Accounting Officer	Chang, Chen-Ching	—	—	—	—
Corporate Governance Officer	Sung, Li-Lan	—	—	—	—
Major shareholder	Feei Cherng Enterprise Co., Ltd.	(10,000)	—	—	—
Major shareholder	Voyage Investment Limited (took office on 2021.04.21 and dismissed on 2022.05.11)	(4,622,500)	—	—	—

Note: Decrease or changes in the number of shares held will not be disclosed from the date of dismissal.

(2) The counterparty to/for which the equity is transferred/pledged is a related party: None

IX. Information on the relations among the top 10 shareholders if anyone is a related party, a spouse, or a relative within second degree of kinship of another as specified in Statement of Financial Accounting Standards No. 6:

As of the book closure date on March 28, 2023 Unit: shares; %

Name	Shareholding of the individual		Shareholding of spouse or minor children		Total shareholding by nominee arrangement		Information on the relations among the top 10 shareholders if anyone is a related party, a spouse, or a relative within second degree of kinship of another and their names		Remarks
	Number of shares	Shareholding	Number of shares	Shareholding	Number of shares	Shareholding	Name (or title)	Relations	
U-Best Innovative Technology Co., Ltd.	10,180,219	15.08%	—	—	—	—	Feei Cherng Enterprise Co., Ltd.	Representative The same person	—
representative: Chang, Yu-Ming	—	—	—	—	—	—			—
Feei Cherng Enterprise Co., Ltd.	6,970,000	10.33%	—	—	—	—	U-Best Innovative Technology Co., Ltd.	Representative The same person	—
representative: Chang, Yu-Ming	—	—	—	—	—	—			—
Voyage Investment Limited	3,872,000	5.74%	—	—	—	—			—
representative: Chang, Yu-Ming	—	—	—	—	—	—			—
Shangyu Construction Co., Ltd.	3,408,650	5.05%	—	—	—	—			—
Representative: Chang, Yu-Ming	1,396,000	2.07%	—	—	—	—	Chang, Yu-Ming	A relative within the second degree of kinship	—
Lin, Ching-Lung	2,667,192	3.95%	1,394,246	2.07%	—	—	Ho, Chun-Ch	Spouse	—
Myson Century, Inc.	1,735,000	2.57%	—	—	—	—	U-Best Innovative Technology Co., Ltd.	Representative The same person	—
representative: Chang, Yu-Ming	—	—	—	—	—	—			—
Wu, Kuo-Wei	2,000,294	2.96%	—	—	—	—	Wu, Yi-Jen	A relative within the 1st degree of kinship	—
Wu, Yi-Jen	1,670,354	2.48%	—	—	—	—	Wu, Kuo-Wei	A relative within the 1st degree of kinship	—
Ho, Chun-Ch	1,394,246	2.07%	2,667,192	3.95%	—	—	Lin, Ching-Lung	Spouse	—

X. The total number of shares held and the consolidated shareholdings in any single investee by the Company, its directors, supervisors, managers, or any companies controlled either directly or indirectly by the Company: None

## Four. Fundraising Status

### I. Capital and shares

#### (I) Source of share capital

##### 1. The formation of share capital

Year/Month	Issue price	Authorized capital		Paid-in capital		Remarks		
		Number of shares (in thousands of shares)	Amount (in thousands of NTD)	Number of shares (in thousands of shares)	Amount (in thousands of NTD)	Source of share capital (in thousands of NTD)	Capital increased by assets other than cash	Others
1992.08	10	80,000	800,000	40,040	400,400	Cash capital increase by NT\$143,000 Capitalization of earnings to increase the capital by NT\$59,400	None	Per Letter (1992)-Tai-Cai-Zeng-(I) No. 00280 dated 1992.02.18
1993.12	10	80,000	800,000	70,070	700,700	Cash capital increase by NT\$220,220 Capitalization of earnings to increase the capital by NT\$80,080	None	Per Letter (1993)-Tai-Cai-Zeng-(I) No. 30074 dated 1993.08.11
1994.11	10	120,000	1,200,000	91,091	910,910	Cash capital increase by NT\$140,140 Capitalization of earnings to increase the capital by NT\$70,070	None	Per Letter (1994)-Tai-Cai-Zeng-(I) No. 32674 dated 1994.08.02
1995.10	10	120,000	1,200,000	99,289	992,891	Capitalization of earnings to increase the capital by NT\$81,981	None	Per Letter (1995)-Tai-Cai-Zeng-(I) No. 38820 dated 1995.07.03
1997.12	10	120,000	1,200,000	111,274	1,112,749	Cash capital increase by NT\$100,000 Capitalization of earnings to increase the capital by NT\$19,857	None	Per Letter (1997)-Tai-Cai-Zeng-(I) No. 53108 dated 1997.07.09
1998.08	10	128,000	1,280,000	122,402	1,224,024	Capitalization of earnings to increase the capital by NT\$55,637 Capitalization of capital surplus to increase the capital by NT\$55,637	None	Per Letter (1998)-Tai-Cai-Zeng-(I) No. 58328 dated 1998.07.09
1999.08	10	130,000	1,300,000	129,746	1,297,466	Capitalization of earnings to increase the capital by NT\$12,240 Capitalization of capital surplus to increase the capital by NT\$61,201	None	Per Letter (1999)-Tai-Cai-Zeng-(I) No. 72054 dated 1999.08.03
2000.07	10	135,000	1,350,000	133,639	1,336,390	Capitalization of earnings to increase the capital by NT\$38,923	None	Per Letter (2000)-Tai-Cai-Zeng-(I) No. 57672 dated 2000.07.04
2004.02	10	135,000	1,350,000	128,639	1,286,390	Cancellation of treasury shares to apply for capital reduction 50,000	None	Per Letter Jing-Shou-Shang No. 09301024220 dated 2004.02.18
2008.08	10	135,000	1,350,000	70,000	700,000	Capital reduction of NT\$586,390	None	Per Letter Jin-Guan-Zheng-I No.

								970042678 dated 2008.08.12
2015.08	10	135,000	1,350,000	70,700	707,000	Capitalization of earnings to increase the capital by NT\$7,000	None	Per Letter Jin-Guan-Zheng-Fa No. 1040029989 dated 2015.08.06
2016.09	10	135,000	1,350,000	72,821	728,210	Capitalization of earnings to increase the capital by NT\$21,210	None	Per Letter Jing-Shou-Shang No. 10501228300 dated 2016.08.20
2017.08	10	135,000	1,350,000	20,000	200,000	Capital reduction of NT\$528,210	None	Per Letter Jin-Guan-Zheng-Fa No. 1060027607 dated 2017.08.01 issued by the FSC, No. 1060027607.
2018.09	10	135,000	1,350,000	70,000	700,000	Capitalization of earnings to increase the capital by NT\$500,000	None	Per Letter Jing-Shou-Shang No. 10701120350 dated 2018.09.17
2022.03	10	135,000	1,350,000	67,500	675,000	Cancellation of treasury shares to apply for capital reduction 25,000	None	Per Letter Jing-Shou-Shang No. 11101038340 dated 2022.03.16
2022.07	10	350,000	3,500,000	67,500	675,000	Increase in total capital	None	Per Letter Jing-Shou-Shang No. 11101129790 dated 2022.07.12

## 2. Type of share capital

March 28, 2023/Unit: Share

Types of shares	Authorized capital (NT\$)			Remarks
	Number of shares issued (Note)	Number of shares unissued	Total	
Registered ordinary shares	67,500,000	282,500,000	350,000,000	TPEX listed company's stock

## 3. Information on shelf registration: N/A.

## (II) Shareholder structure:

March 28, 2023

Shareholder structure	Government agencies	Financial institutions	Other juridical persons	Natural persons	Foreign institutions and natural persons	Total
Number of people	1	0	54	7,586	9	7,650
Number of shares held	17	0	28,935,058	38,074,620	490,305	67,500,000
Shareholding	0.00%	0.00%	42.87%	56.41%	0.72%	100.00%

Note: The primary TWSE (TPEX) listed and emerging market listed companies should disclose the shareholding of its mainland China investors. The mainland China investors refer to the people, juridical persons, organizations, other institutions or their investees in third regions as stipulated by Article 3 of the Regulations on the Permission for People from Mainland China to Invest in Taiwan.

## (III) Equity dispersion:

Date: March 28, 2023

Shareholding range	Number of shareholders	Number of shares held	Shareholding %
1-999	4,511	338,771	0.50%
1,000-5,000	2,277	4,900,508	7.26%
5,001-10,000	413	3,288,714	4.87%

10,001–15,000	149	1,891,939	2.80%
15,001–20,000	84	1,588,573	2.35%
20,001–30,000	70	1,819,668	2.70%
30,001–40,000	38	1,327,679	1.97%
40,001–50,000	22	1,014,685	1.50%
50,001–100,000	37	2,815,003	4.17%
100,001–200,000	19	2,730,254	4.05%
200,001–400,000	10	2,504,765	3.71%
400,001–600,000	3	1,556,763	2.31%
600,001–800,000	5	3,638,715	5.39%
800,001–1,000,000	1	898,000	1.33%
1,000,001–999,999,999	11	37,185,963	55.09%
Total	7,650	67,500,000	100.00%

(IV) List of major shareholders:

Names of shareholders whose shareholding exceeds 5% or shareholders whose shareholdings rank in the top ten, number of shares held, and shareholding (%)

Date: March 28, 2023

Name of major shareholder	Shares	Number of shares held	Shareholding
U-Best Innovative Technology Co., Ltd.		10,180,219	15.08%
Feei Cherng Enterprise Co., Ltd.		6,970,000	10.33%
Voyage Investment Limited		3,872,000	5.74%
Shangyu Construction Co., Ltd.		3,408,650	5.05%
Lin, Ching-Lung		2,667,192	3.95%
Myson Century, Inc.		2,570,000	3.81%
Wu, Kuo-Wei		2,000,294	2.96%
Wu, Yi-Jen		1,670,354	2.48%
Chang, Shuo-Wen		1,396,000	2.07%
Ho, Chun-Ch		1,394,246	2.07%

(V) Market price, net asset value, earnings, and dividends per share and relevant information in the most recent two years

Unit: NT\$; shares

Item		Year	2022	2021	2023 up to March 31, 2023
Market price per share	Highest		31.50	34.70	19.00
	Lowest		14.60	15.85	14.90
	Average		26.23	25.97	17.32
Net asset value per share	Before distribution		12.28	13.53	-
	After distribution		12.28	12.47	-
Earnings per share	Weighted average number of shares (in thousands)		67,500	69,867	-
	Earnings per share (before retrospective adjustment)		-	1.96	-
	Earnings per share (after retrospective adjustment)		-	1.96	-
Dividend per share	Cash dividend		-	1.10	-
	Stock dividend	Stock dividend from earnings		-	-
		Stock dividend from capital surplus		-	-
	Cumulative unpaid dividends		-	-	-
Return on investment	Price to earnings ratio		-	13.25	-
	Price to dividend ratio		-	23.60	-
	Cash dividend yield		-	0.04	-

In the case of capitalization of earnings or capital surplus for dividends, the information on the market price and cash dividends retrospectively adjusted depending on the number of issued shares shall be disclosed: None.

Note 1: The highest and lowest market prices of ordinary shares in each year shall be listed, and the average market price for each year calculated as per the transaction value and volume for each year.

Note 2: The number of issued shares at the end of each year shall prevail, and fill out the table as per the resolutions adopted by the shareholders' meeting in the following year.

Note 3: If retrospective adjustment is required due to stock dividends paid out, the earnings per share before and after the adjustment shall be listed.

Note 4: If the undistributed dividends for a year may be accumulated and not be distributed until a year with earnings available as stipulated in the equity securities regulations, the cumulative unpaid dividends up to the current year shall be disclosed separately.

Note 5: Price to earnings ratio = Average closing price per share for the year/earnings per share.

Note 6: Price to dividend ratio = Average closing price per share for the year/cash dividend per share.

Note 7: Cash dividend yield = Cash dividend per share/average closing price per share for the year.

Note 8: No dividend was distributed for 2022.

## (VI) The Company's dividend policy and implementation

### 1. Dividend policy:

- (1) Article 28-1 of the Articles of Incorporation was amended by the resolution of the general shareholders' meeting on June 24, 2015:

Regarding the Company's dividend policy, the Company shall consider its current and future investment environment, capital needs, domestic and international competition situation, capital budgets, and other factors, as well as shareholders' equity and its long-term financial plan and allocates shareholders' dividends from the distributable earnings, of which cash dividends may not be less than 10% of the total dividends to be paid out.

- (2) Article 28 of the Articles of Incorporation was amended by the resolution of the general shareholders' meeting on June 30, 2022:

Where the Company makes a profit for a fiscal year, the profit shall be first used for paying the taxes in accordance with the laws and regulations, offsetting a cumulative deficit, setting aside 10% of the remaining profit as a legal reserve unless it has reached the total amount of the Company's paid-in capital, setting aside an amount for or reversing a special reserve in accordance with the laws and regulations. Then, any remaining profit, together with any undistributed retained earnings at the beginning of the period, shall be adopted by the Company's Board of Directors as the basis for making a distribution proposal, which shall then be submitted to the shareholders' meeting for a resolution before distribution. In order to motivate employees and the management team, after a cumulative deficit is deducted from the Company's profit for the year, the Company shall provide not lower than 2%–5% of the balance, if any, for employee remuneration and no higher than 5% for directors' remuneration. Employee remuneration shall be paid out in stock or cash with the consent of more than half of the directors present at a board meeting attended by at least two-thirds of all directors and reported to the shareholders' meeting.

2. Dividend distribution proposed in this shareholders' meeting: Due to the cumulative deficit in 2022, no dividend was distributed as per law.
3. Major changes in the dividend policy are expected: None.

(VII) The influence of the stock dividend proposed at the shareholders' meeting on the Company's operating performance and earnings per share: N/A.

(VIII) Remuneration to employees, directors, and supervisors:

1. The percentage of the profit for or scope of employee remuneration and directors' and supervisors' remuneration as stated in the Company's Articles of Incorporation. Pursuant to Article 28 of the Company's Articles of Incorporation, the Company's annual earnings, if any, shall be used to pay taxes as per law and offset losses; then, 10% of the balance shall be provided as a legal reserve, 2%–5% as employee remuneration, and no greater than 5%

as director remuneration.

Employee remuneration shall be paid out in stock or cash with the consent of more than half of the directors present at a board meeting attended by at least two-thirds of all directors and reported to the shareholders' meeting.

2. Basis for estimation of employee remuneration and directors' and supervisors' remuneration in this period, basis for the calculation of the number of shares for stock dividends to employees, and accounting treatment if the amount paid out is different from the estimated amount: The employee remuneration and directors' remuneration was appropriately estimated in accordance with applicable laws and regulations and the Articles of Incorporation and based on our past experience. Where there is a difference between the actual amount paid out and the estimated amount, it will be treated as a change in accounting estimates, and the difference will be recognized in profit or loss in the following year.
3. Distribution of remuneration adopted by the Board of Directors: Due to the cumulated deficit for 2022, no director remuneration and employee bonus were distributed as per the Articles of Incorporation.
4. Where there is a difference the employee remuneration and directors' and supervisors' remuneration for the prior year (including the number of shares distributed, amount, and stock price), the amount of the difference, reason, and accounting treatment shall also be specified. Amounts passed by the Board of Directors on March 29, 2022 and amounts paid out:
  - (1) The amount of employee remuneration paid in cash was NT\$1,445,733 and director and supervisor remuneration was NT\$2,891,465.
  - (2) The amount of employee remuneration distributed in stock was zero, accounting for 0% of the after-tax income as stated in the parent company only or individual financial statements for this period and 0% of the total employee remuneration.
  - (3) The amounts of remuneration to employees and directors/supervisors above are the same as those approved by the Board of Directors.

(IX) 1. Repurchase of the Company's shares:

April 24, 2023	
Session of repurchase	2nd repurchase
Purpose of repurchase	To safeguard the Company's credit and shareholders' equity
Repurchase period	2021.11.11–2022.01.10
Range of repurchase price	NT\$17.00–NT\$28.00
Type and quantity of shares repurchased	2,500,000 ordinary shares
Amount of shares repurchased	NT\$62,884,592
The number of the shares repurchased as a percentage of the number scheduled to be repurchased (%)	100%
Number of shares cancelled and transferred	2,500,000 shares

2. As per the resolution results of the 6th proposal for cancellation of treasury shares and setting of the capital reduction record date at the 2nd board meeting in 2022, we completed the change registration of the capital reduction as per Letter Jing-Shou-Shang No. 11101038340 dated 2022.03.16.

II. Issuance of corporate bonds:

- (I) As of the publication date of this annual report, the corporate bonds issued by the Company are as follows:

Types of corporate bonds	The first domestic unsecured convertible corporate bonds
Date of issuance (offering)	May 27, 2022
Face value	NT\$100,000



Place of issuance and trading	R.O.C.	
Issue price	Issued at the face value	
Total amount	NT\$300 million	
Interest rate	Coupon rate: 0%	
Term	3-year term      Maturity date: 2025.5.27	
Guarantee institution	N/A	
Trustee	Trust Department, Hua Nan Commercial Bank	
Underwriting institution	Taichung Bank Securities Co., Ltd.	
Certifying attorney-at-law	Attorney Chiu, Shih- Fang, Dekai Law Firm	
CPA	PwC Taiwan CPAs Feng, Min-Chuan and Hsu, Yung-Chien	
Repayment method	Except that the holders of the convertible corporate bonds converted the bonds into the Company's ordinary shares in accordance with Article 10 of the Regulations, those redeemed early by the Company in accordance with Article 18 of the Regulations, or those repurchased by the Company from the OTC markets for cancellation, the Company will repay the convertible corporate bonds at 101.5075% of the face value of the bonds in cash in a lump sum when they mature.	
Balance of the principal not yet repaid	NT\$300 million	
Redemption or early repayment clause	See the Issuance and Conversion Regulations	
Restrictive covenants	See the Issuance and Conversion Regulations	
Ratings agency, date of rating, and rating of corporate bonds	N/A	
Other rights attached	Amount of those converted into ordinary shares as of the publication date of this annual report	NT\$0
	The Issuance and Conversion Regulations	See the Issuance and Conversion Regulations
Possible dilution of equity and impact on the existing shareholders' equity due to the regulations on the issuance, conversion, swap, or subscription, and terms of issuance	See the Issuance and Conversion Regulations for the issuance of the first domestic unsecured convertible corporate bonds.	
Custodian of exchanged assets	None	

## (II) Convertible corporate bonds

NT\$

Types of corporate bonds	The first domestic unsecured convertible corporate bonds
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Indicators		Year	May 27, 2022
Market price of convertible corporate bonds	Highest	104.5	
	Lowest	96.1	
	Average	101.63	
Conversion price		26.46 (Note 1)	
Date of issuance (offering) and conversion price prevailing at the time of issuance		Date: May 27, 2022 Conversion price upon issuance: NT\$27.93	
Method of fulfilling conversion obligations		Fulfilling the conversion obligations by issuing new shares	

Note 1: As per the Issuance and Conversion Regulations for the issuance of the first domestic unsecured convertible corporate bonds, the conversion period begins from the day following the end of three months after the issuance (2022.8.28) to the maturity date (2025.5.27).

(III) Information on swap of corporate bonds: None.

(IV) Shelf registration of the issuance of corporate bonds: None.

(V) Information on corporate bonds with equity warrants: None.

III. Issuance of preference shares: None.

IV. Issuance of overseas depository receipts: None.

V. Issuance of employee stock warrants and restricted stock awards: None.

VI. Issuance of new shares in connection with mergers or acquisitions or with acquisitions of shares of other companies: None.

VII. Fund application plan execution:

(I) Plan

Unit: NT\$ thousands

Project	Scheduled completion date	Total funds required	Scheduled fund application progress			
			2022			2023
			Q2	Q3	Q4	Q1
Repayment of bank borrowings	2022.06.30	200,000	200,000	-	-	-
Establishment of a solar power system	2023.03.31	100,000	38,900	47,000	9,400	4,700
Total		300,000	238,900	47,000	9,400	4,700

(II). Budget implementation:

As of the first quarter of 2023, the construction of solar power facilities was estimated to cost NT\$100 million, and the actual expense was NT\$90,287 thousand. The implementation progress is 90.29%. As the facilities are still in the installation stage, no benefits have been produced. There is no significant difference between the planned benefit of the funds and the actual achievement.

## Five. Overview of Operations

### I. Information on business

#### (I) Scope of business

##### 1. Details of main business:

- (1) Processing, manufacturing, and trading of various fiber plastic leather and plastic fabrics.
- (2) Manufacturing and trading of various plastic raw materials and auxiliary raw materials.
- (3) Processing, trading, and export of plastics and plastic products.
- (4) Manufacturing and trading of raw materials and auxiliary raw materials for the plastics industry.
- (5) Processing and trading of non-woven fabrics.
- (6) Import and export of the above products and raw materials thereof.
- (7) Production and sales of plastic leather and PU synthetic leather and lease-out of factories.

##### 2. Business proportion:

##### (1) Proportion of each product to total sales:

Unit: NT\$ thousand

Type of product	Sales for 2022	Proportion to total sales
PU synthetic leather	216,992	66.69 %
PVC soft leather	51,591	15.86 %
Others	56,780	17.45 %
Total	325,363	100 %

##### (2) Proportion of each region to total sales:

Unit: NT\$ thousand

Region/Year	2022	%
Domestic sales	311,765	95.82%
Export	13,598	4.18%
Asia	13,598	4.18%

##### (3) Current products (services)

Category	Main products and functions
PVC Division	<p>Our main product is PVC plastic leather; the functions and items are as follows:</p> <ol style="list-style-type: none"> <li>1. Soft leather: After it is processed by special machinery, its soft texture is like genuine leather.</li> <li>2. Semi-PU: We adopted special paper grains from multiple countries to produce products that feel like genuine leather.</li> <li>3. Upper series: We adopt imitation leather and PU surface treatment, so they are available in various styles.</li> <li>4. Leather bag series: We adopt surface processing and treatment, so they are available in various styles with good quality.</li> <li>5. SILICONE series: Its various grains are like genuine leather and is available in various styles.</li> <li>6. Retro crazy horse leather: It features special surface treatment and retro imitation leather with special styles.</li> <li>7. Miscellaneous series: This series can be used to develop various products based on clients' needs.</li> <li>8. Sofa leather products: Special raw material formulas and surface treatment agents were developed to meet the physical property requirement for use. The leather can be specially processed with paper grains and wheels to express its particularity.</li> <li>9. Public seats, bus cushions, and yacht series: There are strict physical property requirements for such products. It features special surface treatment effects.</li> <li>10. Flame-resistant series: The flame resistant effect is improved with special raw material formula, and it passed the BS-5852 Lv.5 fire-proof standard.</li> </ol>

Category	Main products and functions
PU Division	<p>Its main products are dry and wet PU synthetic leather. The functions and items are as follows:</p> <ol style="list-style-type: none"> <li>1. Veneer PU: It focuses on different grains and surface treatment effects, bring various changes to the surface.</li> <li>2. High-solid smooth-finished leather: It features low solvent content and high wear resistance, with oil wax gloss.</li> <li>3. Solvent-free foamed PU: It is developed for shoe materials and is soft with a certain degree of elasticity and solvent-free.</li> <li>4. Dry PU: It features lightness, softness, and elasticity.</li> <li>5. Dry waterproof and breathable membrane: It features waterproof, breathability, and warm-keeping.</li> <li>6. TPU product: There can be a variety of surface grains and colors, as well as 3D paper grains, making it better than the general visual experience.</li> <li>7. Conductive PU leather: It can be used to develop gloves for the touch screens of smart phones.</li> <li>8. PU waterproof strip: It can be widely used in the waterproof function of ready-made garments, shoe materials, and other various products.</li> <li>9. High-solid PU products: It was developed for home decorations, miscellaneous items, and PU films and features high wear resistance and elasticity.</li> <li>10. Transfer and lamination: It is applied to ready-made garment materials and other miscellaneous items and features 10K waterproof and breathability.</li> </ol>

#### (4) New products (services) planned to be developed

Plans for the most recent year	Current progress	The main factors influencing the success of future R&D
High-solid A7000	<ol style="list-style-type: none"> <li>1. Softness.</li> <li>2. Development of high-solid foams.</li> <li>3. Continuous development of functional products.</li> <li>4. Development of completely solvent-free products with PUR machines.</li> <li>5. Development of applications for the furniture market.</li> </ol>	<ol style="list-style-type: none"> <li>1. Solvent-free to protect the environment.</li> <li>2. High physical properties.</li> <li>3. Continuous development of raw materials for new functional products.</li> <li>4. New paper grains, color water, and patterns.</li> </ol>
Transfer and full lamination	<ol style="list-style-type: none"> <li>1. The product is produced stably.</li> <li>2. The formula and process conditions are adjusted to the needs of each fabric.</li> </ol>	<ol style="list-style-type: none"> <li>1. The stability of the raw material production process should be controlled.</li> <li>2. The width during machine processing should be controlled.</li> </ol>
Full lamination rainbow film	<ol style="list-style-type: none"> <li>1. The promotion of samples is gradually becoming effective.</li> <li>2. The formula and process conditions are adjusted to the needs of each fabric.</li> <li>3. We have received ordered to produce some of the products.</li> </ol>	<ol style="list-style-type: none"> <li>1. The stability of the raw material production process should be controlled.</li> <li>2. The width during machine processing should be controlled.</li> <li>3. It can be applied to the surface layer with high physical properties.</li> </ol>
Continuous development of TPU sports shoe materials	<ol style="list-style-type: none"> <li>1. Low DMF products.</li> <li>2. Chameleon laser product development.</li> <li>3. Fusion cut product development.</li> <li>4. New grain development.</li> <li>5. Development of new colors of crushed leather.</li> </ol>	<ol style="list-style-type: none"> <li>1. The physical property of TPU has reached the requirements.</li> <li>2. Dye-colored water, effect, and grain variability.</li> <li>3. Rollmac printing.</li> </ol>
Development of reusable color-changing products	<ol style="list-style-type: none"> <li>1. Special thermoplastic thickener.</li> <li>2. New colors of crushed leather.</li> <li>3. Three-dimensional fabric grains.</li> <li>4. Heat press embossing machine to show the fabric grains.</li> <li>5. Low DMF.</li> <li>6. Development of packaging materials markets.</li> </ol>	<ol style="list-style-type: none"> <li>1. The repeated flexing at room temperature should reach 100,000 times.</li> <li>2. It is wear resistant, and the stripping quality meets the requirements.</li> <li>3. There a variety of fabric grains.</li> <li>4. Development of pearly-luster and chameleon colors.</li> </ol>
Sealing strips	<ol style="list-style-type: none"> <li>1. Search for suitable resin.</li> <li>2. Search for suitable PET film.</li> </ol>	<ol style="list-style-type: none"> <li>1. The product meets the market demand.</li> <li>2. Flatness and elasticity.</li> </ol>

Plans for the most recent year	Current progress	The main factors influencing the success of future R&D
		3. It is multi-functional through combined processing.
Development of silicone/rubber products	1. We are seeking special materials. 2. It should be anti-slip. 3. It should be flame resistant.	1. The product meets the market demand. 2. It should be multi-functional. 3. Development for furniture and automotive markets.
High opacity PU films for curtains	1. Eco-friendly materials are used instead. 2. High opacity is for lightproof feature.	1. The product meets the market demand. 2. Sufficient opacity makes it suitable for curtains.
Development of wear-resistant rainbow films and breathable rainbow films	1. The promotion of samples is gradually becoming effective. 2. We increased characteristics to enhance its diversity. 3. We have received orders to produce some of the products.	1. The product meets the market demand. 2. The product diversity should be enhanced to increase its popularity in the market. 3. The stability of the raw material production process should be controlled. 4. The width during machine processing should be controlled.
PMMA decorative materials and automobile/scooter trims	1. It is weather resistant without being delaminated in the environmental test. 2. It is scratch-resistant and hydrolysis-resistant. 3. We continue to develop functional products and are promoting the samples.	1. It should be able to be processed with excellent plasticity. 2. There should be a variety of grains and dye-colored water. 3. It should be able to be widely applied in the market and by a wide client base.

## (II) Industry overview:

### 1. Status and development of the industry

#### (1) PVC plastic leather:

After the first PVC factory, Formosa Plastics, was established in 1957, it has begun to produce plastic/artificial leather to partially replace the genuine leather since 1961.

The Company was incorporated in 1973, and our PVC factory was established in 1982, mainly producing PVC materials for furniture, sofa, buildings, and interior design decoration, yacht leather, office desk and chair products, as well as indoor products and outdoor dining chairs.

At present, our main production equipment is one coating machine.

The post-processing equipment includes squaring shears, printing processing machines, embossing machines, polishing machines, graining machines, ironing machines and needle punching machines, etc.

Main PVC products:

(A) Sofa leather products: Used in the processing of various sofa products. Its values, beauty, and styles will increase when genuine leather is adopted. It is a fashionable and practical. It can be processed to have different paper grains, embossed patterns, and dye-colored water, including luminous colors, pearlescent, and glitter; it can be available with layered color effects or with different thicknesses.

It can be processed through different surface treatments to increase the diversity, changeability, and applicability. The physical and chemical properties of the products should be in compliance with the U.S. and EU regulations to increase their market competitiveness and safety functions. We improved the acid and alkali resistance, grease resistance, high wear resistance, and alcohol resistance of the surface so that they can be widely used for special functional requirements.

(B) Automotive interior products: Used in vehicle interior materials and should be beautiful and durable after being processed. The products can also undergo various printing treatments and grain processing to increase the diversity and changeability. The products need to meet various physical and chemical property requirements. The Company has been certified by the domestic Automotive Research & Testing Center (ARTC), to ensure beautiful appearance, applicability, and safety.

(C) Soft leather products: Used in bicycle seat cushions, leather bags, medical devices, massage chairs, strollers, slippers, book covers, jewelry boxes, decorative panels, anti-slip gloves, headset covers, and ready-made garments. The product can be made with different paper grains and embossed, so that the products are available in a variety of grains and layers of surface patterns. It can also undergo printing processing and be processed with dye-colored water to imitate the sense of genuine leather, thereby meeting different clients' needs. In addition to meeting clients' requirements for physical and chemical properties, it can be treated or processed in different ways to replace the increasingly scarce genuine leather.

#### (2) PU synthetic leather:

The synthetic leather is mainly used to make daily necessities, such as sports shoes, casual shoes, ready-made garments, gloves, leather bags, and furniture. In the past, there used to be many processing industries in Taiwan, which could form supply chains with the synthetic leather industry. Recently, the issue of carbon emissions, the main culprit for the global greenhouse effect, is gradually facilitating the transformation of the synthetic leather industry. In 2012, we developed TPU environmental materials and waterproof and breathable ready-to-wear materials and work with NIKI to develop no-sew processing, to alleviate the shortage of manpower. The added value has prompted various brands to follow suit, and it is the main force of future products. In recent years, we mainly worked on the research and development of functional garment materials, such as wet microporous products and PTFE lamination products, and purchased sophisticated machinery and equipment. The combination of TPU products can be used with more different materials, creating different added values, such as translucent or pearlescent (luster), luminous colors, and 3D paper grains, to give bright luster or be used with our PU films to create more changes to increase the values of our products and prolong its useful lives. The development of solvent-free products can significantly reduce carbon emissions, while alleviating the shortage of manpower. They are star products in the future.

The Company's PU factory was established in 1994, mainly producing environmental PU materials. At present, its main production equipment includes two wet coating machines, one dry coating machines, and two breathable PU film coating machines.

Its post-processing equipment includes printing processing machines, embossing machines, grinders, graining machines, splitting machines, and PUR equipment.

Main PU products:

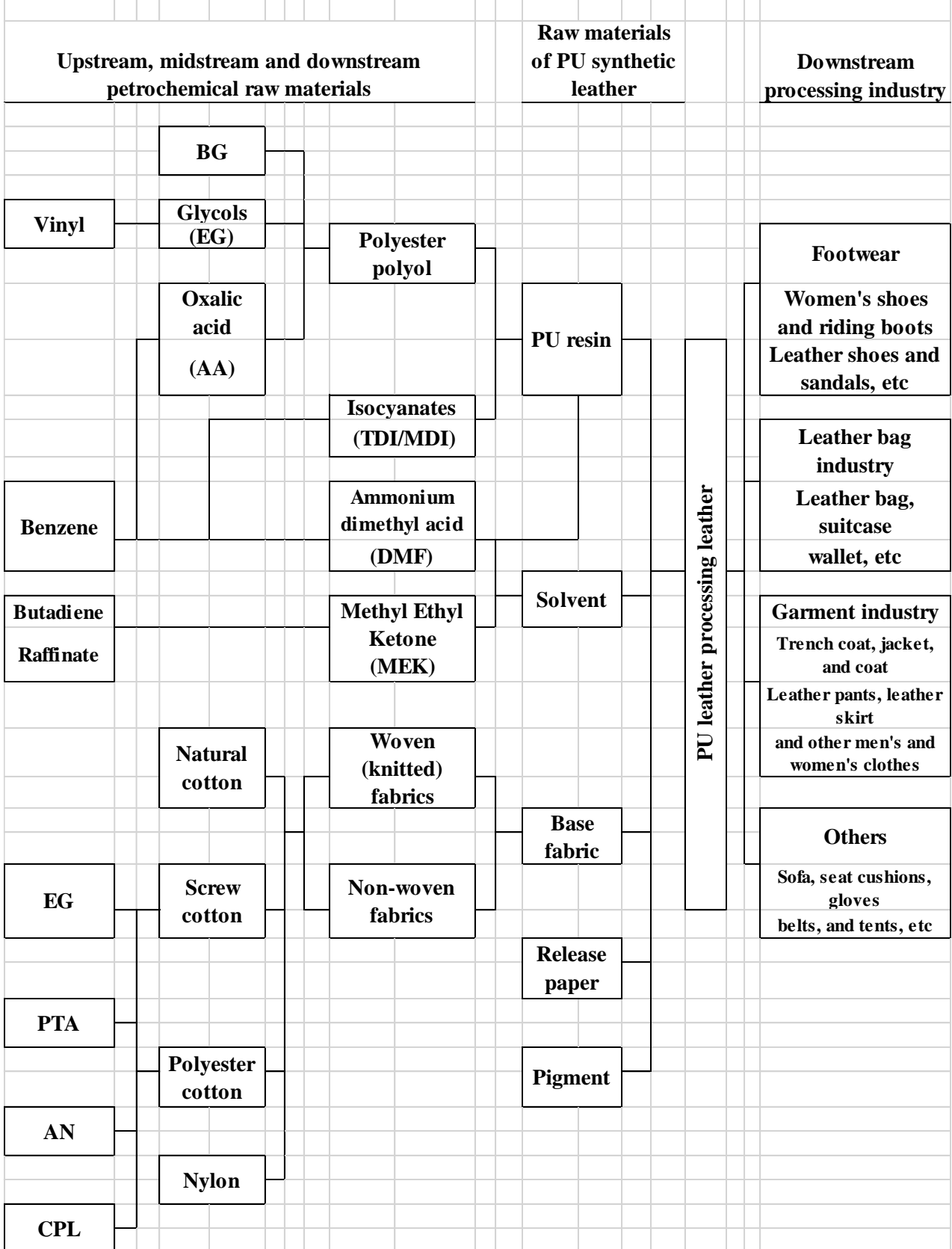
- (A) TPU products: Used in the processing of sports shoes. At present, TPU products are developed and produced for NIKE, ADIDAS, ASCIS, MIZUNO, UA, NB, etc., with hot-melt adhesives. We processed sports shoes through no-sew processing produced by NO-SEW. which are lightweight, beautiful, and diverse with the sports and leisure functions.  
TPU products can be processed to have different paper grains and dye-colored water, including luminous colors, pearlescent, and glitter, with translucent and opaque effects and different thicknesses. TPU products can be processed through different surface treatments to increase the diversity and changeability
- (B) PU breathable film: It features water pressure resistance and high breathability and is suitable for the processing of waterproof and breathable casual clothing. It is soft, easy to be processed, and high-temperature resistant.  
The film can undergo printing treatment to have various patterns printed on it, creating diverse styles and options suitable for different seasons.  
The thickness of the film is thin and lightweight, meeting the requirements of modern fashion for thinness and lightweight.  
The film can go with PTFE lamination products, with an emphasis on high water pressure resistance, washing resistance, high breathability, to increase its added value.  
The film is available in transparent and white colors and there are other colored films; they can also be developed with different grains and thicknesses.
- (C) PU synthetic leather: We can produce wet PU with different paper grains or embossed patterns depending on clients' needs; can undergo various treatments or processing to replace the increasingly scarce genuine leather; it can be applied to shoe materials, fitness equipment, ready-made garments, leather bags, gloves, headsets, etc.
  - (a) PU veneer products:  
Embossed products: Products can be embossed with different grains, leading to different textures on the surface.  
Printing treatment: It allows the product to be leathery and diverse.
  - (b) Dry PU is lightweight and elastic and can undergo surface treatment.
  - (c) Crazy horse leather features oil wax, rich velvet feeling, with the sense of genuine leather and retro.
  - (d) Anti-slip leather features anti-slip effect and is used in ski gloves and other anti-skid processing purposes, and can be conductive. It can be used to develop gloves that can use touch products, such as smartphones.
- (D) New PUR equipment purchased can be used to develop and replace the crude oil adhesive layer to reduce the solvent content of products. With a solvent-free layer, products can be completely solvent-free.

2. The relations between the up-, mid-, and downstream industries:

(1) The relations between the up-, mid-, and downstream PVC soft leather industry

<u>Upstream raw materials</u>	Raw materials of PVC plastic leather	Downstream processing industry
Polyvinyl Chloride (PVC)	PVC Powder Main part	Footwear Sports shoes, casual shoes Men's shoes, sandals etc.
Plasticizer (DINP)		
Stabilizer (Ba.Zn)		
Foaming agent		
Pigment and color paste		
PU resin	Solvent	Leather bag industry Leather bag, tote bag leather goods, etc.
Acrylic resin	Pigment	
Methyl Ethyl Ketone (MEK)		
DMF		
T/R woven fabrics and interwoven fabrics	Base fabrics	Others Belts, sofa gloves, personal organizer etc.
Cotton knitted fabrics	Release paper	
Needle-punched non-woven fabrics		
Woven brushed fabrics		

**(2) The relations between the up-, mid-, and downstream synthetic leather industry**





3. Various development trends and competition of products:

(1) Development trend of products:

PVC soft leather:

- (a) Integrating development resources and actively developing high value-added products to enhance our competitiveness in the industry.
- (b) Continuing to develop environmental, multi-functional products, such as yacht leather and imitation-leather furniture products.
- (c) Implementing a quality management testing mechanism to continue to improve product quality and increase production capacity and efficiency.

PU synthetic leather:

- (a) Integrating development resources and actively developing high value-added products to enhance our competitiveness in the industry.
- (b) Continuing to develop environmental, multi-functional products, such as microporous garment films and high-solid furniture products.
- (c) Implementing a quality management testing mechanism to continue to improve product quality and increase production capacity and efficiency.
- (d) Developing solvent-free products.

(2) Situation of market competition:

At this stage, the PU synthetic leather industry is gradually transforming the industry in response to the global greenhouse effect caused by issue of carbon emissions, and we are switching from products with solvent content to the ones through combined processing with low solvent, while developing functional garment materials, such as wet microporous products and PTFE lamination products. Our development of AB agent and solvent-free products can greatly reduce carbon emissions. Our subsequent development of one-piece products with different grains can effectively reduce manpower and costs, and we are transforming from a material supplier into a semi-finished goods one. As our products are gradually differentiated from our competitors, the pressure of market competition can to be reduced. We will strive to strengthen our innovation and R&D efforts and brand marketing, and increase the added values of our products with all our employees.

(III) Technology and R&D:

(1) Technological capabilities and overview of R&D

We have been working in the field of PVC and PU processing for decades. We process products as per the product drawings provided by clients, and the PVC and PU materials are determined in clients' design stage. Therefore, the Company's main R&D work is focused on the improvement to machinery and equipment and processes or the development of new product process technology to improve production efficiency and reduce costs. Additionally, we engage in technical cooperation with clients and suppliers, actively cultivate technical professionals, and regularly offer education and training inside and outside the Company to improve the overall quality of our personnel and increase our competitiveness in innovation and R&D. Also, we are actively developing environmental materials and technologies, allowing our products to meet market trends and increasingly stringent environmental regulations.

(2) R&D personnel and their education and experience

The distribution of the R&D personnel's education attainment during the most recent year is as follows:

Unit: Person

Item \ Year	2022		2021		2023 up to April 24, 2023	
	Number of people	%	Number of people	%	Number of people	%
Master's degree or above	1	33.33	1	16.67	1	33.33
University	1	33.33	2	33.33	1	33.33
Junior college or below	1	33.34	3	50.00	1	33.34
Total	3	100.00	6	100.00	3	100.00

(3) The R&D expenses for each year of the recent years

Unit: NT\$ thousand

Item	Year	2022	2021
R&D expenses		5,345	7,631
Operating revenue, net		325,363	365,000
R&D expenses as a percentage of operating revenue, net		1.64%	2.09%

(4) Technologies or products successfully developed in the most recent year

Year	Specific R&D achievements
2021	<ol style="list-style-type: none"> <li>1. Developed multiple sets of color chips for customized decorative materials.</li> <li>2. Developed customized linen sofa products.</li> <li>3. Developed customized decorative panels.</li> <li>4. Developed A7000 foamed products and solvent-free processed products in accordance with environmental requirements.</li> </ol>
2022	<ol style="list-style-type: none"> <li>1. Developed high-solid, single-film LOGO products.</li> <li>2. Developed ADDIDAS RECYCLE products.</li> <li>3. Developed single-sided PU layer for garments.</li> <li>4. Developed customized low permeability films.</li> </ol>

(IV) Long-term/short-term business development plans:

We will continue to innovate, research, and develop new products to meet the ever-changing market demand; our future business development priorities are as follows:

(1) Short- and medium-term plans:

- A. Develop new products, expand into new markets, and increase revenue.
- B. Facilitate the transformation of the Company's product structure to increase profits.
- C. Accelerate the improvement to productivity, reduce losses, enhance quality and efficiency, and strengthen competitiveness.
- D. Reinforce internal management and control functions to cut costs and increase profits.
- E. Stay informed of main brands' environmental policies and actively develop environmental materials in alignment with various markets' environmental needs.
- F. Produce PVC products in an eco-friendly way and it has passed the REACH 210 testing standards.
- G. Develop artificial leather for sofa leather, yacht products, bus seat cushions, bicycle seat cushions, building decorative materials, car leather, massage chairs, office desks and chairs, and other book covers.

(2) Long-term business development plan

- A. Enhance development capabilities and mass production capacity and shorten delivery time
- B. Cultivate talents
- C. Dispose and make good use of idle assets
- D. Develop waterproof and breathable PU films
- E. Develop waterproof and breathable full-lamination PU products
- F. Develop automotive materials
- G. Develop yacht materials
- H. Develop yacht materials
- I. Develop multiple versions of overprint sofa leather products
- J. Develop breathable sofa leather products
- K. Develop AB agents free from solvents
- L. Develop one-piece uppers with multiple grains
- M. Develop puncture-resistant PU leather
- N. Develop reusable color-changing products

- O. Developing solvent-free silicone products
- P. Develop office desk and chairs and outdoor dining chairs

## II. Overview of the market and production and sales:

### 1. Market analysis

#### (1). Regions where the Company's main products (services) are sold (provided)

Unit: NT\$ thousand

Region		Year		2022		2021	
		Sales	%	Sales	%		
Domestic sales	Taiwan	311,765	95.82	352,685	96.63		
Export	China (including Hong Kong)	1,694	0.52	3,678	1.01		
	Japan	11,815	3.63	8,404	2.30		
	Others	89	0.03	233	0.06		
Subtotal of export		13,598	4.18	12,315	3.37		
Total		325,363	100.00	365,000	100.00		

#### (2) Market share

The Company's products include PVC plastic leather and wet and dry PU synthetic leather. However, there are no detailed industry categories for the relevant statistical data, so we are unable to accurately calculate the market share.

Our PVC plastic leather has occupied a leading position in the market. In addition to diversifying the products, we are committed to the R&D of products with high added values. We are committed to reducing the costs of PU synthetic leather, improving quality stability, strengthening our R&D capabilities, and focusing on the R&D and promotion of our niche products, while developing composite PU materials to diversify our products in line with the environmental protection trends.

#### (3) Supply and demand, growth potential of the market in the future, and competitive niche

① Facing the casual style trend in recent years, we have developed waterproof and breathable ready-made full-lamination products. Its lightweight, thinness, shortness, and functionality are the future trends. With well-known brands taking the lead in the casual-style products, our products will be more widely used.

② Our TPU environmental materials can be applied to high-frequency, no-sew processing and can be used in sports shoes and leisure sports products. This product will help to increase our revenue and profits.

③ In recent years, we have developed products well received by the market, such as furniture decoration materials, massage chairs, car seat covers, and medical devices. In the future, we aim to expand into the overseas furniture markets and develop automotive leather.

#### (4) The favorable and unfavorable factors for future development and countermeasures

##### ① Favorable factors

A. As natural leather is expensive and in short supply, it is conducive to the development of artificial leather

With animal protection groups' promotion, the sources of natural leather are bound to decrease day by day. With excellent processing technology, artificial leather features the effect of imitation leather. In addition, natural leather is increasingly expensive and in short supply, which will be conducive to the development of artificial leather.

B. Product application areas are expanded with new needs arising

With the R&D of new materials, the scope of applications will be further expanded. For example, new synthetic leather, high-end artificial synthetic leather on the basis of microfiber, can be applied to high-end sports shoes and furniture items, to create new needs. To pursue lightweight automobiles and eco-friendly manufacturing processes, plastic materials for automotive components are developing rapidly in the future and can even be applied to medical devices, such as PVC leather gloves and

toys, further expanding the scope of plastic processed products. The Company has laid a foundation for R&D for many years with complete product lines, and we have integrated clients' needs and our customized R&D capabilities, as we have long maintained the Company's product competitiveness and are able to diversify the risk of changes in the market demand.

C. Market growth in the post-pandemic era

With the impact of the China-US trade war and the COVID-19 pandemic, many overseas Taiwanese businesses and talents have returned to Taiwan with a large amount of funds to invest in the real estate market. It is obvious that the prices of real estate have soared, not only in the metropolitan areas but the land near the industrial zones. This large group of people with relatively large amounts of funds has made up for the void left by Taiwan's high-income people as they have emigrated, facilitated the investment boom, and led to new consumption needs and patterns. This new consumption momentum will further increase the demand for consumer products and indirectly create new opportunities for the plastic leather market.

D. We have established a good reputation through long-term development of the local market.

We have been developing the local market for a long time and in the industry for more than 50 years. Our production technology, R&D capabilities, and distribution channels have been well-developed with a good reputation.

② Unfavorable factors and countermeasures

A. The global environmental awareness is increasing, and countries have stipulated more stringent environmental regulations.

With the increasing global environmental awareness, the relevant environmental protection regulations in the plastics industry are becoming more stringent, and it will raise the Company's operating costs and effect product promotion.

Countermeasures:

We have pollution prevention and control equipment in place and require that all product processes should be in compliance with the environmental laws and regulations, while improving the processes, adopting non-toxic solvents or reducing the use of solvents, reducing waste, and continuing to develop eco-friendly composite PU leather.

B. It is estimated that the international oil prices will witness an upward trend, putting pressure on the plastic leather industry with increased cost of purchases

In 2021, international oil prices continued to rise due to multiple factors, including global economic recovery, low inventories, and insufficient production capacity from 2020. The outbreak of the Russo-Ukrainian War in February 2022 has sent the fluctuating energy prices to continue to soar. As the international oil price is estimated to continue to rise, driving the prices of chemical materials to rise, it is necessary to pay close attention to the unfavorable factors of rising raw material prices, and the plastic leather companies still need to face the challenge of increasing purchasing costs.

Countermeasures:

In addition to strictly controlling costs, we will maintain stable supply with suppliers and adjust selling prices in a timely manner.

C. Neighboring countries expand their production capacity and the market competition is fierce, reducing the profit margins

Neighboring countries, such as South Korea, mainland China, and Southeast Asian countries, have continued to expand their production capacity and improved their technologies in recent years, posing a threat of low-price competition to Taiwan's companies.

Countermeasures:

In addition to maintaining the production and sales of our existing products, we are committed to differentiating our products of to avoid low-price competition. We will

provide a variety of material solutions in alignment with clients' needs, develop long-term partnerships with clients, and enhance our R&D and sales of high value-added products to avoid low-price competition. In addition, we will keep abreast of clients' procurement trends and invest in the establishment of overseas factories in a timely manner.

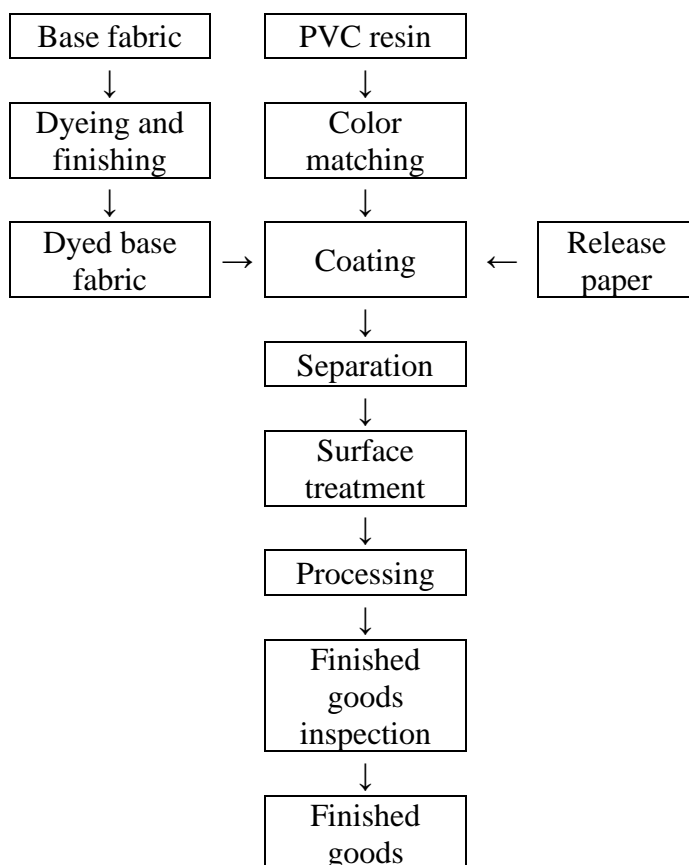
2. Important functions and production processes of main products

(1) Important functions of main products

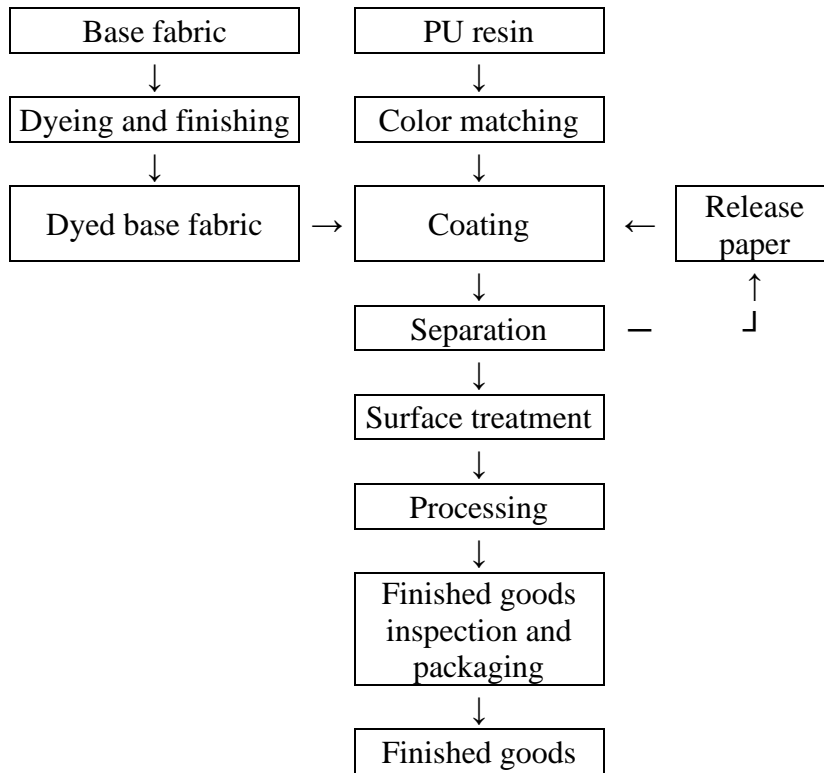
Main products	Important functions
PVC plastic leather	Raw materials for leather bags, shoes, toys, gloves, chair cushions, sofa, decorative panels, bus seats and car interior materials, and car leather.
PU synthetic leather	Raw materials for ready-made garments, leather bags, footwear, camera covers, toys, gloves, furniture, chair cushion covers, medical mattress covers, mouse pads, and mobile phone cases.

2. Production process:

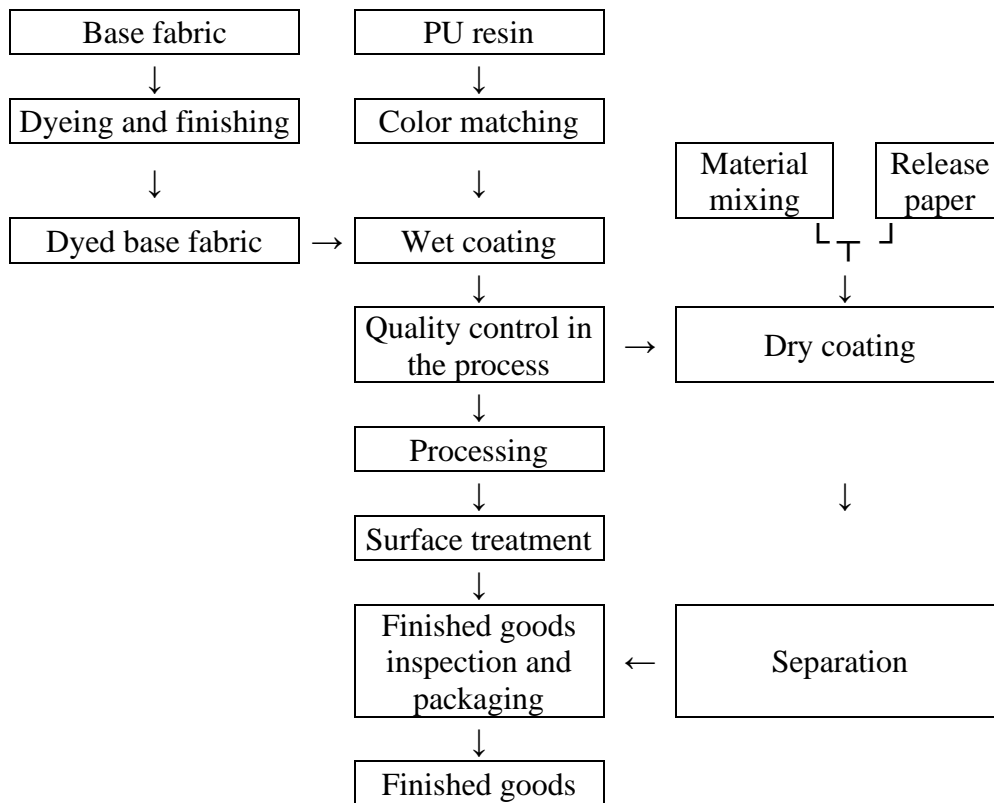
(1) Manufacturing process of PVC soft leather



(2) Manufacturing process of dry PU synthetic leather



(3) Manufacturing process of wet PU synthetic leather



## (III) Supply of main raw materials

Main raw materials	Source of supply and region	Supply
Resin	Domestic	Normal
Solvent	Domestic	Normal
Calcium carbonate	Domestic	Normal
Plastic powder	Domestic	Normal
Plasticizer	Domestic	Normal
Release paper	It is supplied from abroad, mainly from the U.S., Italy, the U.K., and Japan.	Normal
Pigments	Domestic	Normal
Auxiliaries	Domestic	Normal
AGD (base fabric)	Domestic	Normal

## (IV) Clients accounting for at least 10% of net purchase (sales) in the most recent two years

## 1. Major suppliers in the most recent two years

Unit: NT\$ thousands

Item	2022				2021				2023 Q1			
	Name	Amount	Percentage (%)	Relations with the issuer	Name	Amount	Percentage (%)	Relations with the issuer	Name	Amount	Percentage (%)	Relations with the issuer
1	Supplier A	31,665	19	None	Supplier B	31,894	16	None	Supplier C	4,637	20	None
2	Supplier B	21,497	13	None	Supplier A	22,296	11	None	Supplier D	2,730	12	None
3	Others (less than 10%)	116,280	68	None	Others (less than 10%)	141,464	73	None	Supplier E	2,334	10	None
									Others (less than 10%)	13,440	58	
	Net purchase amount	169,442	100		Net purchase amount	195,654	100		Net purchase amount	23,141	100	

Reason for increase/decrease:

Our main raw materials are resin, solvent, plastic powder, release paper, and pigments. The main suppliers' production capacity, quality, and stability are in good condition. The main change in the purchase amount is due to the year's orders received and our production and sales strategy.

Suppliers A and B each accounted for at least 10% of our net purchase amount in the most recent two years, and our suppliers and their respective purchase amounts were almost the same in the most recent two years.

## 2. Major clients in the most recent two years

Unit: NT\$ thousands

Item	2022				2021				2023 Q1			
	Name	Amount	Percentage (%)	Relations with the issuer	Name	Amount	Percentage (%)	Relations with the issuer	Name	Amount	Percentage (%)	Relations with the issuer
1	Client A	112,875	35	None	Client A	92,451	25.33	None	Client A	21,198	37	None
2	Others (less than 10%)	212,487	65	None	Others (less than 10%)	272,549	74.67	None	Others (less than 10%)	36,041	63	None
	Net sales	325,362	100		Net sales	332,962	100		Net sales	57,239	100	

## (V) Production volume and value in the most recent two years

Unit: NT\$ thousands; thousand yards

Year	2022			2021		
	Production capacity	Production volume	Production value	Production capacity	Production volume	Production value
Product						
PVC soft leather	500	358	62,587	960	583	93,274
PU synthetic leather	10,000	8,178	178,408	10,000	7,972	193,621
Total	10,500	8,536	240,995	10,960	8,555	286,895

## (VI) Sales volume and value in the most recent two years

Unit: NT\$ thousands; thousand yards

Year	2022				2021			
	Domestic sales		Export		Domestic sales		Export	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Product								
PVC soft leather	297	39,545	67	11,815	510	107,026	76	11,841
PU synthetic leather	8,149	214,234	71	1,783	8,055	235,493	15	474
Others		57,986				10,166		
Total	8,446	311,765	138	13,598	8,565	352,685	91	12,315

III. The number, average years of service, average age, and distribution of education attainment of in-service employees during the most recent two years and up to the publication date of this annual report:

Year		2022	2021	April 24, 2023
Number of employees	Direct labor	33	49	30
	Indirect labor	18	19	17
	Total	51	68	47
Average age		48.02	45.3	48.19
Average years of service		8.01	7.7	8.19
Distribution of education attainment	Master's degree or above	2	2	2
	University	8	12	8
	Junior college or below	41	54	37

IV. Information on environmental protection expenditure:

- For companies that should apply for a pollution facility installation permit or a pollution discharge permit, or pay pollution prevention and control fees, or set up a dedicated unit for environmental protection, as required by law, specify the circumstances of such application, payment, or establishment

(1) Application for a pollution facility installation permit or a pollution discharge permit

Name of permit	Permit No.	Permit period
Simple permit document for wastewater (sewage) discharged to surface water bodies	Per Letter Nan-Shi-Fu-Huan-Shui No. 01629-04	August 4, 2018–August 3, 2023
PVC leather manufacturing procedure (M01) (220011)	Per Letter Nan-Shi-Huan-Kong-Cao-Zheng No. D0601-01	October 19, 2021–April 18, 2026
(Wet) PU leather manufacturing procedure (M01) (220002)	Per Letter Nan-Shi-Huan-Kong-Cao-Zheng No. D0592-01	November 23, 2021–September 3, 2024
(Dry) PU leather manufacturing procedure (M02)(220002)	Per Letter Nan-Shi-Huan-Kong-Cao-Zheng No. D0966-00	October 20, 2022–October 19, 2027
Heating medium heating procedure (M05) (000002)	Per Letter Nan-Shi-Huan-Kong-Cao-Zheng No. D0798-00	November 23, 2021 to May 17, 2023



- (2) Pollution prevention and control fees payable: We paid a total of NT\$3,980 thousands for air pollution prevention and control and a total of NT\$302 thousands for soil and groundwater pollution remediation fees during 2022.
- (3) Personnel in the unit dedicated to environmental protection should be appointed.

Name	Content of permit	Permit No.
Tsai, Yueh-Hsun	Class-B personnel dedicated to prevention of air pollution	Per Letter (2021)-Huan-Shu-Xun-Zheng No. FB130041
Chen, Kao-Sen	Class-B personnel dedicated to prevention of air pollution	Per Letter (2005)-Huan-Shu-Xun-Zheng No. FB080137
Tsai, Yueh-Hsun	Class-A waste treatment professional and technical personnel	(2020)-Huan-Shu-Xun-Zheng No. HA130473
Chan, Chin-Ju	Level B toxic chemical substances management specialist	Per Letter (2016)-Huan-Shu-Xun-Zheng No. JB090282

2. The investment in pollution prevention equipment, functions, and potential benefits

December 31, 2022/Unit: NT\$

Equipment	Number	Date of acquisition	Investment cost	Unreduced balance	Functions and estimated benefits
DOP recycling equipment	1 unit	1995.11.30	6,402,000	263,370	The air pollution from the plasticizers is condensed into waste oil for subsequent treatment.
Wastewater treatment equipment	1 unit	1991.12.31	9,374,295	0	The sewage produced by factories is treated to the standard for discharge.
Exhaust gas treatment equipment	1 unit	2017.5.22	3,095,000	1,172,166	The exhaust gas produced by factories is treated to the standard for emissions.

3. Please describe the process undertaken by the Company to improve environmental pollution during the most recent two years and up to the publication date of this annual report. Please also specify the handling process should there be any pollution dispute: None.
4. Please describe any losses suffered by the Company during the most recent two years and up to the publication date of this annual report due to environmental pollution incidents (including any compensation) and total amount of the penalty, as well as the countermeasures (including improvement measures) and an estimate of potential expenses (including the potential loss, penalty, and compensation that might be incurred due to the failure to take countermeasures. If the amount cannot be reasonably estimated, please specify the fact that it cannot be reasonably estimated): None.
5. The impact of the current pollution, the influence of the improvement on the Company's earnings, competitiveness, and capital expenditures, and the major environmental capital expenditures in the following two years: None.

V. Labor-management relations:

1. The Company's various employee benefit measures, continuing education, training, pension system, and implementation thereof, as well as labor-management agreements and various employee rights protection measures

(1) Employee benefit policy

- ① All our employees joined the "Employee Welfare Committee" in accordance with the Enforcement Rules of the Employee Welfare Fund Act. The committee is responsible for handling various employee benefits and contributes the welfare funds depending on the Company's monthly revenue, employee salaries, and the sales of scrap.
- ② The Employee Welfare Committee handles the matters, including employee travel, monthly birthday gifts, gifts upon three major holidays, an employee military service subsidy, funeral and wedding allowances, a childbirth subsidy, teambuilding activities, and group insurance.
- ③ Hiking activities are held for employees and their families from time to time to help them maintain physical and psychological balance.

(2) Continuing education, training, and implementation

The Company's education and training aims to train personnel at all levels to unleash their full potential in the organization and enhance their knowledge, with the aim of strengthening mutual support, improving work efficiency, and improving interpersonal relationships. The Company's education and training are divided into internal and external training. Training is provided depending on the needs of each job category.

Category	Number of person-time	Total expenses
Administration	13	28,560
Factory affairs	17	118,783

(3) Employee retirement system and implementation

- ① We have established a Supervisory Committee of Labor Retirement Reserve in accordance with the old scheme of the pension system for employees who chose the old scheme under the Labor Standards Act and make a monthly contribution, equal to 15% of employees' total monthly salary and wages, to the retirement reserve account with Bank of Taiwan in the name of the committee. The pensions shall be made from the account, and the Company shall make up for any insufficiency. Retirement criteria shall be subject to the Labor Standards Act. Three employees retired in 2022.
- ② For employees who chose the new scheme of the pension system under the Labor Pension Act, we make a monthly contribution, equal to 6% of employees' monthly salary and wages, to employees' individual pension accounts with the Bureau of Labor Insurance.

(4) Labor-management agreements

We have formulated company rules and has set out a complete plan, covering employee recruitment, promotion, retirement, and pensions, as a common standard for the Company and employees, while regularly holding labor-management meetings to enhance the exchange of views between employees and the Company. Thus, the labor-management relations are harmonious without any labor-management dispute occurring so far.

(5) Protection measures for various employee rights

We adopt employees' suggestions and have established systematic proposal, communication, and grievances channels to reasonably and appropriately respond to and cope with employees' expectations, suggestions, questions, and grievances. We attach great importance to employees' rights and interest and care for them. We have formulated the Employee Sexual Harassment Prevention and Grievance Regulations and established a work environment on the basis of gender equality. The Employee Welfare Committee organizes various employee travel activities per year. We award outstanding employees awards for their outstanding work performance at the end of each year.

(6) Work environment and employee personal safety protection measures

To prevent occupational accidents and maintain employees' safety and health, we have formulated the safety and health principles in accordance with the Occupational Safety and Health Act to specify relevant safety management matters for employees to follow.

- ① Managers at all levels should pay close attention to their employees' safety and health and guide them where appropriate.
- ② Safety and health managers at all levels should pay attention to whether there is any unsafe situation at any time and rectify and report unsafe practices at any time.
- ③ We should regularly pay attention to and maintain all safety and health facilities in the plants to maintain their effectiveness. If any unusual situation is discovered, we should respond or adopt other necessary measures immediately.
- ④ The Company regularly organize health examination for employees in accordance with laws and regulations and should bear all the costs.
- ⑤ The Management Section is responsible for notifying, announcing, or keeping meeting records of occupational safety awareness-raising events, exercises, and training, and keeping the implementation documents.
- ⑥ Safety rules for managers:

- A. Managers should be responsible for preventing accidents and clearly understand the safe operating procedures for the work they supervise.
  - B. When any dangerous situation may put personnel or equipment in danger, managers should be responsible for immediate improvement. If an improvement cannot be made, they should immediately report to their supervisors.
  - C. Without a manager's prior consent, personnel are not allowed to carry out any repair or adjustment operations in departments other than theirs.
  - D. The managers in charge of production equipment should check the pressure of pipelines and equipment in person before the repair personnel begin their repair work or make sure that the liquid that should be drained has been completely drained or that the equipment that should avoid collision is temporarily protected when necessary.
- ⑦ General safety rules
    - A. The safety and health equipment in place shall not be dismantled or rendered ineffective without permission. When safety and health equipment is found to be dismantled or rendered ineffective, workers should report to their supervisor immediately.
    - B. Workers should be familiar with their plans and safety requirements for the work they do to prevent hazards.
    - C. In dangerous work areas or places, workers should pay attention to all danger signs set up and follow accordingly.
  - ⑧ Each employee should duly follow the various operating safety rules set by the Company. Various operating principles include fire, electrical safety, material transport and storage, machinery safety, hand tools, protective equipment, forklift operation, boiler operation, lift standard operation, and hanging operation best practice principles; organic solvent use guidelines, work rules for operations with special chemical substances, as well as general health, ventilation and exhaust, lighting rules, and first aid rules.
  - ⑨ We formulated outsourced operations management regulations to clearly set out the regulations and fire control measures for contractors carrying out work in our plants.
2. Please specify the losses suffered due to labor disputes in the most recent two years and up to the publication date of this annual report, the estimated potential amount at present and in the future, and countermeasures. If the amount cannot be reasonably estimated, please specify the fact that it cannot be reasonably estimated
    - (1) The Company did not suffer financial losses due to labor disputes in the most recent two years and up to the publication date of this annual report.
    - (2) We abide by the Labor Standards Act and the applicable laws and regulations, and the Company and workers have formed positive interactive relations, so it is predicted that there will be no such losses in the future.

## VI. Cyber security management

1. Specify the cyber security risk management framework, policy, specific management plans, and resources put in cyber security management.
  - (1) Information security risk management framework
    - ① The responsible unit for information security is the IT Department, which coordinates information security matters and is responsible for formulating internal information security policies, planning and carrying out information security operations, as well as implementing information security policies.
    - ② The Company's Audit Office is responsible for supervising information security and the implementation of internal information security. If any defects are discovered in regular audits, the responsible unit should put forth an improvement plan and take specific actions, and the office regularly follows up on the improvement results, to mitigate internal information security risks.
  - (2) Information security policy
 

To improve the security and stability of our information and communication operations, provide secure cyber services, and ensure the confidentiality, integrity, and availability of

our information assets, we adopt the Information Circulation Regulations for internal audit control as our information security audit principle. All our employees are obliged to and responsible for abiding by applicable regulations on information security, maintaining the Company's information security, and ensuring the secure operations of our data, information systems, equipment, and networks, to avoid all kinds of threats, such as improper use, leakage, tampering, theft, or sabotage, to mitigate potential hazards.

(3) Specific management plans and the resources put in cyber security management

At present, we have not yet purchased information security protection insurance but have formulated the Information Circulation Regulations for internal audit control, and our physical and environmental security, network and computer security, system access control, and system sustainable operations are managed accordingly.

2. Specify the losses incurred due to major cyber security incidents, potential impacts, and countermeasures in the most recent year and up to the publication date of this annual report. If the amount cannot be reasonably estimated, please specify the fact that it cannot be reasonably estimated

The Company did not suffer financial losses due to cyber security incidents in the most recent two years and up to the publication date of this annual report.

## VII. Important contracts

The supply and sales, technical cooperation, engineering, long-term loan, and other important contracts that could affect shareholders' rights and interest that are still valid during 2022 and up to April 24, 2023 and expired in the most recent year:

Category of contract	Counterparty	Start and end dates	Main contents	Restrictive covenants
Loan contract	Mega International Commercial Bank	2022.08.27 –2023.8.26	1. Credit line: NT\$220,000 thousand 2. Interest rate: Based on TAIBOR for three or six months, plus 1% 3. Collateral: Plants 1 and 4 in Xuejia	None
Loan contract	Bank of Panhsin	2022.03.11 2025.3.10	1. Credit line: NT\$50,000 thousand 2. Interest rate: Time deposit monthly rate + floating rate of 0.81%	None
Loan contract	Yuanta Commercial Bank	2022.08.15 2023.8.14~	1. Credit line: NT\$30,000 thousand 2. Interest rate: Time deposit rate index + floating rate of 0.43%	None
Loan contract	First Commercial Bank	2022.11.30 –2023.11.29	1. Credit line: NT\$30,000 thousand 2. Interest rate: Three-month time deposit floating rate plus 0.79% for a loan with duration of within three months; One-year time deposit floating rate plus 0.6% for a loan with duration of more than three months.	None
Loan contract	Taichung Commercial Bank	2022.08.24 –2023.8.23	1. Credit line: NT\$50,000 thousand 2. Interest rate: Time deposit monthly rate index, plus 0.91%	None

## Six. Overview of Financial Information

I. Condensed balance sheet and statement of comprehensive income as well as names and audit opinions of the CPAs for the most recent five years

(I) Condensed balance sheet and statements of comprehensive income

### Condensed consolidated balance sheet

Unit: NT\$ thousands

Item	Year	Financial data for the most recent five years				
		2022	2021	2020	2019	2018
Current assets						502,061
Property, plant and equipment						557,720
Intangible assets						0
Other assets						97,150
Total assets						1,156,931
Current liabilities	Before distribution					133,241
	After distribution					217,241
Non-current liabilities						64,510
Total liabilities	Before distribution					187,751
	After distribution					271,751
Equity attributable to owners of parent company		(Note 2)	(Note 2)	(Note 2)	(Note 2)	959,180
Share capital						700,000
Capital surplus						0
Retained earnings	Before distribution					259,180
	After distribution					175,180
Other equity						0
Treasury stock						0
Non-controlling interests						0
Total equity	Before distribution					959,180
	After distribution					875,180

Note 1: The above data has been audited by CPAs.

Note 2: The Company has prepared standalone financial statements since 2019.

## Condensed standalone balance sheet

Unit: NT\$ thousand

Item		Year	Financial data for the most recent five years				
			2022	2021	2020	2019	2018
Current assets			347,404	280,015	526,432	566,349	502,061
Property, plant and equipment			651,073	531,523	549,021	547,615	557,720
Intangible assets			-	-	-	-	-
Other assets			443,466	447,924	105,302	110,873	97,150
Total assets			1,441,943	1,259,462	1,180,755	1,224,837	1,156,931
Current liabilities	Before distribution		257,586	270,716	250,868	176,894	133,241
	After distribution		257,586	344,966	271,868	260,894	217,241
Non-current liabilities			355,104	41,398	50,691	54,831	64,510
Total liabilities	Before distribution		612,690	312,114	301,559	231,725	197,751
	After distribution		612,690	386,364	322,559	315,725	281,751
Equity attributable to owners of parent company			829,253	947,348	879,196	993,112	959,180
Share capital			675,000	700,000	700,000	700,000	700,000
Capital surplus			9,252	-	-	-	-
Retained earnings	Before distribution		144,956	297,227	179,196	293,112	259,180
	After distribution		144,956	222,977	158,196	209,112	175,180
Other equity			45	-	-	-	-
Treasury stock			-	(49,879)	-	-	-
Non-controlling interests			-	-	-	-	-
Total equity	Before distribution		829,253	947,348	879,196	993,112	959,180
	After distribution		829,253	873,098	858,196	993,112	875,180

Note 1: The above data has been audited by CPAs.

Note 2: The Company has prepared standalone financial statements since 2019.

Note 3: Proposal for distribution of 2022 earnings: No earnings were distributed.

## Condensed consolidated statement of comprehensive income

Unit: NT\$ thousands, except for earnings per share,  
which is in NT\$

Item \ Year	Financial data for the most recent five years (Note 1)				
	2022	2021	2020	2019	2018
Operating revenue					431,826
Gross profit					61,127
Operating income					8,451
Non-operating income and expenses					89,914
Net income before tax					98,365
Net income of continuing operations in this period					90,715
Loss on discontinued operations					-
Net income (loss) for this period					90,715
Other comprehensive income for this period (net of tax)	(Note 2)	(Note 2)	(Note 2)	(Note 2)	(7,208)
Total comprehensive income for this period					83,507
Net income attributable to owners of the parent company					90,715
Net income attributable to non-controlling interests					-
Total comprehensive income attributable to owners of parent company					83,507
Total comprehensive income attributable to non-controlling interests					-
Earnings per share					1.30

Note 1: The above data has been audited by CPAs.

Note 2: The Company has prepared standalone financial statements since 2019.

## Condensed standalone (individual) statement of comprehensive income

Unit: NT\$ thousand

Item \ Year	Financial data for the most recent five years (Note 1)				
	2022	2021	2020	2019 (Note 2)	2018
Operating revenue	325,363	365,000	332,962	422,923	431,826
Gross profit	61,708	61,736	47,885	60,034	61,127
Operating income	17,250	18,589	9,497	11,092	8,451
Non-operating income and expenses	(55,204)	121,647	36,220	106,128	89,914
Net income before tax	(37,954)	140,236	(26,723)	117,220	98,365
Net income of continuing operations in this period	(41,198)	136,765	(26,723)	117,220	98,365
Loss on discontinued operations		-	-	-	-
Net income (loss) for this period	(41,198)	136,765	(28,429)	114,194	90,715
Other comprehensive income for this period (net of tax)	1,106	2,266	(1,487)	3,738	(7,208)
Total comprehensive income for this period	(40,092)	139,031	(29,916)	117,932	83,507
Net income attributable to owners of the parent company	(40,092)	139,031	(29,916)	117,932	83,507
Net income attributable to non-controlling interests			-	-	-
Total comprehensive income attributable to owners of parent company	(40,092)	139,031	(29,916)	117,932	83,507
Total comprehensive income attributable to non-controlling interests			-	-	-
Earnings per share	(0.61)	1.96	(0.41)	1.63	1.30

Note 1: The above data has been audited by CPAs.

Note 2: The Company has prepared standalone financial statements since 2019.

### (II) Names and audit opinions of the CPAs for the most recent five years

Year	Name of CPA	Audit opinion
2018	Wu, Han-Chi and Hsu, Sheng-Chung	Unqualified opinion
2019	Hsu, Sheng-Chung and Hsu, Yung-Chien	Unqualified opinion
2020	Feng, Min-Chuan and Hsu, Yung-Chien	Unqualified opinion
2021	Feng, Min-Chuan and Hsu, Yung-Chien	Unqualified opinion
2022	Hsu, Chen-Lung and Chen, Kuo-Tsung	Unqualified opinion (Note 1)

Note 1: Audited by other CPAs for the prior period.



## II. Financial analysis for the most recent five years

### (1) Financial analysis – consolidated

Year		Financial analysis for the most recent five years					
		2022	2021	2020	2019	2018	
Item							
Financial structure (%)	Debt ratio					17.09	
	Ratio of long-term capital to property, plant and equipment					149.03	
Solvency (%)	Current ratio					376.81	
	Quick ratio					315.50	
	Interest earned ratio					392.89	
Operating performance	Accounts receivable turnover (times)					7.48	
	Average collection period (days)					49	
	Inventory turnover (times)					4.46	
	Accounts payable turnover (times)					7.65	
	Average days in sales					82	
	Property, plant and equipment turnover (times)	(Note 2)	(Note 2)	(Note 2)	(Note 2)	0.79	
	Total assets turnover (times)					0.28	
Profitability	Return on assets (%)					5.95	
	Return on equity (%)					7.45	
	As a percentage of paid-in capital (%)	Operating income					1.21
		Net income before tax					14.05
	Profit margin (%)					21.01	
	Earnings per share (NT\$)					1.30	
Cash flow	Cash flow ratio (%)					(180.81)	
	Cash flow adequacy ratio (%)					(12.19)	
	Cash reinvestment ratio (%)					(62.06)	
Leverage	Operating leverage					5.79	
	Financial leverage					1.03	
Reasons for changes in financial ratios during the most recent two years. (unless increase or decrease is less than 20%) The Company did not prepare a consolidated financial statements for the most recent two years, so the analysis is exempted.							

Note 1: The data for the most recent five years has been audited by CPAs.

Note 2: The Company has prepared standalone financial statements since 2019.

(2) Financial analysis - standalone (individual)

Item		Year (Note 1)	Financial analysis for the most recent five years					2023 up to March 31, 2023	
			2022	2021	2020	2019	2018		
Financial structure (%)	Debt ratio		42.49	24.78	25.54	18.92	17.09		
	Ratio of long-term capital to property, plant and equipment		181.91	186.02	169.37	191.36	149.03		
Solvency (%)	Current ratio		134.87	103.43	209.84	320.16	376.81		
	Quick ratio		116.93	81.34	180.64	284.32	315.50		
	Interest earned ratio		(5.61)	66.81	(13.66)	93.52	392.89		
Operating performance	Accounts receivable turnover (times)		6.41	6.83	5.97	6.76	7.48		
	Average collection period (days)		57	53	61	54	49		
	Inventory turnover (times)		5.46	4.80	4.30	5.17	4.46		
	Accounts payable turnover (times)		12.91	11.93	10.85	10.25	7.65		
	Average days in sales		67	76	85	71	82		
	Property, plant and equipment turnover (times)		0.55	0.68	0.61	0.77	0.79		
	Total assets turnover (times)		0.24	0.30	0.28	0.36	0.28		
Profitability	Return on assets (%)		(2.71)	11.35	(2.24)	9.67	5.95		
	Return on equity (%)		(4.64)	14.98	(3.04)	11.70	7.45		
	As a percentage of paid-in capital (%)	Operating income		2.56	2.66	1.36	1.58	1.21	
		Net income before tax		(5.62)	20.03	(3.82)	16.75	14.05	
	Profit margin (%)		(12.66)	37.47	(8.54)	27	21.01		
	Earnings per share (NT\$)		(0.61)	1.96	(0.41)	1.63	1.30		
Cash flow	Cash flow ratio (%)		24.05	26.90	13.40	18.79	(180.81)		
	Cash flow adequacy ratio (%)		(4.69)	(7.20)	(11.40)	(11.90)	(12.65)		
	Cash reinvestment ratio (%)		(0.97)	5.04	(3.89)	(3.64)	(62.06)		
Leverage	Operating leverage		2.84	2.81	4.06	4.46	5.79		
	Financial leverage		1.50	1.13	1.23	1.12	1.03		
Reasons for changes in financial ratios during the most recent two years. (unless increase or decrease is less than 20%)									
<ol style="list-style-type: none"> <li>Increase in current ratio and quick ratio: It is mainly due to an increase in cash and cash equivalents due to the issuance of CB1 in 2022 as compared to the prior period.</li> <li>Decrease in interest earned ratio: It is mainly due to a loss in 2022.</li> <li>Decrease in net income before tax as a percentage of paid-in capital: It is mainly due to a loss in 2022.</li> <li>Decrease in profit margin: It is mainly due to a loss in 2022.</li> <li>Increase in cash flow ratio: It is mainly due to an increase in capital expenditure in 2022.</li> <li>Increase in cash flow adequacy ratio: It is mainly due to an increase in capital expenditure in 2022.</li> <li>Decrease in cash reinvestment ratio: It is mainly due to an increase in capital expenditure and payout of cash dividends in 2022.</li> </ol>									

Note 1: The earnings per share were calculated based on the weighted average number of issued ordinary shares after each year's capitalization of earnings or capitalization of capital surplus was retrospectively adjusted as per the capital increase percentage.

Note 2: The calculation formulas for financial analysis are as follows:

1. Financial structure:
  - (1) Debt ratio = Total liabilities/Total assets.
  - (2) Ratio of long-term capital to property, plant and equipment = (Total equity + Non-current liabilities)/Net property, plant, and equipment.
2. Solvency:
  - (1) Current ratio = Current assets/Current liabilities.
  - (2) Quick ratio = (Current assets - Inventory - Prepaid expenses)/Current liabilities.
  - (3) Interest earned ratio = Net income before tax and interest /Interest expenses in this period.
3. Operating performance:
  - (1) Accounts receivable turnover (including accounts receivable and notes receivable from operating activities) = Net sales/Balance of average accounts receivable in each period (including accounts receivable and notes receivable from operating activities).
  - (2) Average collection period (days) = 365/Accounts receivable turnover.
  - (3) Inventory turnover = Cost of sales/Average inventory.
  - (4) Accounts payable (including accounts payable and notes payable from operating activities) = Cost of sales/Balance of average accounts payable in each period (including accounts payable and notes payable from operating activities).
  - (5) Average days in sales = 365/Inventory turnover.
  - (6) Property, plant and equipment turnover = Net sales/Average net property, plant, and equipment.
  - (7) Total asset turnover = Net sales/Average total assets.
4. Profitability:
  - (1) Return on assets = [Profit or loss after tax + Interest expenses  $\times$  (1 - Tax rate)]/Average total assets.
  - (2) Return on equity = Profit or loss after tax/Average total equity.
  - (3) Profit margin = Profit or loss after tax/Net sales.
  - (4) Earnings per share = (Income or loss attributable to owners of parent company - Preference shares dividends)/Weighted average number of shares issued.
5. Cash flow:
  - (1) Cash flow ratio = Net cash flows from operating activities/Current liabilities.
  - (2) Cash flow adequacy ratio = Net cash flow from operating activities for the most recent five years/(Capital expenditures + Inventory increment + Cash dividends) for the most recent five years.
  - (3) Cash reinvestment ratio = (Net cash flow from operating activities - Cash dividends)/(Gross property, plant and equipment + Long-term investment + Other non-current assets + Working capital).
6. Leverage:
  - (1) Operating leverage = (Net operating revenue - Variable operating costs and expenses)/Operating income.
  - (2) Financial leverage = Operating income/(Operating income - Interest expenses).

### III. Audit Committee' Review Report on the most recent year's financial statements

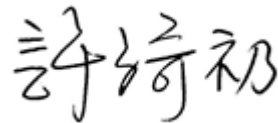
Hsin-Li Chemical Industrial Corp.  
Audit Committee's Review Report

The Board of Directors prepared the 2022 Business Report, parent-company only financial statements, and the deficit compensation statement, among which the parent-company only financial statements were audited by Hsu, Chen-Lung and Chen, Kuo-Tsung, CPAs at KPMG in Taiwan, by whom an audit report with an unqualified opinion was issued. We have reviewed the above business report, financial statements, and a statement of deficit compensation without identifying any misstatement, so we have issued a report as above in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act. Please proceed to review it.

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The 2023 Annual General Meeting of  
Hsin-Li Chemical Industrial Corp.

Hsu, Chi-Jeng,  
Convener of the Audit Committee



February 24, 2023

- IV. Financial Statements and Independent Auditors' Report for the most recent year: See Appendix I.
- V. Impact of any difficulty with financial solvency of the Company and its affiliate on the Company's financial position in the most recent year and up to the publication date of this annual report: None.

## Seven. Financial Position and Financial Performance Review Analysis and Risk Management

### I. Financial position and performance review and analysis

#### (I) Financial position

Specify the main reasons for major changes in the Company's assets, liabilities, and equity in the most recent two years, and the impact thereof. If the impact is considered material, please also explain the future response plan.

#### Financial position analysis

Unit: NT\$ thousand

Item \ Year	2022	2021	Increase (decrease) in amount	Increase (decrease) (%)
Current assets	347,404	280,015	67,389	24.07
Property, plant and equipment	651,073	531,523	119,550	22.49
Other assets	443,466	447,924	(4,458)	(1.00)
<b>Total assets</b>	<b>1,441,943</b>	<b>1,259,462</b>	<b>182,481</b>	<b>14.49</b>
Current liabilities	257,586	270,716	(13,130)	(4.85)
Non-current liabilities	355,104	41,398	313,706	757.78
<b>Total liabilities</b>	<b>612,690</b>	<b>312,114</b>	<b>300,576</b>	<b>96.30</b>
Share capital	675,000	700,000	(25,000)	(3.57)
Capital surplus	9,252	—	—	—
Retained earnings	144,956	297,227	(152,271)	(51.23)
Other equity	45	—	45	—
Non-controlling interests	—	—	—	—
<b>Total shareholders' equity</b>	<b>829,253</b>	<b>947,348</b>	<b>(118,095)</b>	<b>(12.47)</b>
<p>The main reasons for the material changes and the impact thereof and the future response plan: (only for the increase/decrease by 20% or more and the increase/decrease reaches NT\$10 million or more in amount)</p> <ol style="list-style-type: none"> <li>1. Increase in current assets: Cash on hand increased due to the issuance of corporate bonds.</li> <li>2. Increase in property, plant, and equipment: Due to the purchase of office buildings.</li> <li>3. Increase in non-current liabilities: Due to the issuance of the 1st unsecured convertible corporate bonds.</li> </ol>				

## (II) Financial performance

The main reasons for the material changes in operating revenue, net operating income, and net income before tax during the most recent two years, the estimated sales volume and the basis, as well as the potential impact on the Company's future finance and response plans

### 1. Financial performance analysis

Unit: NT\$ thousand

Indicators \ Year	2022	2021	Increase (decrease) in amount	Increase (decrease) (%)
Operating revenue, net	325,363	365,000	(39,637)	(10.86)
Operating costs	263,655	303,264	(39,609)	(13.06)
Gross profit	61,708	61,736	(28)	(0.05)
Operating expenses	44,458	43,147	1,311	3.04
Operating income	17,250	18,589	(1,339)	(7.20)
Non-operating income and expenses	(55,204)	121,647	(176,851)	(145.38)
Net profit (loss) before tax	(37,954)	140,236	(178,190)	(127.06)
Income tax expenses	3,244	3,471	(227)	(6.54)
Net income (loss) for this period	(41,198)	136,765	(177,963)	(130.12)
The main reasons for the material changes and the impact thereof and the future response plan: (only for the increase/decrease by 20% or more and the increase/decrease reaches NT\$10 million or more in amount)				
1. Reasons for increase (decrease) in non-operating income and expenses:				
(1) Dividend income for 2022 increased by NT\$8,482 thousand from the prior year.				
(2) The loss on financial assets at fair value through profit or loss for 2022 increased by NT\$177,221 thousand.				
2. Decrease in net income before tax: It is mainly due to a decrease in operating income and non-operating income and expenses.				

### 2. Estimated sales volume and the basis for estimation

We estimate that the sales volume may remain the same for following year. However, due to the outbreak of the Russo-Ukrainian War and the global inflation, the prices of raw materials may rise, so we will still adopt a conservative approach to our production and sales strategy to cope with the unstable economic situation.

### 3. The potential impact on the Company's future finance and response plans

We will continue to explore new markets, expand into more markets with our existing products, increase TPU environmental materials and x waterproof and breathable garment/full-lamination products, and develop new PUR equipment to replace the crude oil adhesive layer to reduce the solvent content in products, while continuing to invest in R&D to increase the added values of our products.

### (III) Cash flow

The analysis of the movement in the cash flow in the most recent year, the improvement plan for insufficient liquidity, and the analysis of cash flow in the coming year are as follows:

#### 1. Analysis of the movement in the cash flow in the most recent year

Unit: NT\$ thousand

Item	Year		Increase/ Decrease in amount	Increase/Dec rease (%)
	2022	2021		
Net cash inflow from operating activities	61,949	63,129	(1,180)	(1.87)
Net cash inflow (outflow) from investing activities	(205,803)	7,094	(212,897)	3001.09
Net cash inflow (outflow) from financing activities	209,794	(58,905)	268,699	(456.16)
Analysis of the movement in the cash flow in the most recent year:				
1. Investing activities: It is mainly due to cash outflow from investing activities for the purchase of property and equipment and the installation of solar power systems.				
2. Financing activities: It is mainly due to the issuance of unsecured convertible corporate bonds in 2022, resulting in an increase in net cash inflow.				

#### 2. Improvement plan for insufficient liquidity

Item	Year		Increase (decrease) (%)
	December 31, 2022	December 31, 2021	
Cash flow ratio (%)	24.05	26.90	(10.59)
Cash flow adequacy ratio (%)	(4.69)	(7.25)	35.31
Cash reinvestment ratio (%)	(0.97)	5.04	(119.25)
The reasons for the increase/decrease (%) (only for the increase/decrease by 20% or more):			
1. Increase in cash flow adequacy ratio: It is mainly due to an increase in the purchase of property and solar power facilities from the prior year.			
2. Decrease in cash reinvestment ratio: It is mainly due to an increase in the purchase of property and solar power facilities from the prior year.			

We have built close relations with domestic banks with excellent credit ratings. Therefore, with reasonable capital needs, we have no concern about insufficient financial liquidity or shortage of funds.

#### 3. Analysis of liquidity for the coming year

Unit: NT\$ thousand

Opening balance of cash (1)	Annual net cash inflow (outflow) from operating activities (2)	Annual other cash inflows (outflows) (3)	Cash flow surplus (deficit) amount (1)+(2)+(3)	Remedial measures for cash flow deficit	
				Investment plan	Financial management plan
89,438	(46,171)	(6,608)	36,659	-	-
1. Analysis of the movement in the cash flow in the coming year:					
(1) Operating activities: The net outflow from operating activities for the entire year is expected due to an increase in raw material prices and inflation and reduced consumer markets.					
(2) Other activities: Investing activities, such as purchase of office buildings and securities, are planned.					
2. Remedial measures for projected cash deficits and liquidity analysis: N/A.					

(IV) Impact of major capital expenditures on financial business in the most recent year: None.

(V) Investment policy for the most recent year, the main reasons for profit or loss, improvement plan, and investment plan for the following year:

1. Investment policy

The Company's investment in other businesses is mainly to meet business needs. We manage investees as per the investment cycle in the internal control system and the Procedures for Asset Acquisition and Disposal.

2. The main reasons for profit or loss on investees and improvement plan for the most recent year

December 31, 2022 Unit: NT\$ thousand

Year Item	Investment income (losses) recognized	Sharehold ing	Main reason for profit or loss	Improve ment plan
Luxe Bring Co., Ltd.	(742)	10.375%	The loss suffered is mainly due to the influence of inflation on costs and a decrease in market consumption.	Note

Note: The Company resigned as the director of Luxe Bring on August 11, 2022 and lost its significant influence on Luxe Bring. Thus, the Company has designated the investment in Luxe Bring measured at fair value through other comprehensive income.

3. Investment plan for the coming year: Solar energy facilities are being installed, and it is estimated to create economic benefits in 2023.

(VI) Other important matters: None.

## VI. Risk analysis and assessment for the most recent year and up to the publication date of this annual report:

(I) Risk factors

(1) Impact of interest rate/foreign exchange rate fluctuations and inflation on the Company's profit or loss and future countermeasures

Unit: NT\$ thousand

Item	2022	2021
Net revenue	325,363	365,000
Interest expenses	(5,746)	(2,131)
Interest expenses/Net revenue	(1.77)%	(0.58)%
Net foreign exchange gains (losses)	952	(397)
Foreign exchange gains (losses)/Net revenue	0.29%	(0.11)%

(2) The impact of interest rate, exchange rate changes, and inflation on the Company's profit or loss and future countermeasures

(A) Impact of interest rate fluctuations on the Company's profit or loss and future countermeasures: The exposure of the Company's financial assets and financial liabilities to interest rate risk is described in liquidity risk management.

The sensitivity analysis below is based on the exposure of derivative and non-derivative instruments to the interest rate risk at the reporting date. The method of analysis of liabilities at floating rates is to assume that the amount of liabilities outstanding at the reporting date is outstanding throughout the year. One percent increase or decrease in interest rates is the sensitivity rate used in reporting the interest rate risk to the Company's key management team and represents the management's assessment of the reasonable range of potential changes in interest rates.

If the interest rate increases or decreases by 1%, with all other variables held constant, the Company's 2022 net loss after tax would have increased or decreased by NT\$1,655 thousand, and 2021 net income after tax in 2010 would have decreased or increased by NT\$1,760 thousand, mainly due to the Company's borrowings at floating interest rates.

(B) Impact of exchange rate fluctuations on the Company's profit or loss and future countermeasures:

The exchange rate risk of the Company's monetary items mainly comes from the foreign exchange gains or losses on cash and cash equivalents, accounts receivable and other receivables, borrowings, accounts payable, and other payables, denominated in foreign currencies. On December 31, 2022 and 2021, when the NTD depreciated or appreciated by 1%



against USD and CNY, with all other factors held constant, the net loss after tax for 2022 would have increased or decreased by NT\$110 thousand, and the net income after tax for 2021 would have decreased or increased by NT\$46 thousand. The analyses in the two periods are on the same basis.

We mainly sell products to the domestic market, so exchange rate fluctuations have little impact on the Company. To reduce the impact of exchange rate fluctuations, we pay close attention to exchange rate trends and enhance our revenue and expenditure budgets and adopt a natural hedging approach. The currencies held are the same as those used for import and export transactions, and we made overseas purchases with foreign currencies earned from sales, to reduce the impact of exchange rate fluctuations on the Company in flexible manner.

(C) Impact of inflation on the Company's profit or loss and future countermeasures

In recent years, affected by the spread of the pandemic, major countries in the world have adopted quantitative easing policies, with upward pressure on inflation. However, we will continue to pay close attention to the impact of the price index on our procurement costs and adjust strategies in a timely manner to avoid the risk of inflation.

(II) The policy on engagement in high-risk and highly leveraged investment, loans to others, endorsements/guarantees provided, and derivatives trading, the main reason for profit or loss, and future countermeasures:

Adhering to the principle of prudent and pragmatic business operations, we do not engage in high-risk and highly leveraged investment, nor do we engage in derivative trading. We only focus on the development of our core business. We did not loan funds to others or provide endorsements/guarantees for others. We have established the Procedures for Asset Acquisition and Disposal, the Procedures for Loaning of Funds to Others, and the Operating Procedures for Endorsements and Guarantees, which were adopted by the resolution of the shareholders' meeting, as the basis for the Company's relevant transactions.

(III) Future R&D plans and estimated R&D expenses

Plans for the most recent year	Current progress	R&D expenses to be further spent	The main factors influencing the success of future R&D
High-solid A7000	<ol style="list-style-type: none"> <li>1. Softness</li> <li>2. Development of high-solid foams</li> <li>3. Continuous development of functional products</li> <li>4. Development of completely solvent-free products with PUR machines</li> <li>5. Low-solvent single films</li> <li>6. Development of applications for the furniture market</li> </ol>	NT\$3.5 million	<ol style="list-style-type: none"> <li>1. Solvent-free to protect the environment</li> <li>2. High physical properties</li> <li>3. Continuous development of raw materials for new functional products</li> <li>4. New paper grains, color water, and patterns.</li> </ol>
Medical beds	<ol style="list-style-type: none"> <li>1. The product testing was completed</li> <li>2. The formula and process conditions are adjusted to the needs of each fabric</li> </ol>	NT\$3 million	<ol style="list-style-type: none"> <li>1. The stability of the raw material production process should be controlled</li> <li>2. The width during machine processing should be controlled</li> <li>3. High frequency intensity should be controlled</li> </ol>
Functional PU films	<ol style="list-style-type: none"> <li>1. The promotion of samples is gradually becoming effective</li> <li>2. The formula and process conditions are adjusted to the needs of each fabric</li> <li>3. We have received ordered to produce some of the products</li> </ol>	NT\$2.5 million	<ol style="list-style-type: none"> <li>1. The stability of the raw material production process should be controlled</li> <li>2. The width during machine processing should be controlled.</li> <li>3. It can be applied to the surface layer with multiple functions, such as fire resistance or thermal insulation, etc</li> </ol>
Continuous development of TPU sports shoe materials	<ol style="list-style-type: none"> <li>1. Low DMF products</li> <li>2. Chameleon laser product development</li> <li>3. Fusion cut product development</li> <li>4. New grain development</li> <li>5. New colors of crushed leather</li> </ol>	NT\$1.5 million	<ol style="list-style-type: none"> <li>1. The physical property of TPU has reached the requirements</li> <li>2. Dye-colored water, effect, and grain variability</li> <li>3. Rollmac printing</li> </ol>
Development of reusable color-changing products	<ol style="list-style-type: none"> <li>1. Special thermoplastic thickener</li> <li>2. New colors of crushed leather</li> <li>3. Three-dimensional fabric grains</li> <li>4. Heat press embossing machine to show the fabric grains</li> <li>5. Low DMF</li> <li>6. Prints</li> </ol>	NT\$1.5 million	<ol style="list-style-type: none"> <li>1. The repeated flexing at room temperature should reach 100,000 times</li> <li>2. It is wear resistant, and the stripping quality meets the requirements</li> <li>3. There a variety of fabric grains</li> <li>4. There a variety of print patterns</li> <li>5. Development of packaging materials markets.</li> <li>6. Development of pearly-luster and chameleon colors.</li> </ol>
Sealing strips	<ol style="list-style-type: none"> <li>1. Search for suitable resin.</li> <li>2. Search for suitable PET film.</li> </ol>	NT\$3 million	<ol style="list-style-type: none"> <li>1. The product meets the market demand.</li> <li>2. Flatness and elasticity.</li> <li>3. It is multi-functional through combined processing.</li> </ol>

Development of silicone/rubber products	<ol style="list-style-type: none"> <li>1. We are seeking special materials.</li> <li>2. It should be anti-slip.</li> <li>3. It should be flame resistant.</li> </ol>	NT\$2.5 million	<ol style="list-style-type: none"> <li>1. The product meets the market demand.</li> <li>2. It should be multi-functional.</li> <li>3. 3. Solvent-free products</li> <li>4. Development for furniture and automotive markets.</li> </ol>
High opacity PU films for curtains	<ol style="list-style-type: none"> <li>1. Eco-friendly materials are used instead.</li> <li>2. High opacity is for lightproof feature.</li> </ol>	NT\$1.5 million	<ol style="list-style-type: none"> <li>1. The product meets the market demand.</li> <li>2. Sufficient opacity makes it suitable for curtains.</li> </ol>
PMMA decorative materials and automobile/scooter trims	<ol style="list-style-type: none"> <li>1. It is weather resistant without being delaminated in the environmental test.</li> <li>2. It is scratch-resistant and hydrolysis-resistant.</li> <li>3. We continue to develop functional products and are promoting the samples.</li> </ol>	NT\$2 million	<ol style="list-style-type: none"> <li>1. It should be able to be processed with excellent plasticity.</li> <li>2. There should be a variety of grains and dye-colored water.</li> <li>3. It should be able to be widely applied in the market and by a wide client base.</li> </ol>

(IV) The impact of the changes in important policies and regulatory environment at home or abroad on the Company's financial business, and countermeasures:

In response to the amendment to and the promulgation of important corporate governance policies and laws, the Company Act, and the Securities and Exchange Act by competent authorities, we have actively cooperated accordingly, and our management team has paid close attention to changes in important policies and laws at home and abroad and put forth countermeasures as appropriate. Therefore, they do not cause a significant impact on our finance.

(V) The influence of changes in technology (including cyber security risks) and the industry on the Company's financial business and countermeasures: None.

(VI) The impact of a change in corporate image on corporate crisis management and countermeasures: None.

(VII) Estimated benefits and potential risks of M&A and countermeasures: None.

(VIII) Estimated benefits and potential risks of plant expansion and countermeasures: None.

(IX) Risks of supplier or client concentration and countermeasures:

The Company's main clients and suppliers, as disclosed in this report, are our long-term partners.

Considering our operations and the growth trend of the industry, we will continue to increase the business with existing partners and work with new ones, to further diversify clients and suppliers.

(X) The impact of massive transfer or replacement of shares by the directors, supervisors, or shareholders each holding more than X % of the shares issued by the Company, the risk thereof, and countermeasures: None.

(XI) The impact of change in the Company's management right, the risk thereof, and countermeasures: None.

(XII) In the case of a court case or a non-contentious case, specify the names of the directors, supervisors, the President, the de facto responsible person, shareholders each holding more than 10% of company shares, or subsidiaries with final ruling made or still in major legal proceedings, non-contentious matters, or administrative disputes, and where the result thereof may significantly affect shareholders' equity or stock price, disclose the fact of the contentions, the amount involved, the commencement date of the proceedings, the major litigants in the proceedings, and the status as of the publication date of this report: None.

(XIII) Other important risks and countermeasures: None.

Information security risk

To ensure the security and stability of our information network, prevent unusual accidents in the information system and damage to computer files and data, and reinforce the protection of personal data, we have formulated relevant management regulations and procedures, while establishing layers of control and protection mechanisms in the network system, to effectively control the risks in our information systems and maintain continuous operations.

To ensure the security of using information and establish a reliable environment where information is used, we adopt measures for internal control as follows:

(I) Daily security control

1. The ERP system should be backed up regularly and the files stored in different locations to avoid damage or loss of the backup files due to accidents with backup records kept.
2. We test the backup data from time to time and record the test results, to ensure the availability of the backup data. We should not lend relevant backup data and documents to others except relevant departments and the IT Office.
3. To prevent the file data from being damaged by viruses, the IT personnel regularly detect

- viruses and update the anti-virus software at any time.
4. We regularly inspect and maintain hardware equipment, such as computers and sign a repair/maintenance contract with a service provider as needed.
  5. We have proper physical security measures in place for the data center to ensure the security of the hosts and systems.
  6. No smoking or food is allowed in the data center, and non-IT personnel are not allowed to enter the center without permission to ensure the security of the equipment.
  7. The firewall principles should be set appropriately as per the Company's environment. If the principles should be revised, relevant procedures should be established to ensure the security of our network environment.
- (II) Emergency response
1. When a problem occurs to an application system, the person in charge of the system should be notified immediately to address it.
  2. A disaster recovery plan is required to respond to telecommunication network outages caused by storms, earthquakes, or other natural or man-made disasters at any time.
  3. When an issue occurs to a computer host, we should immediately notify the service provider to come to understand the situation and address it on site.
  4. After the computer host is fixed, we should restore the data most recently backed up to the computer host if needed.

We attach great importance to the security of information security protection systems and processes to maintain the Company's operations; the IT Department is responsible for formulating internal information security policies and controlling internal information security, while auditing the information security system per year to ensure its normal operations.

To manage information security, the Management Department is responsible for managing the information security system to ensure its normal operation. During 2022 and up to the publication date of this annual report, we did not experience any major cyber attacks or information security incidents.

VII. Other material matters : None.

## **Eight. Special Matters**

- I. Relevant information on affiliates: N/A.
- II. Private placement of securities in the most recent year up to the publication date of this annual report: None.
- III. Subsidiaries holding or disposing of the Company's shares in the most recent year and up to the publication date of this annual report: None.
- IV. Other necessary supplementary information: None.

## **Nine. Event with a Material Impact**

- I. Any event specified in Article 36, paragraph 3, subparagraph 2 of the Securities and Exchange Act with a material impact on shareholders' equity or securities prices in the most recent year and up to the publication date of this annual report: None.

Appendix: Standalone Financial Statements  
audited and certified by CPAs for the most  
recent year

**Hsin-Li Chemical Industrial Corp.**  
**Financial Statements and Independent**  
**Auditors' Report**

**For the Years Ended December 31, 2022 and 2021**

**Address: No. 121, Huazong Rd., Xuanjia Dist., Tainan City**  
**Tel.: (06)783-5100**

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## Independent Auditors' Report

To the Board of Directors of Hsinli Chemical Industrial Corp.:

### Audit opinion

We have audited the accompanying balance sheets of Hsin-Li Chemical Industrial Corp. (the "Company") for the years ended December 31, 2022 and 2021 and the relevant statements of comprehensive income, changes in equity, and cash flows for the years then ended, and relevant notes, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying individual financial statements, based on our audit results, present fairly, in all material respects, the Company's financial position as of December 31, 2022 and 2021 and for the years then ended, and its financial performance and cash flows for the years then ended in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) (collectively, the "IFRSs") endorsed and issued into effect by the Financial Supervisory Commission (FSC).

### Basis for audit opinion

We conducted our audits in accordance with the Regulations Governing the Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" paragraph of our report. We are independent of the Company in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We are convinced that we have acquired enough and appropriate audit evidence to serve as the basis of audit opinion.

### Key audit matters

Key audit matters refer to the most vital matters in our audit of the financial statements of the Company for the year ended December 31, 2022, based on our professional judgment. These matters were addressed in our audit of the individual financial statements as a whole, and in forming our audit opinion. We do not express a separate opinion on these matters. The key audit matters we identified that should be communicated in the audit report are as follows:

#### Inventory valuation

Please refer to Note 4(7) to the financial statements for the accounting policy on inventory valuation; Note 5(1) thereto for the accounting estimates and assumption uncertainties of inventory valuation; Note 6(5) thereto for the details of inventory valuation.

#### Details of key audit matters:

The amount of the Company's inventory was recognized at the lower of cost or net realizable value. As the Company's product orders and sale prices are easily affected by market price fluctuations due to the fierce competition in the industry, resulting in a higher risk of inventory valuation or obsolescence loss; as such, there may be a risk that the cost of the inventory exceeds its net realizable value. Therefore, the net realizable value of the inventory is one of the key audit items when we audited the Company's financial statements.

Corresponding audit procedures:

The main audit procedures we carried out for the above key audit matter included reviewing the inventory aging report to analyze the reasonability of the changes in the inventory age; obtaining the inventory valuation statements to check the reasonability of the sale prices adopted by the management for inventory valuation; evaluating the allowance for inventory valuation loss recognized by the Company's management by the type of inventory, including implementing the sampling procedures to check the correctness of the inventory aging report and the statement of the inventory net realizable value and assessing if the management's disclosures of the inventory valuation were appropriate.

#### **Other matters**

The Company's 2021 financial statements were audited by other independent accountants, by whom an audit report, along with an unqualified opinion, was issued on February 25, 2022.

#### **Responsibilities of the management and the governing bodies for the financial statements**

The responsibilities of the management are to prepare the individual financial statements with fair presentation in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) (collectively referred to as "IFRSs") endorsed and issued into effect by the Financial Supervisory Commission (FSC) of the Republic of China and to maintain necessary internal control associated with the preparation in order to ensure that the individual financial statements are free from material misstatement arising from fraud or error.

In preparing the individual financial statements, the management is responsible for assessing the ability of the Company in continuing as a going concern, disclosing relevant matters, and adopting the going concern basis of accounting unless the management intends to liquidate the Company or cease the operations without other viable alternatives.

The Company's governing bodies (including its Audit Committee) are responsible for supervising the financial reporting process.

#### **Auditors' responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance on whether the individual financial statements as a whole are free from material misstatement arising from fraud or error and to issue an independent auditors' report. Reasonable assurance is a high-level assurance but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatement may arise from frauds or errors. If the amounts of misstatements, either separately or in aggregate, could reasonably be expected to influence the economic decisions of the users of the individual financial statements, they are considered material.

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

1. Identified and assessed the risks of material misstatement arising from fraud or error within the individual financial statements; designed and executed countermeasures in response to said risks, and obtained sufficient and appropriate audit evidence to provide a basis for our opinion. Fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Therefore, the risk of not detecting a material misstatement resulting from fraud is higher than the one resulting from error.
2. Understood the internal control related to the audit in order to design appropriate audit procedures under the circumstances, while not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluated the appropriateness of accounting policies adopted and the reasonableness of accounting estimates and relevant disclosures made by the management.



4. Concluded on the appropriateness of the management's adoption of the going concern basis of accounting based on the audit evidence obtained and whether a material uncertainty exists for events or conditions that may cast significant doubt over the Company's ability to continue as a going concern. 5. If we are of the opinion that a material uncertainty exists, we shall remind users of the individual financial statements to pay attention to relevant disclosures in said statements within our audit report. If such disclosures are inadequate, we need 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. Evaluated the overall presentation, structure, and content of the individual financial statements (including relevant notes), and whether the individual financial statements adequately present the relevant transactions and events.
6. Obtained sufficient and appropriate audit evidence concerning the financial information of investees using the equity method, to express an opinion on the individual financial statements. We were responsible for guiding, supervising, and performing the audit and forming an audit opinion about the Company.

The matters communicated between us and the governing bodies included the planned scope and times of the audit and material audit findings (including any material defects in internal control identified during the audit).

We also provided the governing bodies with a declaration that we have complied with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China regarding independence and communicated with them all relations and other matters that may possibly be regarded as detrimental to our independence (including relevant protective measures).

From the matters communicated with the governing body, we determined the key audit matters for the audit of the Company's individual financial statements for the year ended December 31, 2022. We have clearly indicated such matters in the auditors' report. Unless legal regulations prohibit the public disclosure of specific matters, or in extremely rare cases, where we decided not to communicate over specific items in the auditors' report for it could be reasonably anticipated that the negative effects of such disclosure would be greater than the public interest it brings forth.

KPMG, Taiwan

CPAs:

Hsu, Cheng-Lung

Chen, Kuo-Tsung

Competent  
Securities  
Authority  
Approval  
Document No.  
February 24, 2023

Jin-Guan-Zheng-VI No. 0960069825  
: (2000)-Tai-Cai-Zeng-(VI) No. 62474

**Hsin-Li Chemical Industrial Corp.**  
**Balance Sheets**  
**For the Years Ended December 31, 2022 and 2021**

Unit: NT\$ thousand

Assets	2022.12.31		2021.12.31		Liabilities and Equity	2022.12.31		2021.12.31	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>Current assets:</b>					<b>Current liabilities:</b>				
1100 Cash and cash equivalents (Note 6(1))	\$ 89,438	6	23,498	2	2100 Short-term borrowings (Notes 6(10) and 8)	\$ 179,910	13	220,000	18
1110 Financial assets at fair value through profit or loss - current (Note 6(2))	152,321	11	139,525	11	2130 Contract liabilities - current (Note 6(19))	212	-	608	-
1136 Financial assets at amortized cost - current (Notes 6(1) and 8)	8,050	1	-	-	2150 Notes payable	301	-	576	-
1150 Notes receivable, net (Note 6(3)(19))	11,137	-	10,984	1	2170 Accounts payable (Note 7)	17,701	1	22,252	2
1170 Accounts receivable, net (Notes 6(3)(19) and 7)	37,389	3	41,570	3	2200 Other payables	39,313	3	18,872	2
1200 Other receivables (Note 6(4))	456	-	437	-	2230 Current tax liabilities	1,596	-	3,751	-
1220 Current income tax assets	-	-	552	-	2280 Lease liabilities - current (Note 6(13))	378	-	905	-
130X Inventories (Note 6(5))	40,576	3	55,913	4	2320 Long-term liabilities due within one year or one business cycle (Note 6(12))	16,000	1	-	-
1470 Other current assets	7,237	-	6,736	1	2399 Other current liabilities - others	2,175	-	3,752	-
1476 Other financial assets - current (Notes 6(1) and 8)	800	-	800	-	<b>Total current liabilities</b>	<b>257,586</b>	<b>18</b>	<b>270,716</b>	<b>22</b>
<b>Total current assets</b>	<b>347,404</b>	<b>24</b>	<b>280,015</b>	<b>22</b>	<b>Non-current liabilities:</b>				
<b>Non-current assets:</b>					2500 Financial liabilities at fair value through profit or loss - non-current (Note 6(2)(11))	3,390	-	-	-
1510 Financial assets at fair value through profit or loss - non-current (Note 6(2))	341,191	24	344,239	28	2530 Corporate bonds payable (Note 6(11))	287,491	20	-	-
1517 Financial assets at fair value through other comprehensive income - non-current (Note 6(2))	926	-	-	-	2540 Long-term borrowings (Note 6(12))	27,000	2	-	-
1550 Investment using the equity method (Note 6(6))	-	-	1,623	-	2570 Deferred tax liabilities (Note 6(16))	31,448	3	31,475	2
1600 Property, plant and equipment (Notes 6(7) and 8)	651,073	45	531,523	42	2580 Lease liabilities - non-current (Note 6(13))	223	-	3,061	-
1755 Right-of-use assets (Note 6(8))	596	-	3,916	-	2645 Guarantee deposits received (Note 7)	2,572	-	2,584	-
1760 Investment property, net (Notes 6(9) and 8)	73,544	5	93,226	8	2670 Other non-current liabilities (Note 6(15))	2,980	-	4,278	1
1840 Deferred tax assets (Note 6(16))	1,426	-	1,746	-	<b>Total non-current liabilities</b>	<b>355,104</b>	<b>25</b>	<b>41,398</b>	<b>3</b>
1920 Guarantee deposits paid	1,785	-	2,134	-	<b>Total liabilities</b>	<b>612,690</b>	<b>43</b>	<b>312,114</b>	<b>25</b>
1995 Other non-current assets - others	23,998	2	1,040	-	<b>Equity (Note 6(11)(17)):</b>				
<b>Total non-current assets</b>	<b>1,094,539</b>	<b>76</b>	<b>979,447</b>	<b>78</b>	3100 Share capital	675,000	47	700,000	56
					3200 Capital surplus	9,252	-	-	-
					Retained earnings:				
					3310 Legal reserve	166,420	12	152,517	12
					3350 Undistributed earnings	(21,464)	(1)	144,710	11
						144,956	10	297,227	23
					3400 Other equity	45	-	-	-
					3500 Treasury stock	-	-	(49,879)	(4)
					<b>Total equity</b>	<b>829,253</b>	<b>57</b>	<b>947,348</b>	<b>75</b>
<b>Total assets</b>	<b>\$ 1,441,943</b>	<b>100</b>	<b>1,259,462</b>	<b>100</b>	<b>Total liabilities and equity</b>	<b>\$ 1,441,943</b>	<b>100</b>	<b>1,259,462</b>	<b>100</b>

(See Notes to Financial Statements)

Chairman: Chang, Yu-Ming

Manager: Cheng, Yu-Tang

Accounting Manager: Chang, Chen-Ching

**Hsin-Li Chemical Industrial Corp.**  
**Statements of Comprehensive Income**  
**For the Years Ended December 31, 2022 and 2021**

Unit: NT\$ thousand

		2022		2021	
		Amount	%	Amount	%
4000	<b>Operating revenue (Notes 6(19) and 7)</b>	\$ 325,363	100	365,000	100
5000	<b>Operating costs (Notes 6(5)(15)(20) and 7)</b>	263,655	81	303,264	83
5900	<b>Gross profit</b>	61,708	19	61,736	17
<b>Operating expenses (Notes 6(15)(20) and 7):</b>					
6100	Marketing expenses	12,759	4	9,454	3
6200	Management fees	26,747	8	26,062	7
6300	Research and development expenses	5,345	2	7,631	2
6450	Gain on reversal of expected credit impairment losses	(393)	-	-	-
6000	<b>Total operating expenses</b>	44,458	14	43,147	(12)
<b>Net operating income</b>		17,250	5	18,589	5
<b>Non-operating income and expenses (Notes 6(6)(11)(21) and 7):</b>					
7100	Interest revenue	305	-	24	-
7010	Other income	17,828	5	15,111	4
7020	Other gains and losses	(66,849)	(21)	108,562	30
7050	Financial cost	(5,746)	(2)	(2,131)	(1)
7060	Share of profit or loss of affiliates recognized using the equity method	(742)	-	81	-
7000	<b>Total non-operating revenue and expenditure</b>	(55,204)	(18)	121,647	33
7900	<b>Net profit (loss) before tax</b>	(37,954)	(13)	140,236	38
7950	<b>Less: Income tax expenses (Note 6(16))</b>	3,244	1	3,471	1
8200	<b>Net income (loss) for this period</b>	(41,198)	(14)	136,765	37
8300	<b>Other comprehensive income (Note 6(2)(15)(16))</b>				
8310	<b>Items not reclassified to profit or loss</b>				
8311	Remeasurement of defined benefit plans	1,326	-	2,833	-
8316	Unrealized valuation gains or losses on investment in equity instruments at fair value through other comprehensive income	45	-	-	-
8399	Less: Income tax related to items not subsequently reclassified to profit or loss	(265)	-	(567)	-
8300	<b>Other comprehensive income for this period (net of tax)</b>	1,106	-	2,266	-
8500	<b>Total comprehensive income for this period</b>	<u>\$ (40,092)</u>	<u>(14)</u>	<u>139,031</u>	<u>37</u>
9750	<b>Basic earnings per share (unit: NT\$) (Note 6(18))</b>	<u>\$ (0.61)</u>		<u>1.96</u>	
9850	<b>Diluted earnings per share (unit: NT\$) (Note 6(18))</b>	<u>\$ (0.61)</u>		<u>1.96</u>	

(See Notes to Financial Statements)

Chairman: Chang, Yu-Ming    Manager: Cheng, Yu-Tang    Accounting Manager:  
Chang, Chen-Ching

**Hsin-Li Chemical Industrial Corp.**  
**Statements of Changes in Equity**  
**For the Years Ended December 31, 2022 and 2021**

Unit: NT\$ thousand

	Ordinary share capital	Capital surplus	Legal reserve	Retained earnings		Other equity items	Treasury stock	Total equity
				Undistributed earnings		Unrealized valuation gains (losses) on financial assets at fair value through other comprehensive income		
<b>Balance as at January 1, 2021</b>	\$ 700,000	-	152,517	26,679	-	-	-	879,196
Net income for this period	-	-	-	136,765	-	-	-	136,765
Other comprehensive income for this period	-	-	-	2,266	-	-	-	2,266
Total comprehensive income for this period	-	-	-	139,031	-	-	-	139,031
Earnings appropriation and distribution:								
Cash dividends from ordinary shares	-	-	-	(21,000)	-	-	-	(21,000)
Treasury stock repurchased	-	-	-	-	-	-	(49,879)	(49,879)
<b>Balance as at December 31, 2021</b>	700,000	-	152,517	144,710	-	-	(49,879)	947,348
Net loss for this period	-	-	-	(41,198)	-	-	-	(41,198)
Other comprehensive income for this period	-	-	-	1,061	45	-	-	1,106
Total comprehensive income for this period	-	-	-	(40,137)	45	-	-	(40,092)
Earnings appropriation and distribution:								
Appropriation for legal reserve	-	-	13,903	(13,903)	-	-	-	-
Cash dividends from ordinary shares	-	-	-	(74,250)	-	-	-	(74,250)
	-	-	13,903	(88,153)	-	-	-	(74,250)
Recognition of equity components due to the issuance of convertible corporate bonds -from stock options	-	9,252	-	-	-	-	-	9,252
Treasury stock repurchased	-	-	-	-	-	-	(13,005)	(13,005)
Treasury shares canceled	(25,000)	-	-	(37,884)	-	-	62,884	-
<b>Balance as at December 31, 2022</b>	\$ 675,000	9,252	166,420	(21,464)	45	-	-	829,253

(See Notes to Financial Statements)

Chairman: Chang, Yu-Ming

Manager: Cheng, Yu-Tang

Accounting Manager: Chang, Chen-Ching

**Hsin-Li Chemical Industrial Corp.**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2022 and 2021**

Unit: NT\$ thousand

	2022	2021
<b>Cash flow from operating activities:</b>		
<b>Net income (loss) before tax for this period</b>	\$ (37,954)	140,236
<b>Adjustment items:</b>		
Income and expenses		
Depreciation expenses	20,105	22,366
Amortization expenses	250	410
Gain on reversal of expected credit impairment losses	(393)	-
Net loss (gain) on financial assets and liabilities at fair value through profit or loss	67,842	(109,379)
Interest expenses	5,746	2,131
Interest revenue	(305)	(24)
Dividend income	(17,517)	(9,035)
Share of loss (profit) of affiliates and joint ventures recognized using the equity method	742	(81)
Loss on disposal of property, plant and equipment	-	320
Lease modification gain	(41)	-
Total income and expenses	76,429	(93,292)
Movements in assets/liabilities related to operating activities:		
Increase in notes receivable	(153)	(2,429)
Decrease in accounts receivable	4,574	3,488
Increase in other receivables	(28)	-
Decrease in inventories	15,337	14,567
Increase in other current assets	(501)	(2,455)
Increase (decrease) in contract liabilities	(396)	448
Decrease in notes payable	(275)	(11,914)
Increase (decrease) in accounts payable	(4,551)	6,722
Increase in other payables	762	6,996
Increase (decrease) in other current liabilities	(1,577)	1,321
Increase (decrease) in net defined benefit liability	28	(7,233)
Other non-current liabilities	-	22
Total adjustment items	89,649	(83,759)
Cash inflow from operations	51,695	56,477
Interest received	314	24
Dividends received	17,517	9,035
Interest paid	(2,758)	(2,130)
Income tax paid	(4,819)	(277)
<b>Net cash inflow from operating activities</b>	61,949	63,129
<b>Cash flow from investing activities:</b>		
Acquisition of financial assets at amortized cost	(8,050)	-
Acquisition of financial assets at fair value through profit or loss	(125,867)	(143,221)
Disposal of financial assets at fair value through profit or loss	50,737	152,925
Acquisition of property, plant and equipment	(99,594)	(4,848)
Proceeds from disposal of property, plant and equipment	-	1,826
Decrease in guarantee deposits paid	349	290
Decrease (increase) in other non-current assets	(23,378)	122
<b>Net cash inflow (outflow) from investing activities</b>	(205,803)	7,094
<b>Cash flow from financing activities:</b>		
Increase in short-term borrowings	516,042	483,000
Decrease in short-term borrowings	(556,132)	(471,000)
Issuance of corporate bonds	294,665	-
Long-term borrowings	50,000	-
Repayment of long-term borrowings	(7,000)	-
Increase (decrease) in guarantee deposits received	(12)	653
Lease principal repayment	(514)	(679)
Cash dividends paid out	(74,250)	(21,000)
Cost of treasury stock repurchase	(13,005)	(49,879)
<b>Net cash inflow (outflow) from financing activities</b>	209,794	(58,905)
Increase in cash and cash equivalents for this period	65,940	11,318
Opening balance of cash and cash equivalents	23,498	12,180
Ending balance of cash and cash equivalents	\$ 89,438	23,498

(See Notes to Financial Statements)

Chairman: Chang, Yu-Ming

Manager: Cheng, Yu-Tang

Accounting Manager: Chang,  
Chen-Ching

**Hsin-Li Chemical Industrial Corp.**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2022 and 2021**  
(Unless otherwise stated, all amounts are in NT\$ thousand)

**I. Organization and operations**

Hsin-Li Chemical Industrial Corp. (hereinafter referred to as "the Company") was incorporated on June 22, 1973 with the approval of the Ministry of Economic Affairs with the registered address at No. 121, Huazong Rd., Xuanjia Dist., Tainan City. The Company mainly engages in the manufacturing and trading of synthetic leather, and plastic leather. The Company's ultimate parent company is Sun Yad Construction Co., Ltd.

**II. Date and Procedure for Approval of Financial Statements**

The financial statements were approved by the Board of Directors for release on February 24, 2023.

**III. Application of New and Revised International Financial Reporting Standards**

(I) Impact of adoption of new and revised standards and interpretations endorsed by the FSC

The Company has adopted the amended IFRSs below since January 1, 2022, which did not cause a material impact on the financial statements.

- Amendments to IAS 16 "Property, Plant and Equipment — Proceeds before Intended Use"
- Amendments to IAS 37 "Onerous Contracts — Cost of Fulfilling a Contract"
- Annual Improvements to IFRSs 2018-2020 Cycle
- Amendments to IFRS 3 "Reference to the Conceptual Framework"

(II) Impact of IFRSs, as endorsed by the FSC, not yet adopted

The new amendments to the IFRSs below will come into effect on January 1, 2023, and the potential impacts are detailed below:

1. Amendments to IAS 1 "Disclosure of Accounting Policies"

The main amendments include:

- Require companies to disclose their material accounting policy information, instead of significant accounting policies;
- Accounting policy information relating to immaterial transactions, other events or conditions need not be disclosed because it is "immaterial".
- Accounting policy information relating to material transactions, other events or conditions may not always be material.

The Company is evaluating and reviewing the accounting policies that should be disclosed in the financial statements to conform to the amendments.

2. Others

The new amendments to the standards below are not expected to cause a material impact on financial reporting.

- Amendments to IAS 8 "Definition of Accounting Estimates"
- Amendments to IAS 12 "Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction"

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

### (III) New and revised standards and interpretations not yet endorsed by the FSC

The standards and interpretations that have been issued and revised by the International Accounting Standards Board (IASB) but have not yet been endorsed by the FSC and may be relevant to the Company are as follows:

<u>New and amended standards</u>	<u>Major amendment details</u>	<u>Effective date announced by IASB</u>
Amendments to IAS 1 “Classification of Liabilities as Current or Non-Current”	Under existing IAS 1 requirements, companies classify a liability as current when they do not have an unconditional right to defer settlement for at least 12 months after the reporting date. In the amendments, the requirement for a right to be unconditional has been removed, and instead now IASB requires that a right to defer settlement must exist at the reporting date and have substance.  The amendments also clarify how a company classifies a liability that can be settled in its own equity instruments (such as convertible corporate bonds).	January 1, 2024
Amendments to IAS 1 “Non-current Liabilities with Covenants”	After certain aspects of the 2020 amendments to IAS 1 were reconsidered, the new amendments reconfirmed that only covenants with which a company must comply on or before the balance sheet date affect the classification of a liability as current or non-current.  Covenants with which the company must comply after the balance sheet date (i.e. future covenants) do not affect a liability’s classification at that date. However, when non-current liabilities are subject to future covenants, companies will now need to disclose information to help users understand the risk that those liabilities could become repayable within 12 months after the balance sheet date.	January 1, 2024

The Company is evaluating the impact of the above standards and interpretations on its financial position and operating performance and will disclose relevant impacts when completing the evaluation.

The Company does not expect that other new and revised standards that have not yet been endorsed will have a material impact on the financial statements.

- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”
- IFRS 17 Insurance Contracts and amendments to IFRS 17
- Amendments to IFRS 16, “Lease Liability in a Sale and Leaseback”

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

### IV. Summary of Significant Accounting Policies

The main accounting policies used in the preparation of the financial statements are summarized below. Unless otherwise stated, the accounting policies below have been applied consistently throughout the reporting periods presented in the financial statements.

#### (I) Statement of compliance

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

#### (II) Basis of preparation

##### 1. Basis of measurement

The financial statements have been prepared at historical cost except the important items in the balance sheet below:

- (1) Financial assets at fair value through profit or loss;
- (2) Financial assets at fair value through other comprehensive income; and
- (3) Net defined benefit liability is measured at the present values of defined benefit obligations and the effect of the upper limit mentioned in Note 4, less the fair value of pension fund assets.

##### 2. Functional currency and currency presented

The financial statements are presented in the Company's functional currency, i.e., New Taiwan dollar (NTD). All financial information presented in NTD is in the unit of NT\$ thousand.

#### (III) Foreign currencies

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing on the transaction dates. On the end date of each reporting period (hereinafter referred to as the "balance sheet date"), foreign currency monetary items are translated into the functional currency at the exchange rates prevailing on the balance sheet date. Foreign currency non-monetary items measured at fair value are translated into the functional currency at the exchange rate prevailing on the day of measurement. Foreign currency non-monetary items measured at historical cost are translated at the exchange rate prevailing on the transaction date.

Foreign currency translation differences arising from a translation are normally recognized in profit or loss, except for the circumstances below where such differences are recognized in other comprehensive income:

- (1) Equity instrument designated at fair value through other comprehensive income;
- (2) Financial liabilities designated as net investment hedge for foreign operations, which are within the effective scope of hedging; or
- (3) Qualified cash flow hedge, which within the effective scope of hedging.

#### (IV) Criteria for classification of current and non-current assets and liabilities

Assets that meet one of the following criteria are classified as current assets; all other assets that are not current assets are classified as non-current assets:

1. Assets expected to be realized in the ordinary course of business, or intended to be sold or consumed;
2. Assets held primarily for the purpose of trading;
3. Assets expected to be realized within 12 months after the balance sheet date; or
4. Assets that are cash or cash equivalents, excluding assets restricted from being exchanged or used to settle a liability for at least 12 months after the balance sheet date.



## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

Liabilities that meet one of the following criteria are classified as current liabilities; all other liabilities that are not current liabilities are classified as non-current liabilities:

1. Liabilities expected to be settled in the ordinary course of business;
2. Liabilities held primarily for the purpose of trading;
3. Liabilities expected to be settled within 12 months after the balance sheet date; or
4. Liabilities with a repayment deadline that cannot be unconditionally deferred for at least 12 months after the balance sheet date. However, the terms of a liability that could, at the option of the counterparty, result in its settlement by issue of equity instruments do not affect its classification.

### (V) Cash and cash equivalents

Cash includes cash on hand and demand deposits. Cash equivalents refer to short-term and highly liquid investments that can be converted into a certain amount of cash at any time and the risk of value changes is very small. Time deposits that meet the aforementioned definition and whose purpose is to satisfy short-term cash commitments in operations are classified as cash equivalents.

### (VI) Financial instruments

Accounts receivable and debt securities issued are initially recognized when incurred. All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual terms of the financial instruments. Financial assets (except receivables that do not contain significant financial components) or financial liabilities that are not measured at fair value through profit or loss are initially measured at fair value plus transaction costs directly attributable to the acquisition or issuance. Accounts receivable that do not contain significant financial components are initially measured at transaction prices.

#### 1. Financial assets

If the purchase or sale of financial assets conforms to the regular way purchase or sale, the Company shall adopt trade date accounting or settlement date accounting consistently to recognize the purchase or sale of the financial assets in the same category.

When financial assets are initially recognized, they are classified as financial assets at amortized cost, investment in equity instruments at fair value through other comprehensive income, and financial assets at fair value through profit or loss. The Company only reclassifies all affected financial assets from the first day of next reporting period when changing the financial assets management model.

#### (1) Financial assets at amortized cost

If the financial assets are in alignment with the following criteria and not designated as at fair value through profit or loss, such assets are measured at amortized cost:

- Held under a certain business model, of which the objective is to collect contractual cash flows by holding the financial assets.
- The cash flows on specific dates specified in the contractual terms are solely payments for the principal and interest on the principal amount outstanding.

Such assets are subsequently amortized by the effective interest method plus or less the initially recognized amount using the effective interest method, adjusted for the allowance for losses measured at amortized cost. Interest income, foreign exchange gains or losses, and impairment losses are recognized in profit or loss. Upon derecognition, the gain or loss is included in profit or loss.

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

### (2) Financial assets at fair value through other comprehensive income

Upon initial recognition, the Company may make an irrevocable election to recognize the subsequent changes in the fair value of investments in equity instruments not held for trading in other comprehensive income. The foregoing election is made based on an instrument-by-instrument basis.

Investments in equity instruments are subsequently measured at fair value. Dividend income is recognized in profit or loss, unless it clearly represents a recovery of part of the investment cost. The remaining net gain or loss is recognized in other comprehensive income and not reclassified to profit or loss.

Dividend income from equity investments is recognized on the date the Company is entitled to receive the dividend (usually on the ex-dividend date).

### (3) Financial assets at fair value through profit or loss

Financial assets that are not measured at amortized cost or at fair value through other comprehensive income are measured at fair value through profit or loss, including derivative financial assets. At the time of initial recognition, to eliminate or significantly reduce the accounting mismatch, the Company may irrevocably designate financial assets in line with the criteria for being measured at amortized cost or at fair value through other comprehensive income as at fair value through profit or loss.

Such assets are subsequently measured at fair value, and the net gain or loss thereof (including any dividend and interest income) is recognized in profit or loss.

### (4) Impairment of financial assets

The Company recognizes an allowance for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, financial assets at amortized cost, notes and accounts receivable, other receivables, finance lease receivables, guarantee deposits paid, and other financial assets), investment in debt instruments at fair value through other comprehensive income, accounts receivable, and contract assets

The allowance for losses for the financial assets below are measured at 12-month expected credit losses, and the allowance for losses for the rest are measured at the lifetime expected credit losses:

- Debt securities are judged to be of low credit risk on the balance sheet date; and
- The credit risk of other debt securities and cash in bank (i.e. the risk of default occurring beyond the expected duration of the financial instruments) has not increased significantly since the initial recognition.

Allowance for losses on accounts receivable are measured at lifetime expected credit losses.

When determining whether the credit risk has increased significantly since the initial recognition, the Company takes into account reasonable and corroborative information (obtainable without undue cost or effort), including qualitative and quantitative information, and analyzes it based on the Company's historical experience, credit assessments, and forward-looking information.

If a contract payment is overdue for more than 30 days, the Company assumes that the credit risk of a financial asset has increased significantly.

If a contract payment is overdue for more than 180 days, or the borrower is unlikely to fulfill its credit obligations and pay the full amount to the Company, it will deem the financial asset in default.

Lifetime expected credit losses refer to the expected credit losses arising from all possible default events during the expected duration of a financial instrument.

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

Twelve-month expected credit losses are expected credit losses on a financial instrument arising from possible default events within 12 months after the balance sheet date (or a shorter period if the expected duration of the financial instrument is less than 12 months).

The maximum period over which expected credit losses are measured is the maximum contract period over which the Company is exposed to credit risk.

Expected credit losses are an estimate of weighted probability of credit losses over the expected lifetime of a financial instrument. Credit losses are measured at the present value of all cash shortfalls, that is the difference between the cash flows that the Company can receive as per the contract and the cash flows that the Company expects to receive. Expected credit losses are discounted at the effective interest rate on the financial asset.

The Company assesses whether financial assets at amortized cost and debt securities at fair value through other comprehensive income are credit-impaired on each balance sheet date. A financial asset is credit-impaired when one or more events have occurred with an adverse effect on the estimated future cash flows of the financial asset. Evidence that indicates a financial asset is credit-impaired includes the observable information below:

- The borrower or issuer encountered significant financial difficulties;
- Default, such as delayed or overdue payment for more than 180 days;
- The Company, for financial or contractual reasons related to the borrower's financial difficulties, grants the borrower a concession that the borrower would not otherwise consider;
- The borrower is likely to file for bankruptcy or other financial restructuring; or

The active market for the financial asset disappears due to financial difficulties.

The allowance for losses for a financial asset measured at amortized cost is deducted from the carrying amount of the asset. The allowance for losses on investment in debt instruments at fair value through other comprehensive income is adjusted in profit or loss and recognized in other comprehensive income (without the carrying amounts of such assets being reduced).

When the Company cannot reasonably expect to recover the whole or part of an financial asset, it directly reduces the total carrying amount of the financial asset. Regarding individuals, the Company, based on past recovery experience of similar assets, writes off the total carrying amount of an financial asset when it is overdue for 180 days. Regarding companies, the Company analyzes the timing and amount of write-off for each company on the basis of whether it can reasonably expect to recover the financial asset. The Company does not expect a material reversal of an amount written off. However, financial assets that have been written off are still enforceable to be aligned with the Company's procedures for recovering overdue amounts.

### (5) Derecognition of financial assets

The Company derecognizes a financial asset when the contractual rights to the cash inflow from the financial asset expire, when it transfers the financial assets and substantially all the risks and rewards of ownership of the asset to another party, or when it has not transferred, retained substantially all the risks and rewards of ownership, and retained control over the financial asset.

For transfer of transfer financial assets, if the Company has retained all or substantially all the risks and rewards of ownership of the asset to be transferred, it continues to recognize the asset on the balance sheet.

## 2. Financial liabilities and equity instruments

### (1) Classification of liabilities and equity

Debt and equity instruments issued by the Company are classified as financial liabilities or equity as per the substance of a contractual agreement and the definition of financial liabilities and equity instruments.

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

### (2) Equity transactions

An equity instrument refers to any contract that demonstrates the Company's remaining interest in assets less all of its liabilities. Equity instruments issued by the Company are recognized at the acquisition price less direct issue costs.

### (3) Treasury stock

When the Company repurchases the recognized equity instruments, the consideration paid (including directly attributable costs) is recognized as a decrease in equity. The shares repurchased are classified as treasury shares. When the treasury shares are subsequently sold or reissued, the amount received is recognized as an increase in equity, and the gain or loss on the transaction is recognized in capital surplus or retained earnings (if the capital surplus is insufficient to offset the amount).

### (4) Hybrid financial instrument

The hybrid financial instrument issued by the Company is a convertible corporate bond (denominated in NTD); the holders have the option to convert it into equity, and the number of issued shares will not change with the movements in its fair value.

The liability of the hybrid financial instrument is initially recognized at the fair value of a similar liability excluding the conversion rights. The initially recognized amount of the equity of the hybrid financial instrument is measured at the difference between the fair value of the instrument as a whole and that of the liability. Any directly attributable transaction costs are apportioned to the liability and the equity in proportion to the initial carrying amounts of the liability and the equity.

After initial recognition, the liability of the hybrid financial instrument is measured at amortized cost using the effective interest method. The equity of the hybrid financial instrument is not remeasured after initial recognition.

Interest related to financial liabilities is recognized in profit or loss. Financial liabilities are reclassified to equity upon conversion and the conversion is not recognized in profit or loss.

### (5) Financial liabilities

Financial liabilities are classified as those at amortized cost and at fair value through profit or loss. Financial liabilities are classified as at fair value through profit or loss if they are held for trading, derivatives, or designated upon initial recognition. Financial liabilities at fair value through profit or loss are measured at fair value and relevant net gains and losses, including any interest expense, are recognized in profit or loss.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and exchange gains or losses are recognized in profit or loss. Any gain or loss is also recognized in profit or loss upon derecognition.

### (6) Derecognition of the financial liabilities

The Company derecognizes financial liabilities when contractual obligations have been fulfilled, cancelled, or expired. When the terms of financial liabilities are revised and the cash flow of the revised liabilities is significantly different, the initial financial liabilities are derecognized, and new financial liabilities are recognized at fair value as per the revised terms.

When a financial liability is derecognized, the difference between its carrying amount and the total consideration paid or payable (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

### (7) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and presented in an net amount on the balance sheet only when the Company has legally enforceable rights to offset financial assets and financial liabilities and intends to settle on a net basis or to realize assets and settle liabilities simultaneously.

### (VII) Inventories

Inventories are measured at the lower of cost or net realizable value. Costs include the costs of acquisition, production, or processing and other costs incurred to bring them to a location and condition ready for use and are calculated using the weighted average method. The costs of finished goods and work-in-progress inventories include production overhead apportioned appropriately based on normal production capacity.

Net realizable value is an estimated selling price in the ordinary course of business, less the estimated cost of completion and the estimated costs necessary to make the sale.

### (VIII) Investment in affiliates

Affiliates are those, over which the Company has material influence on their financial and business policies and does not have control or joint control.

The Company adopts the equity method to recognize the equity in affiliates. With the equity method, they are initially recognized at cost, and investment costs include transaction costs. The carrying amount of an investment in an affiliate includes the goodwill identified at the time of the initial investment, less any cumulative impairment losses.

From the date of the Company gaining material influence on an affiliate to the date of losing material influence, its accounting policies on financial reporting are adjusted to be consistent with the Company's; the Company recognizes profit and loss and other comprehensive income of an affiliate in proportion to the equity percentage. When equity changes occur to an affiliate, which is not related to profit or loss and other comprehensive income, and said changes do not affect an affiliate's shareholding, the Company recognizes all equity changes in "capital surplus" in proportion to the Company's shareholding.

Unrealized profits and losses arising from transactions between the Company and an affiliate are recognized in the financial statements only within the scope of non-related party investors' equity in the affiliate.

When the Company's share of loss of an affiliate in proportion to be recognized is equal to or exceeds its equity in the affiliate, it stops recognizing its losses, and it only recognizes additional losses and relevant liabilities when a legal duty or a constructive obligation occurs or a payment has been made on behalf of the investee.

The Company stops adopting the equity method from the date its investment ceases to be in an affiliate and measures the retained equity at fair value. The difference between the fair value of the retained equity, plus the disposal price, and the carrying amount of the investment on the date the equity method ceases to be adopted is recognized in current profit or loss. For all amounts previously recognized in other comprehensive income related to such an investment, the accounting treatment is on the same basis as that adopted by the affiliate to directly dispose of relevant assets or liabilities. That is, the gains or losses previously recognized in other comprehensive income need to be reclassified to profit or loss when the relevant assets or liabilities are disposed of, so when a company ceases to adopt the equity method, the gains or losses are reclassified from equity to profit or loss. If the Company's ownership interests in an affiliate decrease, but it continues adopt the equity method, the Company will reclassify and adjust the gains or losses previously recognized in other comprehensive income related to the decrease in ownership interests in proportion to the percentage of the decrease in the above-mentioned manner.

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

### (IX) Investment property

Investment property refers to property held for rent earning, asset appreciation, or both, rather than for sales, production, provision of goods or services, or administrative purposes in the ordinary course of business. Investment property is initially measured at cost and subsequently measured at cost, less accumulated depreciation and accumulated impairment. The depreciation method, useful life, and residual value are handled in accordance with the rules of property, plant and equipment.

Gains or losses on the disposal of investment property (based on the difference between the net disposal price and the carrying amount of the property) are recognized in profit or loss.

Rental income from investment property is recognized in operating revenue on a straight-line basis over the lease term. The lease incentive given is recognized as part of the rental income over the lease term.

### (X) Property, plant and equipment

#### 1. Recognition and measurement

Property, plant and equipment are measured at cost (including capitalized borrowing costs), less accumulated depreciation and any accumulated impairment.

When the useful lives of material components of property, plant and equipment are different, they are treated as separate items (major components) of property, plant and equipment.

Gain or loss on disposal of property, plant and equipment is recognized in profit or loss.

#### 2. Subsequent cost

Subsequent expenditures are capitalized only when it is probable that the future economic benefits will flow to the Company.

#### 3. Depreciation

Depreciation is calculated at the cost of an asset less its residual value and is recognized in profit or loss on a straight-line basis over the estimated useful life of each component.

Land is not depreciated.

The estimated useful life for the current and comparative periods are as follows:

(1) Land improvement	7–15 years
(2) Buildings	5–60 years
(3) Machinery and equipment (including instruments)	5–9 years
(4) Transportation equipment	5–6 years
(1) Other equipment (including electrical appliances)	2–16 years

The Company reviews the depreciation method, useful life, and residual value on each balance sheet date and makes appropriate adjustments if necessary.

### (XI) Leasing

#### 1. Judgment about leasing

The Company assesses whether a contract is or contains a lease on the date of the establishment the contract and determines a contract is or contains a lease if the contract transfers control over the use of the identified asset for a period of time in exchange for consideration.

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

### 2. The Company as a lessee

The Company recognizes the right-of-use asset and lease liability on the lease commencement date. The right-of-use asset is initially measured at cost, which includes the initially measured amount of the lease liability, adjusted for any lease payments paid on or before the lease commencement date, plus the initial direct costs incurred and the estimated costs for dismantling, removing the asset, or restoring its location or the asset, and less any lease incentives received.

The right-of-use asset is subsequently depreciated on a straight-line basis from the lease commencement date to the end of the useful life of the right-of-use asset or the end of the lease term, whichever is earlier. In addition, the Company regularly assesses whether the right-of-use asset is impaired and accounts for any impairment loss that has occurred, and adjusts the right-of-use asset if the lease liability is remeasured.

The lease liability is initially measured at the present value of the unpaid lease payments at the lease commencement date. If the interest rate implicit in a lease is easy to be determined, the discount rate is said rate; if it is not easy to determine such a rate, the Company's incremental borrowing rate is adopted. Generally speaking, the Company adopts its incremental borrowing rate as the discount rate.

Lease payments included in the lease liability measurement include:

- (1) Fixed payments, including substantive fixed payments;
- (2) The lease payment depends on the change in an index or rate, and the index or rate on the lease commencement date is adopted for the initial measurement;
- (3) The residual value guarantee amount expected to be paid; and
- (4) The exercise price or penalty to be paid when it is reasonably ascertain that the purchase or lease termination will be executed.

Interest on lease liabilities is subsequently accrued using the effective interest method, and the amount is re-measured under each of the circumstances below:

- (1) Changes in the index or rate used to determine lease payments result in changes in future lease payments;
- (2) There is a change in the residual value guarantee amount expected to be paid;
- (3) There is a change in the evaluation of the option of purchasing the asset;
- (4) A change in the evaluation of whether to extend or terminate a lease has resulted in a change in the evaluation of the lease term;
- (5) The subject leased, scope of lease, or other terms are modified.

When the lease liability is re-measured due to the aforementioned changes in the index or rate used to determine the lease payment, changes in the residual value guarantee amount, and changes in the evaluation of the purchase, extension, or termination, the carrying amount of the right-of-use asset is adjusted accordingly. When the carrying amount of the right-of-use asset has been reduced to zero, the remaining remeasured amount is recognized in profit or loss.

For lease modifications with a reduced scope of the lease, the carrying amount of the right-of-use asset is reduced to reflect the partial or full termination of the lease, and the difference between said amount and the remeasured amount of the lease liability is recognized in profit or loss.

The Company presents right-of-use assets and lease liabilities not in alignment with the definition of investment property on a separate line in the balance sheet.

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

For short-term leases and leases of low-value assets, covering employee dormitories and other equipment, the Company elects not to recognize right-of-use assets and lease liabilities and recognizes relevant lease payments in expenses on a straight-line basis over the lease term instead.

### 3. The Company as a lessor

Regarding the transactions, in which the Company is the lessor, the lease agreements are classified on the dates the leases are established according to whether all the risks and rewards attached to the ownership of the underlying assets are substantially transferred. If so, such a lease is classified as a finance lease, otherwise an operating lease. During assessment, the Company considers relevant specific indicators, including if a lease term covers the main part of the economic life of an underlying asset.

### (XII) Impairment of non-financial assets

The Company evaluates if there is any sign of impairment of non-financial assets, excluding inventories and deferred tax assets, at the balance sheet date. The Company estimates the recoverable amount of such assets with a sign of impairment. The Company test the impairment of goodwill per year.

Impairment testing aims at the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill acquired in a business combination is allocated to each cash-generating unit or group of cash-generating units that is expected to benefit from the synergies of the combination.

The recoverable amount is the higher of the individual asset or the air value of the cash-generating unit less cost of disposal and its value in use. When the value in use is evaluated, the estimated future cash flow is discounted to its present value based on a pre-tax discount rate, which reflects the present time value of money in the market and specific risks posed to the asset or cash-generating unit.

Impairment losses are recognized when the recoverable amount of an asset or cash-generating unit is lower than the carrying amount thereof.

Impairment losses are recognized immediately in current profit or loss with the carrying amount of the cash-generating unit's amortized goodwill reduced first; then the carrying amount of each asset in proportion to the carrying amount thereof in the unit reduced.

Goodwill impairment losses are not reversed. Non-financial assets other than goodwill are reversed only when it does not exceed the carrying amount (less depreciation or amortization) that would have been determined if such assets had not been recognized for impairment losses in prior years.

### (XIII) Provisions

Provisions are recognized when there is a present legal duty or constructive obligations as a result of past events, and it is probable that the Company needs an outflow of economic resources to settle the obligation, and the amount of the obligation can be reliably estimated. The refund liability is discounted at a pre-tax discount rate that reflects the time value of money in the market and the specific risks to the liability, and the amortization of the discount is recognized in interest expenses, unless the recognition of interest on short-term refund liabilities is immaterial.

The Company's refund liabilities from returns and discounts are recognized when the goods are sold, and the refund liabilities are measured and estimated based on historical returns and discounts and all possible results.



## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

### (XIV) Revenue recognition

#### 1. Revenue from customer contracts

Revenue is measured as the consideration to which the transfer of goods or services is expected to be entitled. The Company recognizes revenue when the control over goods or services is transferred to customers and its performance obligations are fulfilled. The Company's main revenue items are described as follows:

##### (1) Sales of merchandize

The Company manufactures and sells synthetic and plastic leather and sells and recognizes revenue when the control over the goods is transferred. The transfer of the control over the goods means that the goods have been delivered to clients, who can then fully determine the sales channels and prices of the goods, without any outstanding obligations that will affect clients' acceptance of the goods. Delivery occurs when the goods have been shipped to a specific location with its risk of obsolescence losses passed to the clients, and the clients have accepted the goods in accordance with the sales contracts; the acceptance clause has become invalid, or the Company has objective evidence that all acceptance criteria have been met.

The Company provides a standard warranty on synthetic leather and plastic leather and has an obligation to refund for any defective goods and recognizes it in refund liabilities.

When the goods are delivered, the Company recognizes them in accounts receivable as it has the unconditional right to receive the consideration at that point in time.

##### (2) Rental income

The investment property held by the Company aims to earn rental income, which is recognized on a straight-line basis over the lease term in the lease contract.

##### (3) Financial components

The Company expects that the time interval between the time when all goods or services (as per customer contracts) are transferred to clients and the time when the clients pay for the goods or services will not exceed one year. Thus, the Company does not adjust the time value of money for the transaction prices.

#### 2. Cost of the customer contracts

##### (1) Incremental cost of obtaining contracts

If the Company expects to recover its incremental costs of obtaining customer contracts, it recognizes such costs in assets. Incremental costs of obtaining a contract are costs incurred when a customer contract is obtained that would not have been incurred if the contract had not been obtained. Costs of obtaining a contract that will be incurred regardless of whether the contract is obtained are recognized in expenses when incurred, unless such costs are clearly chargeable to customers regardless of whether a contract has been obtained.

The Company adopts the practical expedient as in the standard, if the incremental cost of obtaining a contract is recognized as an asset and the amortization period of the asset is less than one year, it is recognized as an expense when the incremental cost occurs.

##### 2. Cost of fulfilling contracts

If costs arising from fulfilling of a contract with a client are not covered by other standards (IAS 2 "Inventories", IAS 16 "Property, Plant and Equipment", or IAS 38 "Intangible Assets" ), the Company recognizes such costs as assets only when the costs or contracts, or directly related to a clearly identifiable prospective contract, generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future and when such costs are expected to be recovered.

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

General and management costs, costs of wasted materials, labor, or other resources used to fulfill contracts without being reflected in the contract price, costs associated with fulfilled (or partially fulfilled) performance obligations, or the costs that cannot be distinguished between unfulfilled or fulfilled (or partially fulfilled) performance obligations are recognized as expenses as occurred.

### (XV) Employee benefits

#### 1. Defined contribution plan

Contribution obligations to the defined contribution plan are recognized in expenses in the period, during which the employees provide services. Prepaid contributions are recognized as an asset to the extent of a cash refund or a reduction in the future payments.

#### 2. Defined benefit plan

The Company's net obligation to the defined benefit plan is calculated by discounting the amount of future benefits earned by employees for services provided in the current or prior periods to the present value for each benefit plan, less the fair value of any plan assets.

Defined benefit obligations are calculated annually by a qualified actuary using the projected unit credit method. When the result of the calculation may be favorable to the Company, the asset recognized is limited to the present value of any economic benefits that could be derived from the plan in the form of a refund of contributions or a reduction in future contributions. Any minimum contribution requirements are taken into account when the present value of economic benefits is calculated.

The remeasurement of the net defined benefit liability, including actuarial gains or losses, return on plan assets (excluding interest), and any changes in the effect of asset caps (excluding interest) are recognized immediately in other comprehensive income and accumulated in retained earnings. The Company determines the net interest expense (income) on net defined benefit liability (asset) based on the net defined benefit liability (asset) and discount rates determined at the beginning of the annual reporting period. Net interest expense and other expenses on defined benefit plans are recognized in profit or loss.

When the plan is revised or curtailed, the resulting change in benefits related to service costs in the prior periods or curtailment gains or losses is recognized immediately in profit or loss. When the settlement occurs, the Company recognizes it in the settlement gain or loss of the defined benefit plan.

#### 3. Short-term employee benefits

Short-term employee benefits are recognized as expenses when the relevant services are provided. If the Company has a present legal or constructive payment obligation due to an employee's past services and the obligation can be estimated reliably, the amount of benefits is recognized in the liabilities.

### (XVI) Income tax

Income tax includes current income and deferred taxes. Current income tax and deferred tax are recognized in profit or loss, except in relation to business combinations or items directly recognized in equity or other comprehensive income.

Current income tax includes the expected income tax payable or tax refund receivable based on the taxable income (loss) for the year and any adjustments to income tax payable or tax refund receivable in prior years. The amount is the best estimate of the amount expected to be paid or received based on tax rates that have been enacted or substantively enacted at the balance sheet date.

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

Deferred tax is recognized based on the temporary differences between the carrying amounts of an asset and liability for financial reporting purposes and its tax base. Temporary differences arising from the circumstances below are not recognized in deferred tax:

1. Assets or liabilities are initially recognized for a transaction that is not a business combination, and such assets or liabilities does not affect accounting profit and taxable income (loss) at the time of the transaction;
2. For temporary differences arising from investments in subsidiaries, associates, and joint venture interests, the Company can control the timing of the reversal of such temporary differences and it is likely that they will not be reversed in the foreseeable future; and
3. Taxable temporary differences arises from the initial recognition of goodwill.

Unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized, as well as deductible temporary differences are recognized in deferred tax assets. It is reassessed at each balance sheet date to reduce the relevant income tax benefits to the extent that it is not probable that they will be realized; or to reverse the previously reduced amount to the extent that it becomes probable that sufficient taxable income will be available.

Deferred tax is measured at the tax rate at which the temporary difference is expected to reverse, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

The Company will offset deferred tax assets and deferred tax liabilities only when the criteria below are met at the same time:

1. Has the statutory enforcement power to offset current income tax assets and current income tax liabilities; and
2. Deferred tax assets and deferred tax liabilities are related to one of the following taxpayers with income tax levied by the same tax authority:
  - (1) The same taxpayer; or
  - (2) Different taxpayers but each taxpayer intends to settle the current tax liabilities and assets on a net basis or to realize both in each future period, in which significant amounts of deferred tax assets are expected to be recovered and deferred tax liabilities are expected to be settled.

### (XVII) Earnings per share

The Company presents basic and diluted earnings per share attributable to holders of the Group's common shares. The Company's basic earnings per share is calculated by dividing the profit or loss attributable to the equity holders of the Company's ordinary shares by the weighted average number of common shares outstanding in the current period. Diluted earnings per share is calculated by having the profit or loss attributable to the equity holders of the Company's ordinary shares and the weighted average number of ordinary shares outstanding adjusted for the effect of all potential dilutive common shares. The Company's potential dilutive ordinary shares include convertible corporate bonds and employee remuneration.

### (XVIII) Information on segments

The operating segments are the parts that form the Company and engage in the business activities that may earn income and incur expenses (including income and expenses related to transactions between other parts of the Company). All operating departments' operating performance is regularly reviewed by the Company's chief operating decision-maker to make decisions on allocating resources to the segments and evaluate their performance. Each operating segment has its own financial data.

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

### V. Critical Accounting Judgements and Key Sources of Estimation and Uncertainty

When management prepares the financial statements, it shall make judgments, estimates, and assumptions, which will affect the accounting policies adopted and the amounts of assets, liabilities, income, and expenses presented. Actual results may differ from estimates.

The management continues to review estimates and basic assumptions, and changes in accounting estimates are recognized in the period in which they are changed and future periods affected.

Accounting policies involve critical judgments, and the information with a material impact on the recognized amounts in this financial statements is the determination of a lease term:

The determination of the lease term refers to the non-cancellable period of the lease, covering the period, during which the lessee is reasonably certain that it will exercise the option to extend the lease, and the period, during which the lessee is reasonably certain that it will not exercise the option to terminate the lease. When the Company evaluates if the lessee exercises the above option, it considers all relevant facts and circumstances that will create economic incentives for the lessee. It will reconsider it when there are major events or major changes occurring in the scope of the lessee's control and that will affect whether the lessee can be reasonably certain to exercise the option or not. When there is a change in the consideration during the lease term, the lease liability is remeasured and the right-of-use asset thereof is adjusted. Please refer to Notes 6(8) and 6(13) for details.

The assumption and estimation uncertainties below bear a significant risk of resulting a major adjustment to the carrying amounts of assets and liabilities in the next fiscal year and have already reflected the impact of the COVID-19 pandemic. The relevant information is as follows:

#### (I) Valuation of inventories

As inventories should be measured at the lower of cost or net realizable value, considering normal wear and tear, obsolescence, or no market selling value on the balance sheet date, the Company wrote down the cost of inventories to the net realizable value. The inventories are valued mainly based on the product demand during a specific period in the future, so there may be significant changes due to rapid changes in the industry. Please refer to Note 6(5) for details of inventory valuation.

### VI. Summary of Significant Accounting Items

#### (I) Cash and cash equivalents

	<u>2022.12.31</u>	<u>2021.12.31</u>
Cash on hand and petty cash	\$ 82	98
Demand deposits	89,356	23,400
Time deposits	-	-
Cash and cash equivalents in the statements of cash flows	<u>\$ 89,438</u>	<u>23,498</u>

The Company reclassified the pledged time deposits held with initial duration of more than three months to "Other financial assets - current". The amounts were \$800 thousand at both December 31, 2022 and 2021. Please refer to Note 8 for details of those pledged as collateral.

The Company reclassified the time deposits with the initial duration of more than three months to "Financial assets at amortized cost - current". The amount was \$8,050 thousand at December 31, 2022.

Please refer to Note 6(22) for the details of credit risk and exchange rate risk to the Company's financial assets and the sensitivity analysis

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

### (II) Financial assets

	<u>2022.12.31</u>	<u>2021.12.31</u>
<b>Financial assets mandatorily at fair value through profit or loss:</b>		
Convertible corporate bonds	\$ 27,401	29,167
Domestic listed stocks	466,111	454,597
Total	<u>\$ 493,512</u>	<u>483,764</u>
Current	\$ 152,321	139,525
Non-current	341,191	344,239
Total	<u>\$ 493,512</u>	<u>483,764</u>
<b>Financial liabilities mandatorily at fair value through profit or loss - non-current:</b>		
Embedded derivatives - rights to reverse repurchase/redeem convertible corporate bonds	<u>\$ 3,390</u>	-
<b>Financial assets at fair value through other comprehensive income - non-current:</b>		
Equity instruments at fair value through other comprehensive income		
Domestic non-listed stock - Luxe Bring Co., Ltd.	<u>\$ 926</u>	-

Some of the investments in equity instruments held by the Company are long-term strategic investments and are not held for trading, so they have been designated to be measured at fair value through other comprehensive income.

The Company did not dispose of strategic investments during the year ended December 31, 2022, and the cumulative gains and losses during this period were not transferred in equity.

Please refer to Note 6(21) for the details of the amounts remeasured at fair value and recognized in profit or loss and the gains on the disposal of financial assets at fair value through profit or loss.

Please refer to Note 6 (22) for the information on the credit risk and market risk.

None of the Company's financial assets was pledged as collateral.

### (III) Notes and accounts receivable

	<u>2022.12.31</u>	<u>2021.12.31</u>
Notes receivable from operations	\$ 11,137	10,984
Accounts receivable at amortized cost	37,389	41,963
Less: Allowance for losses	-	(393)
	<u>\$ 48,526</u>	<u>52,554</u>

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

The Company adopts a simplified approach to estimate expected credit losses for all notes and accounts receivables, which are measured at lifetime expected credit losses. To this end, such notes and accounts receivables are grouped by common credit risk characteristics that represent a customer's ability to pay all amounts due as per the contract terms with forward-looking information incorporated. The Company's expected credit loss analysis for the notes and accounts receivable is as follows:

	<b>2022.12.31</b>		
	<b>Carrying amount of notes and accounts receivable</b>	<b>Weighted average expected credit loss ratio</b>	<b>Allowance for lifetime expected credit losses</b>
Not past due	\$ 48,526	0%–0.3%	-
Overdue for 0–90 days	-	-	-
Overdue for 91–180 days	-	-	-
Overdue for 181 days or more	-	100%	-
	<b><u>\$ 48,526</u></b>		<b><u>-</u></b>

	<b>2021.12.31</b>		
	<b>Carrying amount of notes and accounts receivable</b>	<b>Weighted average expected credit loss ratio</b>	<b>Allowance for lifetime expected credit losses</b>
Not past due	\$ 52,947	0%–0.3%	393
Overdue for 0–90 days	-	-	-
Overdue for 91–180 days	-	-	-
Overdue for 181 days or more	-	100%	-
	<b><u>\$ 52,947</u></b>		<b><u>393</u></b>

The movements in allowances for losses on the Company's notes and accounts receivable are as follows:

	<b>2022</b>	<b>2021</b>
Opening balance	\$ 393	393
Impairment loss reversed	(393)	-
Balance, ending	<b><u>\$ -</u></b>	<b><u>393</u></b>

The Company collects certificates of deposit from clients and clients pledged real property to the Company as collateral for their notes and accounts receivable. The details are as follows:

<b>Item</b>	<b>2022.12.31</b>	<b>2021.12.31</b>
Certificates of deposit	\$ 5,300	8,300
The maximum amount of property pledged	7,000	7,000

Please refer to Note 6 (22) for the information on the credit risk.

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

### (IV) Other receivables

	<u>2022.12.31</u>	<u>2021.12.31</u>
Other receivables	\$ 456	437
Less: Allowance for losses	-	-
	<u>\$ 456</u>	<u>437</u>

Please refer to Note 6 (22) for the information on the credit risk.

### (V) Inventories

	<u>2022.12.31</u>	<u>2021.12.31</u>
Raw materials	\$ 32,739	44,136
Work in progress	1,300	4,135
Finished goods	6,537	7,642
	<u>\$ 40,576</u>	<u>55,913</u>

The cost of sales is detailed below:

	<u>2022</u>	<u>2021</u>
Reclassified from inventories sold	\$ 262,387	300,683
Inventory valuation losses (gain on reversal)	(104)	1,474
Proceeds from sale of scrap	(248)	(421)
Others	1,620	1,528
Total	<u>\$ 263,655</u>	<u>303,264</u>

As of December 31, 2022 and 2021, the Company's inventories were not pledged as collateral.

### (VI) Investments using equity method

The Company resigned as the director of Luxe Bring Co., Ltd. (hereinafter referred to as "Luxe Bring") on August 11, 2022 and lost its significant influence on Luxe Bring. Thus, the Company has designated the investment in Luxe Bring measured at fair value through other comprehensive income.

The Company's investments using the equity method as at the balance sheet date are listed as follows:

Affiliate: Luxe Bring	<u>2021.12.31</u>
	<u>\$ 1,623</u>

Name of affiliate	Main business activities	Principal place of business/Country of business registration	Ownership interests and voting rights
			(%)
			<u>2021.12.31</u>
Luxe Bring	Wholesale of building materials and chemical raw materials	Taiwan	16.60%

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

The aggregate financial data on the individually immaterial affiliates, for which the Company adopts the equity method, are as follows. Such financial data is the amounts included in the Company's financial statements:

	<u>2022</u>	<u>2021</u>
Share attributable to the Company:		
Income (loss) from continuing operations	\$ (742)	81
Other comprehensive income	-	-
Total comprehensive income	<u>\$ (742)</u>	<u>81</u>

As of December 31, 2022 and 2021, the Company's investments using the equity method were not pledged as collateral.

### (VII) Property, plant and equipment

The details of the movements in cost, depreciation, and impairment loss of the Company's property, plant and equipment are as follows:

	<u>Land</u>	<u>Land improvements</u>	<u>Buildings</u>	<u>Machinery and equipment (including instruments)</u>	<u>Transportation equipment</u>	<u>Other equipment (including appliances)</u>	<u>Unfinished construction</u>	<u>Total</u>
Cost or deemed cost:								
Balance on January 1, 2022	\$ 428,397	11,229	214,096	150,274	4,188	42,656	-	850,840
Additions	33,150	-	1,030	221	-	-	84,892	119,293
Disposal	-	-	(1,195)	(274)	-	(520)	-	(1,989)
Reclassification	18,745	-	-	-	-	-	170	18,915 (Note)
Balance on December 31, 2022	<u>\$ 480,292</u>	<u>11,229</u>	<u>213,931</u>	<u>150,221</u>	<u>4,188</u>	<u>42,136</u>	<u>85,062</u>	<u>987,059</u>
Balance on January 1, 2021	\$ 425,383	11,229	214,096	148,642	9,438	42,277	-	851,065
Additions	3,014	-	-	1,932	-	379	-	5,325
Disposal	-	-	-	(300)	(5,250)	-	-	(5,550)
Balance on December 31, 2021	<u>\$ 428,397</u>	<u>11,229</u>	<u>214,096</u>	<u>150,274</u>	<u>4,188</u>	<u>42,656</u>	<u>-</u>	<u>850,840</u>
Accumulated depreciation and impairment:								
Balance on January 1, 2022	\$ -	6,292	167,205	109,640	4,030	32,150	-	319,317
Depreciation	-	883	5,394	9,987	158	2,236	-	18,658
Disposal	-	-	(1,195)	(274)	-	(520)	-	(1,989)
Balance on December 31, 2022	<u>\$ -</u>	<u>7,175</u>	<u>171,404</u>	<u>119,353</u>	<u>4,188</u>	<u>33,866</u>	<u>-</u>	<u>335,986</u>
Balance on January 1, 2021	\$ -	5,409	161,650	98,882	6,658	29,445	-	302,044
Depreciation	-	883	5,555	10,808	726	2,705	-	20,677
Disposal	-	-	-	(50)	(3,354)	-	-	(3,404)
Balance on December 31, 2021	<u>\$ -</u>	<u>6,292</u>	<u>167,205</u>	<u>109,640</u>	<u>4,030</u>	<u>32,150</u>	<u>-</u>	<u>319,317</u>
Carrying amount:								
Balance on December 31, 2022	<u>\$ 480,292</u>	<u>4,054</u>	<u>42,527</u>	<u>30,868</u>	<u>-</u>	<u>8,270</u>	<u>85,062</u>	<u>651,073</u>
Balance on January 1, 2021	<u>\$ 425,383</u>	<u>5,820</u>	<u>52,446</u>	<u>49,760</u>	<u>2,780</u>	<u>12,832</u>	<u>-</u>	<u>549,021</u>
Balance on December 31, 2021	<u>\$ 428,397</u>	<u>4,937</u>	<u>46,891</u>	<u>40,634</u>	<u>158</u>	<u>10,506</u>	<u>-</u>	<u>531,523</u>

Note: An amount of \$170 thousand was reclassified from other non-current assets and an amount of \$18,745 thousand was reclassified from investment property.

As of December 31, 2022 and 2021, the Company's property, plant and equipment were not pledged as collateral.



## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

### (VIII) Right-of-use assets

The movements in the costs, depreciation, and impairment losses of the Company's leased land, buildings, and transportation equipment are as follows:

	<u>Buildings</u>	<u>Transportation equipment</u>	<u>Total</u>
Cost or deemed cost:			
Balance on January 1, 2022	\$ 4,550	1,129	5,679
Disposal	(4,550)	-	(4,550)
Balance on December 31, 2022	<u>\$ -</u>	<u>1,129</u>	<u>1,129</u>
Balance on January 1, 2021	\$ 4,550	-	4,550
Additions	-	1,129	1,129
Balance on December 31, 2021	<u>\$ 4,550</u>	<u>1,129</u>	<u>5,679</u>
Accumulated depreciation and impairment:			
Balance on January 1, 2022	\$ 1,606	157	1,763
Depreciation	134	376	510
Disposal	(1,740)	-	(1,740)
Balance on December 31, 2022	<u>\$ -</u>	<u>533</u>	<u>533</u>
Balance on January 1, 2021	\$ 1,071	-	1,071
Depreciation	535	157	692
Balance on December 31, 2021	<u>\$ 1,606</u>	<u>157</u>	<u>1,763</u>
Carrying amount:			
Balance on December 31, 2022	<u>\$ -</u>	<u>596</u>	<u>596</u>
Balance on January 1, 2021	<u>\$ 3,479</u>	<u>-</u>	<u>3,479</u>
Balance on December 31, 2021	<u>\$ 2,944</u>	<u>972</u>	<u>3,916</u>

### (IX) Investment property

Investment property refers to the assets held and owned by the Company. The initial non-cancellable period of the investment property leased out is one to six years.

The details of the movements in the Company's investment property are as follows:

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Cost or deemed cost:			
Balance on January 1, 2022	\$ 84,218	81,476	165,694
Reclassification	(18,745)	-	(18,745)
Balance on December 31, 2022	<u>\$ 65,473</u>	<u>81,476</u>	<u>146,949</u>
Balance on January 1, 2021	\$ 84,218	81,476	165,694
Balance on December 31, 2021	<u>\$ 84,218</u>	<u>81,476</u>	<u>165,694</u>

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
Accumulated depreciation and impairment:			
Balance on January 1, 2022	\$ -	72,468	72,468
Depreciation	-	937	937
Balance on December 31, 2022	<b><u>\$ -</u></b>	<b><u>73,405</u></b>	<b><u>73,405</u></b>
Balance on January 1, 2021	\$ -	71,471	71,471
Depreciation	-	997	997
Balance on December 31, 2021	<b><u>\$ -</u></b>	<b><u>72,468</u></b>	<b><u>72,468</u></b>
Carrying amount:			
December 31, 2022	<b><u>\$ 65,473</u></b>	<b><u>8,071</u></b>	<b><u>73,544</u></b>
January 1, 2021	<b><u>\$ 84,218</u></b>	<b><u>10,005</u></b>	<b><u>94,223</u></b>
December 31, 2021	<b><u>\$ 84,218</u></b>	<b><u>9,008</u></b>	<b><u>93,226</u></b>

The fair value of the Company's investment property on December 31, 2022 and 2021 was \$169,202 thousand and \$128,670 thousand, respectively, appraised with reference to the independent appraiser's appraisal report based on the market values and the nearby property transaction prices in recent years.

As of December 31, 2022 and 2021, the Company's investment property was not pledged as collateral.

### (X) Short-term borrowings

	<b>2022.12.31</b>	<b>2021.12.31</b>
Unsecured bank borrowings	\$ 79,910	-
Secured bank borrowings	100,000	220,000
	<b><u>\$ 179,910</u></b>	<b><u>220,000</u></b>
Unused facilities	<b><u>\$ 200,000</u></b>	<b><u>90,000</u></b>
Interest rate ranges	<b><u>1.60%-2.11%</u></b>	<b><u>0.95%-1.2%</u></b>

Please refer to Note 8 for the details of the assets provided by the Company as collateral for bank borrowings.

### (XI) Corporate bonds payable

	<b>2022.12.31</b>	<b>2021.12.31</b>
Total amount of convertible corporate bonds issued	\$ 300,000	-
Unamortized balance of discounted corporate bonds payable	(12,509)	-
Ending balance of corporate bonds payable	<b><u>\$ 287,491</u></b>	<b><u>-</u></b>
Embedded derivatives - rights to repurchase and reverse repurchase (recognized in financial liabilities at fair value through profit or loss)	<b><u>\$ 3,390</u></b>	<b><u>-</u></b>
Components of equity - conversion rights (recognized in capital surplus - stock options)	<b><u>\$ 9,252</u></b>	<b><u>-</u></b>

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

	<u>2022</u>	<u>2021</u>
Gain or loss embedded derivatives - rights to repurchase and reverse repurchase remeasured at fair value (recognized in financial liabilities at fair value through profit or loss)	<u>\$ 2,460</u>	<u>-</u>
Interest expenses	<u>\$ 3,008</u>	<u>-</u>

The Company issued the first domestic unsecured convertible corporate bonds on May 27, 2022 and had them listed on Taipei Exchange for trading. The main terms and contents of the issuance are as follows:

- (1) Total amount of issuance: \$300,000 thousand.
- (2) Issue price: Issued at 100.00% of the face value, each with the par value of \$100 thousand.
- (3) Coupon rate: 0%.
- (4) Principal repayment: Except that the holders of the convertible corporate bonds converted the bonds into the Company's ordinary shares in accordance with Article 10 of the Regulations, those redeemed early by the Company in accordance with Article 19 of the Regulations, or those repurchased by the Company from the OTC markets for cancellation in accordance with Article 18 of the Regulations, the Company will repay the convertible corporate bonds at 101.5075% (the real annual rate of return is 0.5%) of the face value of the bonds in cash in a lump sum when they mature.
- (5) Issuance period: 3 years (May 27, 2022 to May 27, 2025).
- (6) Conversion period:

From the day following the end of three months after the date such bonds were issued (August 28, 2022) to the maturity date (May 27, 2025), the bondholders may request the Company to convert the convertible corporate bonds into ordinary shares of the Company at any time, except for A. the book closure period as per law; B. the period commencing 15 business days before the book closure date for the Company's stock dividends, cash dividends, or share subscription for cash capital increase until the record date of rights distribution; C. the period between the capital reduction record date and the day before the start of share exchange for capital reduction; D. the period between the start date of suspending the conversion for the change of the face value of the stock and the day before the start date of exchange for new shares.

- (7) Conversion price and adjustment thereto:

The conversion price at the time of issuance was set at \$27.93 per share. However, after the convertible corporate bonds were issued, the conversion price, in any of the circumstances below, should be adjusted based on the formula stipulated in the terms of issuance:

- A. Except for various securities issued by the Company or privately offered with common stock conversion rights or stock options, which are converted into ordinary shares, or new shares issued for employee remuneration, where there is an increase in the Company's issued or privately offered ordinary shares.
- B. Where the Company pays out common stock cash dividends.
- C. Where the Company re-issues or privately offers various securities with common stock conversion rights or stock options at a conversion or subscription price lower than the market price per share.
- D. Where the Company's capital reduction is not due to the cancellation of treasury shares, resulting in a decrease in the number of ordinary shares.

As the Board of Directors resolved a decision to pay out cash dividends on March 29, 2022, the conversion price was adjusted to \$26.46 from the ex-dividend record date, September 26, 2022.

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

(8) Right to sell back:

The date at the end of two years after the convertible corporate bonds were issued (May 27, 2024) is the record date for the convertible corporate bondholders to sell back the convertible corporate bonds to the Company in advance. The convertible corporate bondholders may request the Company to redeem the bonds held by them in cash at 102.01% of the face value of the bonds.

(9) Right of redemption:

From the day following the end of three months after the date such bonds were issued (August 28, 2022) to 40 days before the end of the issuance period (April 17, 2025), the Company, under any of the following circumstances, may redeem the convertible corporate bonds in accordance with the Issuance and Conversion Regulations:

A. Where the closing price of the Company's common stock in the OCTs has exceeded the then conversion price by 30% for 30 consecutive business days.

B. When the outstanding balance of the convertible corporate bonds is lower than \$30,000 thousand (10% of the total amount of issuance).

(10) As per the Issuance and Conversion Regulations, all the convertible corporate bonds that are redeemed by the Company (including repurchased by securities firms), repaid, or converted will be canceled and no longer be sold or issued, and the conversion rights attached thereto will also be eliminated.

(11) As per the Issuance and Conversion Regulations, the ordinary shares converted from the convertible corporate bonds should be traded at Taipei Exchange from the date of delivery. The rights and obligations attached to the converted new shares are the same as those of the issued ordinary shares.

(XII) Long-term borrowings

The details of the Company's long-term borrowings are as follows:

	<b>2022.12.31</b>			
	<b>Currency</b>	<b>Interest rate range (%)</b>	<b>Year in which borrowings are due</b>	<b>Amount</b>
Unsecured bank borrowings	NTD	2.18%	2025	\$ 43,000
Less: Current portion				<u>(16,000)</u>
Total				<u><b>\$ 27,000</b></u>
Unused facilities				<u><b>\$ -</b></u>

None of the Company's assets provided as collateral for bank borrowings.

(XIII) Lease liabilities

The carrying amounts of the Company's lease liabilities are as follows:

	<b>2022.12.31</b>	<b>2021.12.31</b>
Current	\$ 378	905
Non-current	223	3,061
	<u><b>\$ 601</b></u>	<u><b>3,966</b></u>

Please refer to Note 6 (22) "Financial instruments for maturity analysis.

The amounts of leases recognized in profit or loss are as follows:

	<b>2022</b>	<b>2021</b>
Interest expenses on lease liabilities	<u><b>\$ 17</b></u>	<u><b>43</b></u>
Expenses of short-term leases	<u><b>\$ 408</b></u>	<u><b>99</b></u>

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

The amounts of leases recognized in the statements of cash flows are as follows:

	<u>2022</u>	<u>2021</u>
Total cash outflows from leases	<u>\$ 939</u>	<u>821</u>

### 1. Lease-in of land and buildings

The lease term of the buildings leased in by the Company is ten years.

### 2. Other leases

The lease term of the transportation equipment leased in by the Company is three years.

In addition, the Company has leased in other equipment under short-term or low-value leases and elects to apply the exemption from recognition and does not recognize the relevant right-of-use assets and lease liabilities thereof.

### (XIV) Operating lease - as a lessor

The Company has leased out its investment property. As almost all the risks and rewards attached to the ownership of the underlying assets are not transferred, such leasing contracts are classified as operating leases. Please refer to Note 6 (9) "Investment property" for details. The contract does not specify the minimum future lease payment payable during the non-cancellable period.

The maturity analysis of lease payments is presented in the table below based on the total undiscounted lease payments to be received after the balance sheet date:

	<u>2022.12.31</u>	<u>2021.12.31</u>
Less than 1 year	\$ 6,569	8,059
1-2 years	2,164	5,360
2-5 years	<u>1,394</u>	<u>6,174</u>
Total undiscounted lease payments	<u>\$ 10,127</u>	<u>19,593</u>

Please refer to Note 6 (19) for the information on the rental income from operating leases during 2022 and 2021. Also, the direct operating expenses arising from the above operating leases during 2022 and 2021 were \$1,798 thousand and \$1,859 thousand, respectively.

### (XV) Employee benefits

#### 1. Defined benefit plan

The reconciliation between the present value of the Company's defined benefit obligation and the fair value of the plan assets is as follows:

	<u>2022.12.31</u>	<u>2021.12.31</u>
Present value of defined benefit obligations	\$ 3,731	7,115
Fair value of plan assets	<u>(751)</u>	<u>(2,837)</u>
Net defined benefit liability	<u>\$ 2,980</u>	<u>4,278</u>

The Company contributes to the labor retirement reserve account with the Bank of Taiwan for the defined benefit plan. Pension payment for each employee under the pension scheme of the Labor Standards Act is calculated based on the number of units obtained for the length of services and the average salary for the six months prior to retirement.

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

### (1) Components of plan assets

The labor retirement fund contributed by the Company in accordance with the Labor Standards Act are managed by the Bureau of Labor Funds, Ministry of Labor. In accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, the annual minimum income from the investments with the funds shall not be lower than the interest rates for two-year time deposits offered by local banks.

As of December 31, 2022 and 2021, the balances of the Company's labor retirement reserve account with Bank of Taiwan amounted to \$751 thousand and \$2,837 thousand, respectively. Please refer to the information published on the website of the Bureau of Labor Funds, Ministry of Labor, for the information on the use of the labor retirement fund asset, including the fund's yield and the fund asset allocation.

### (2) Movements in the present value of defined benefit obligations

The movements in the present value of the Company's defined benefit obligations during 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Defined benefit obligations on January 1	\$ 7,115	14,571
Service cost in this period	125	279
Interest expenses	56	63
Remeasurement of net defined benefit liability (asset)		
- Actuarial gains or losses arising from experience adjustments	(729)	(2,393)
- Actuarial gains or losses arising from changes in financial assumptions	(398)	(429)
Benefits paid by the plan	<u>(2,438)</u>	<u>(4,976)</u>
Defined benefit obligations on December 31	<u>\$ 3,731</u>	<u>7,115</u>

### (3) Movements in fair value of plan assets

The movements in the fair value of the Company's defined benefit plan assets during 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Fair value of plan assets on January 1	\$ 2,837	249
Interest revenue	22	1
- Actuarial gains or losses arising from experience adjustments	199	11
Amount contributed to the plan	131	7,552
Benefits paid by the plan	<u>(2,438)</u>	<u>(4,976)</u>
Fair value of plan assets on December 31	<u>\$ 751</u>	<u>2,837</u>

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

(4) Expenses recognized in profit or loss

The details of the Company's amounts recognized in expenses for 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Service cost in this period	\$ 125	279
Net interest on net defined benefit liabilities	34	62
	<u>\$ 159</u>	<u>341</u>
Operating costs	<u>\$ 159</u>	<u>341</u>

(5) Actuarial assumptions

The major actuarial assumptions adopted by the Company to determine the present values of the defined benefit obligations on the balance sheet date are as follows:

	<u>2022.12.31</u>	<u>2021.12.31</u>
Discount rate	1.46%	0.79%
Future salary increases	2.00%	2.00%

The Company estimates to contribute \$3,200 thousand to the defined benefit plan within one year after the 2022 balance sheet date.

The weighted average duration of the defined benefit plan is 16 years.

(6) Sensitivity analysis

The effect of changes in the main actuarial assumptions adopted on December 31, 2022 and 2021 on the present values of the defined benefit obligations is as follows:

	<u>Effect on defined benefit obligations</u>	
	<u>Increase by 0.5%</u>	<u>Decrease by 0.5%</u>
December 31, 2022		
Discount rate	\$ (279)	303
Future salary increases	303	(279)
December 31, 2021		
Discount rate	\$ (553)	603
Future salary increases	593	(549)

The sensitivity analysis above is based on the impact of a single assumption which changed while the other conditions remain unchanged. In practice, more than one assumption may change at the same time. The method of analyzing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

2. Defined contribution plan

As per the Labor Pension Act, the Company makes a contribution equal to 6% of each employee's monthly salary to employees' individual pension accounts under the Bureau of Labor Insurance for the defined contribution plan. Under this plan, after the Company has provided a fixed amount to the Bureau of Labor Insurance, it has no legal or constructive obligation to pay additional amounts.

The Company's pension expenses under the defined contribution plan for 2022 and 2021 were NT\$1,585 thousand and NT\$1,637 thousand, respectively, which have been contributed to the Bureau of Labor Insurance.

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

### (XVI) Income tax

#### 1. Income tax expenses

The details of the Company's income tax expenses are as follows:

	<u>2022</u>	<u>2021</u>
Current income tax expenses		
Incurred during this period	\$ 3,225	3,752
Adjustment to the income tax for the prior period	(9)	144
	<u>3,216</u>	<u>3,896</u>
Deferred tax expenses (income)		
Temporary differences incurred and reversed	28	(425)
Income tax expense	<u>\$ 3,244</u>	<u>3,471</u>

The details of the income tax expenses recognized by the Company in other comprehensive income are as follows:

	<u>2022</u>	<u>2021</u>
Remeasurement of defined benefit plans	<u>\$ 265</u>	<u>567</u>

The details of the reconciliation of the Company's income tax expenses and net income (loss) are as follows:

	<u>2022</u>	<u>2021</u>
Net profit (loss) before tax	<u>\$ (37,954)</u>	<u>140,236</u>
Income tax calculated at the domestic tax rate where the Company is located	\$ (7,591)	28,047
Effect of investment income or loss recognized using the equity method	148	(16)
Dividend income	(3,503)	(1,807)
Loss (gain) on financial assets at fair value through profit or loss	11,121	(21,876)
No levy of securities transaction income tax	1,956	-
Loss that cannot be carried forward	-	66
Changes not recognized in temporary differences	-	(1,558)
Underestimated (overestimated) amount for the prior period	(9)	144
Income basic tax	-	471
Surtax on undistributed earnings	444	-
Others	678	-
Income tax expense	<u>\$ 3,244</u>	<u>3,471</u>



## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

### 2. Deferred tax assets and liabilities

The movements in deferred tax assets and liabilities recognized by the Company are as follows:

	Inventory valuation losses	Pension expenses not yet contributed	Compensation for unused annual leave	Unrealized gross margin	Others	Total
<b>Deferred tax assets:</b>						
January 1, 2022	\$ 577	856	209	99	5	1,746
Credit (debit) to profit or loss	(21)	6	(34)	(39)	33	(55)
Debit to other comprehensive income	-	(265)	-	-	-	(265)
<b>December 31, 2022</b>	<b>\$ 556</b>	<b>597</b>	<b>175</b>	<b>60</b>	<b>38</b>	<b>1,426</b>
January 1, 2021	\$ 282	992	231	59	297	1,861
Credit (debit) to profit or loss	295	431	(22)	40	(292)	452
Debit to other comprehensive income	-	(567)	-	-	-	(567)
<b>December 31, 2021</b>	<b>\$ 577</b>	<b>856</b>	<b>209</b>	<b>99</b>	<b>5</b>	<b>1,746</b>

	Provision for land value increment		Total
	tax	Others	
<b>Deferred tax liabilities:</b>			
January 1, 2022	\$ 31,448	27	31,475
Credit to profit or loss	-	(27)	(27)
<b>December 31, 2022</b>	<b>\$ 31,448</b>	<b>-</b>	<b>31,448</b>
January 1, 2021	\$ 31,448	-	31,448
Debit to profit or loss	-	27	27
<b>December 31, 2021</b>	<b>\$ 31,448</b>	<b>27</b>	<b>31,475</b>

### 3. Approval of income tax returns

The Company's profit-seeking enterprise income tax returns filed up to 2020 have been approved by the tax authority.

### (XVII) Capital and other interests

#### 1. Ordinary share capital

The total amount of the Company's authorized capital was NT\$3,500,000 thousand and NT\$1,350,000 thousand as of December 31, 2022 and 2021, with a par value of NT\$10 per share. The number of issued shares was 67,500,000 and 70,000,000 during 2022 and 2021, respectively, and the capital for all issued shares has been received.

On November 10, 2021, the Company's decision to cancel the treasury shares and reduce capital by 2,500,000 shares in the amount of NT\$25,000 thousand was approved by the resolution of the Board of Directors. The relevant legal procedures have been completed.

#### 2. Capital surplus

The balance of the Company's capital surplus is as follows:

	2022.12.31	2021.12.31
Issuance of convertible corporate bonds recognized in equity component - stock options	\$ 9,252	-

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

Pursuant to the Company Act, the Company shall issue new shares or pay out cash in proportion to the existing shareholders' shares from the realized capital surplus after the capital surplus is used to compensate the deficit first. The realized capital surplus referred to in the preceding paragraph includes the premium from the shares issued at par and the income from gifts. Pursuant to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, the total amount of capital surplus to be used as capital shall not exceed 10% of the paid-in capital.

### 3. Retained earnings

As per the Articles of Incorporation, where the Company makes a profit for a fiscal year, the profit shall be first used for paying the taxes in accordance with the laws and regulations, offsetting a cumulative deficit, setting aside 10% of the remaining profit as a legal reserve unless it has reached the total amount of the Company's paid-in capital, setting aside an amount for or reversing a special reserve in accordance with the laws and regulations. Then, any remaining profit, together with any undistributed retained earnings at the beginning of the period, shall be adopted by the Company's Board of Directors as the basis for making a distribution proposal, which shall then be submitted to the shareholders' meeting for a resolution before distribution.

Regarding the Company's dividend policy, the Company shall consider its current and future investment environment, capital needs, domestic and international competition situation, capital budgets, and other factors, as well as shareholders' equity and its long-term financial plan and allocates shareholders' dividends from the distributable earnings, of which cash dividends may not be less than 10% of the total dividends to be paid out.

#### (1) Legal reserve

When the Company suffers no loss, it may pay out new shares or cash from the legal reserve (only when the legal reserve is at least 25% more than the paid-in capital) by the resolution of the shareholders' meeting.

#### (2) Earnings distribution

The 2021 and 2020 earnings distribution proposals were resolved by the annual general meeting on June 30, 2022 and July 8, 2021, respectively. The dividends distributed to owners are as follows:

	2021		2020	
	Payout ratio (NTD)	Amount	Payout ratio (NTD)	Amount
Dividends distributed to owners of ordinary shares:				
Cash	\$ 1.1	74,250	\$ 0.3	21,000

### 4. Treasury stock

The Company's decision to repurchase treasury shares was approved by the resolution of the Board of Directors on November 10, 2021 in accordance with Article 28-2 of the Securities and Exchange Act to maintain the Company's credit and shareholders' equity. As of September 30, 2022, the Company has completed the registration of changes in the amount of capital due to the cancellation of treasury shares.

The details of the changes in the Company's treasury shares are as follows:

	2022	
	Number of shares (in thousands)	Amount
Treasury stock at the beginning of the period	2,013	\$ 49,879
Treasury stock repurchased	487	13,005
Treasury shares canceled	(2,500)	(62,884)
Treasury stock at the end of the period	-	\$ -

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

As per the Securities and Exchange Act, the treasury shares held by the Company shall not be pledged, nor shall they be entitled to shareholders' rights until they are transferred.

### (XVIII) Earnings per share

The Company's basic earnings per share and diluted earnings per share are as follows:

	<u>2022</u>	<u>2021</u>
Net income (loss) attributable to holders of the Company's ordinary equity	<u>\$ (41,198)</u>	<u>136,765</u>
Weighted average number of ordinary shares outstanding (in thousands)	<u>67,509</u>	<u>69,814</u>
Basic earnings per share (NTD)	<u>\$ (0.61)</u>	<u>1.96</u>
Weighted average number of ordinary shares outstanding (in thousands)	67,509	69,814
Dilutive potential ordinary shares -employee remuneration (in thousands)	-	53
Weighted average number of shares outstanding for calculating diluted earnings per share (in thousands)	<u>67,509</u>	<u>69,867</u>
Diluted earnings per share (NTD)	<u>\$ (0.61)</u>	<u>1.96</u>

The inclusion of potential ordinary shares -convertible corporate bonds and employee remuneration for 2022 will result in an anti-dilution effect, so it is not included in the calculation of diluted earnings per share.

### (XIX) Revenue from customer contracts

#### 1. Details of revenue

	<u>2022</u>	<u>2021</u>
Main regional markets:		
Taiwan	\$ 311,765	352,685
Japan	11,815	8,404
Mainland China	1,694	3,678
Other countries	89	233
Total	<u>\$ 325,363</u>	<u>365,000</u>
Main product and service lines:		
Dry PU synthetic leather	\$ 172,764	153,888
Plastic leather	51,360	83,609
Wet PU synthetic leather	43,253	82,079
Others	48,819	35,258
Rental income	9,167	10,166
	<u>\$ 325,363</u>	<u>365,000</u>

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

### 2. Balance of contracts

	<u>2022.12.31</u>	<u>2021.12.31</u>	<u>2021.1.1</u>
Notes receivable	\$ 11,137	10,984	8,555
Accounts receivable	37,389	41,963	45,451
Less: Allowance for losses	-	(393)	(393)
Total	<u>\$ 48,526</u>	<u>52,554</u>	<u>53,613</u>
	<u>2022.12.31</u>	<u>2021.12.31</u>	<u>2021.1.1</u>
Contract liabilities	<u>\$ 212</u>	<u>608</u>	<u>160</u>

Please refer to Note 6(3) for the disclosures of notes and accounts receivable and impairment thereof.

The opening balances of contract liabilities on January 1, 2022 and 2021 recognized in revenue for 2022 and 2021, respectively, were NT\$459 thousand and NT\$43 thousand.

#### (XX) Employee remuneration and directors' remuneration

As per the Articles of Incorporation, the Company shall first provide no lower than 1% of the balance for employee remuneration and no higher than 2% for directors' remuneration. However, where the Company has a cumulative deficit, the amount to offset the deficit shall be retained first. The recipients of the employee remuneration in the preceding paragraph may include the employees at affiliates who satisfy certain criteria.

The employee remuneration provided for 2021 was NT\$1,446 thousand and directors' remuneration provided for 2021 was NT\$2,891 thousand (the pre-tax net income before employee remuneration and directors' remuneration were deducted multiplied by the percentages of the balance for employee remuneration and directors' remuneration as specified in the Articles of Incorporation), which were recognized in the 2021 operating expenses costs or expenses. Where there is a difference between the amounts paid out and the estimated amounts, it will be treated as a change in accounting estimates, and the difference will be recognized in profit or loss in the following year. If the Board of Directors resolves a decision to pay out stock dividends to employees, the basis for calculating the number of shares for stock dividends is based on the closing price of common stock prevailing on the day before the resolution of the Board of Directors. Due to the operating loss in 2022, there was no need to estimate the remuneration to employees and directors.

The employee remuneration provided for 2021 and 2020 was NT\$1,446 thousand and NT\$0 thousand, respectively, and the directors' remuneration provided was NT\$2,891 thousand and NT\$0, respectively. The amounts are not different from the amounts paid out. Relevant information is available on the MOPS.

#### (XXI) Non-operating income and expenses

##### 1. Interest income

The details of the Company's interest income are as follows:

	<u>2022</u>	<u>2021</u>
Interest on cash in bank	\$ 231	14
Other interest income	74	10
Total	<u>\$ 305</u>	<u>24</u>

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

### 2. Other income

The details of the Company's other income are as follows:

	<u>2022</u>	<u>2021</u>
Compensation income	\$ 8	80
Revenue from sale of wastewater	210	5,755
Dividend income	17,517	9,035
Other income	93	241
Total	<u>\$ 17,828</u>	<u>15,111</u>

### 3. Other gains and losses

The details of the Company's other gains and losses are as follows:

	<u>2022</u>	<u>2021</u>
Loss on disposal of property, plant and equipment	\$ -	(320)
Lease modification gain	41	-
Foreign exchange gains (losses)	952	(397)
Net (gain) loss on financial assets (liabilities) at fair value through profit or loss	(67,842)	109,379
Miscellaneous expenses	-	(100)
Total	<u>\$ (66,849)</u>	<u>108,562</u>

### 4. Financial costs

The details of the Company's financial costs are as follows:

	<u>2022</u>	<u>2021</u>
Bank borrowings	\$ 2,719	2,088
Amortization of discounted corporate bonds payable	3,008	-
Lease liabilities	17	43
Other interest expenses	2	-
Total	<u>\$ 5,746</u>	<u>2,131</u>

## (XXII) Financial instruments

### 1. Credit risk

#### (1) The amount of maximum exposure to credit risk

The carrying amount of the financial assets represents the maximum exposure to credit risk.

#### (2) Credit concentration risk

The Company's sales are significantly concentrated in a small number of clients. As of December 31, 2022 and 2021, the carrying amounts of the Company's receivables were 47% and 33%, respectively, from two clients and one client, respectively.

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

### (3) Credit risk of accounts receivable

Please refer to Note 6(3) for the information on the credit risk arising from arising from the notes and accounts receivable.

Other financial assets measured at amortized cost include other receivables and certificates of deposit.

All of the above are financial assets with low credit risk, so the allowance for losses provided for the period is measured by the 12-month expected credit loss.

### 2. Liquidity risk

The table below shows the contractual maturity dates for financial liabilities, including estimated interest but excluding the effect of netting agreements.

	Carrying amount	Contractual cash flow	Less than 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
<b>December 31, 2022</b>							
Non-derivative financial liabilities							
Short-term borrowings (floating rates)	\$ 179,910	180,621	150,554	30,067	-	-	-
Notes payable	301	301	301	-	-	-	-
Accounts payable	17,701	17,701	17,701	-	-	-	-
Other payables	39,313	39,313	39,313	-	-	-	-
Long-term borrowings (including current portion)	43,000	44,252	7,433	9,354	18,409	9,056	-
(floating rates)							
Corporate bonds payable (fixed rates)	287,491	300,000	-	-	-	300,000	-
Lease liabilities	601	606	192	191	223	-	-
Guarantee deposits received	2,572	2,572	214	340	273	1,745	-
Derivative financial liabilities							
Financial liabilities at fair value through profit or loss - non-current							
	3,390	3,390	-	-	-	3,390	-
	<u>\$ 574,279</u>	<u>588,756</u>	<u>215,708</u>	<u>39,952</u>	<u>18,905</u>	<u>314,191</u>	<u>-</u>
<b>December 31, 2021</b>							
Non-derivative financial liabilities							
Short-term borrowings (floating rates)	\$ 220,000	220,816	170,698	50,118	-	-	-
Notes payable	576	576	576	-	-	-	-
Accounts payable	22,252	22,252	22,252	-	-	-	-
Other payables	18,872	18,872	18,872	-	-	-	-
Lease liabilities	3,966	4,088	473	473	946	1,914	282
Guarantee deposits received	2,583	2,583	347	1,103	34	1,099	-
	<u>\$ 268,249</u>	<u>269,187</u>	<u>213,218</u>	<u>51,694</u>	<u>980</u>	<u>3,013</u>	<u>282</u>

The Company does not expect that the cash flow in the maturity date analysis will occur significantly earlier or that the actual amount will be significantly different.

### 3. Exchange rate risk

#### (1) Exposure to exchange rate risk

The Company's financial assets and liabilities exposed to the significant foreign currency exchange rate risk is as follows:

	2022.12.31			2021.12.31		
	Foreign currency (in thousands of dollars)	Exchange rate	NTD	Foreign currency (in thousands of dollars)	Exchange rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
RMB	\$ 224	4.408	987	3	4.34	13
USD	417	30.71	12,814	207	27.68	5,730

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

### (2) Sensitivity analysis

The exchange rate risk of the Company's monetary items mainly comes from the foreign exchange gains or losses on cash and cash equivalents, accounts receivable and other receivables, borrowings, accounts payable, and other payables, denominated in foreign currencies. On December 31, 2022 and 2021, when the NTD depreciated or appreciated by 1% against USD and CNY, with all other factors held constant, the net loss after tax for 2022 would have increased or decreased by NT\$110 thousand, and the net income after tax for 2021 would have decreased or increased by NT\$46 thousand. The analyses in the two periods are on the same basis.

### (3) Exchange gains or losses on monetary items

The information on the exchange rates for the translation of the Company's exchange gains and losses on the monetary items (including realized and unrealized) to the Company's functional currency is as follows:

	2022		2021	
	Exchange gain (loss)	Average exchange rate	Exchange gain (loss)	Average exchange rate
NTD	\$ <u>952</u>	1	<u>(397)</u>	1

### 4. Interest rate risk

The exposure of the Company's financial assets and financial liabilities to interest rate risk is described in liquidity risk management under this note.

The sensitivity analysis below is based on the exposure of derivative and non-derivative instruments to the interest rate risk at the reporting date. The method of analysis of liabilities at floating rates is to assume that the amount of liabilities outstanding at the reporting date is outstanding throughout the year. One percent increase or decrease in interest rates is the sensitivity rate used in reporting the interest rate risk to the Company's key management team and represents the management's assessment of the reasonable range of potential changes in interest rates.

If the interest rate increases or decreases by 1%, with all other variables held constant, the Company's 2022 net loss after tax would have increased or decreased by NT\$1,655 thousand, and 2021 net income after tax in 2010 would have decreased or increased by NT\$1,760 thousand, mainly due to the Company's borrowings at floating interest rates.

### 5. Other price risks

If the prices of equity securities changed on the reporting date (the analyses in the two periods are on the same basis while other factors are assumed to remain unchanged), the impact on the comprehensive income items is as follows:

Security price on reporting date	2022		2021	
	Other comprehensive income after tax	Profit or loss after tax	Other comprehensive income after tax	Profit or loss after tax
Increase by 3%	\$ <u>22</u>	<u>11,844</u>	-	<u>11,610</u>
Decrease by 3%	\$ <u>(22)</u>	<u>(11,844)</u>	-	<u>(11,610)</u>

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

### 6. Fair value information

#### (1) Types and fair values of financial instruments

The carrying amounts and fair values of the Company's financial assets and financial liabilities (including fair value level information), except for the financial instruments not at fair value with their carrying amounts being the reasonable approximations of their fair values and the investment in equity instruments without quoted prices in an active market, the fair value of which cannot be reliably measured, are listed below:

	2022.12.31				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
<b>Financial assets at fair value through profit or loss</b>					
Financial assets mandatorily at fair value through profit or loss	\$ 493,512	493,512	-	-	493,512
<b>Financial assets at amortized cost</b>					
Cash and cash equivalents	89,438	-	-	-	-
Financial assets at amortized cost	8,050	-	-	-	-
Notes receivable	11,137	-	-	-	-
Accounts receivable	37,389	-	-	-	-
Other receivables	456	-	-	-	-
Other financial assets	800	-	-	-	-
Guarantee deposits paid	1,785	-	-	-	-
Subtotal	<u>149,055</u>				
<b>Financial assets at fair value through other comprehensive income</b>					
Domestic non-listed stocks	926	-	-	926	926
Total	<u>\$ 643,493</u>				
<b>Financial liabilities at fair value through profit or loss</b>					
Financial liabilities mandatorily at fair value through profit or loss	\$ 3,390	-	3,390	-	3,390
<b>Financial liabilities at amortized cost</b>					
Short-term borrowings	179,910	-	-	-	-
Notes payable	301	-	-	-	-
Accounts payable	17,701	-	-	-	-
Other payables	39,313	-	-	-	-
Lease liabilities	601	-	-	-	-
Long-term borrowings (including current portion)	43,000	-	-	-	-
Corporate bonds payable	287,491	-	289,920	-	289,920
Guarantee deposits received	2,572	-	-	-	-
Subtotal	<u>570,889</u>				
Total	<u>\$ 574,279</u>				



## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

	2021.12.31				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
<b>Financial assets at fair value through profit or loss</b>					
Financial assets mandatorily at fair value through profit or loss	\$ 483,764	483,764	-	-	483,764
<b>Financial assets at amortized cost</b>					
Cash and cash equivalents	23,498	-	-	-	-
Notes receivable	10,984	-	-	-	-
Accounts receivable	41,570	-	-	-	-
Other receivables	437	-	-	-	-
Guarantee deposits paid	2,134	-	-	-	-
Other financial assets	800	-	-	-	-
Subtotal	79,423				
Total	\$ 563,187				
<b>Financial liabilities at amortized cost</b>					
Short-term borrowings	\$ 220,000	-	-	-	-
Notes payable	576	-	-	-	-
Accounts payable	22,252	-	-	-	-
Other payables	18,872	-	-	-	-
Lease liabilities	3,966	-	-	-	-
Guarantee deposits received	2,583	-	-	-	-
Total	\$ 268,249				

The Company uses inputs observable in the market as much as possible when measuring its assets and liabilities. The fair value level is decided based on the fair value input and classified as follows:

- (i) Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.
- (ii) Level 2: Inputs, other than quoted market prices within level 1 that are observable, either directly (i.e. prices) or indirectly (derived from prices) for assets or liabilities.
- (iii) Level 3 inputs: Inputs for assets or liabilities not based on observable information in the market (non-observable inputs).

(2) Fair value valuation techniques for financial instruments at fair value

The Company's financial instruments not measured at fair value are financial assets and liabilities measured at amortized cost, except for those whose due dates are very close or whose future prices are close to the carrying amounts with the fair values estimated at the carrying amounts at the balance sheet date. The methods and assumptions adopted are as follows:

If there is information on quoted prices from transactions or market makers, the latest transaction price and quoted price should be adopted as the basis for valuating the fair value. If there is no information on market prices for reference, the valuation method is adopted for estimation. The estimates and assumptions used in the valuation method are the discounted value of cash flows to estimate the fair value.

The liability components of the convertible corporate bonds issued by the Company are estimated using a valuation method, and the estimation and assumption adopted in the valuation method is the estimation of the fair value by discounting the cash flow.

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

### (3) Fair value valuation techniques for financial instruments at fair value

#### (3.1) Non-derivative financial instruments

If there is a quoted price in an active market for a financial instrument, the price in the active market is adopted as the fair value. The market prices announced by the major exchanges and central government bond (judged to be popular bonds) over-the-counter trading centers serve as the basis for the fair values of equity instruments listed on Taiwan Stock Exchange or Taipei Exchange for trading and debt instruments with quoted prices in an active market.

If the quoted prices of financial instruments can be accessible in a timely and frequently manner from exchanges, brokers, underwriters, industry associations, pricing service agencies, or competent authorities, and such prices represent the actual fair market transactions that take place frequently, then, the quoted prices of the financial instruments are available in an active market. If the above criteria fail to be met, the market is considered inactive. In principle, a large bid-ask spread, a significant increase in the bid-ask spread, or little trading volume are indicators of an inactive market.

The listed stocks and convertible corporate bonds held by the Company are financial assets with standard terms and conditions and traded in active markets, and their fair values are subject to quoted prices in the market.

Except for the above financial instruments with quoted prices in an active market, the fair values of financial instruments are determined with valuation techniques or with reference to quotations from counterparties. The fair values determined through valuation techniques can be calculated with reference to the present fair values of other financial instruments with substantively similar conditions and characteristics, the discounted cash flow method, or other valuation techniques, including the use of market information available on the balance sheet date.

The fair values of financial instruments held by the Company without an inactive market are listed by category and attribute as follows:

· Equity instruments without quoted prices in an active market: The fair values are estimated with the comparative valuation method, and the main assumption is based on the book value per share of each investee and the average price-to-book value ratio of the instruments in the same industry derived from the quoted prices of the comparable instruments listed on Taiwan Stock Exchange or Taipei Exchange. Such estimate has been adjusted for the effect of discounting due to the lack of market liquidity of such equity securities.

#### (3.2) Derivative financial instruments

Such instruments are valued with valuation models widely accepted by market users, such as discount methods and option pricing models. The Company's right to reverse repurchase of its first convertible corporate bonds is valued by the binary tree method.

### (4) Table of movements at Level 3 fair value

	<b>Financial assets at fair value through other comprehensive income</b>	
	<b>Equity instruments without quoted prices in an active market</b>	
Balance on January 1, 2022	\$	-
Reclassification		881
Recognized in other comprehensive income		45
Balance on December 31, 2022	<b>\$</b>	<b>926</b>

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

(5) Quantitative information on fair values of significant unobservable inputs (Level 3) measured

The Company's fair values classified as Level 3 mainly belong to financial assets measured at fair value through other comprehensive income and loss - investment in equity instruments.

The Company's fair values classified as Level 3 are only single significant unobservable inputs.

The quantitative information on the significant unobservable inputs is stated below:

Item	Valuation technique	Significant unobservable input	Relations between significant unobservable input and fair value
Financial assets at fair value through other comprehensive income - investment in equity instruments without an active market	Comparable company analysis	Discount for minority interest (25% on 2022.12.31) Discount for lack of marketability (30% on 2022.12.31)	• The higher the discount for lack of marketability, the lower the fair value.

(6) Sensitivity analysis of fair value to reasonably possible alternative assumptions regarding Level 3 fair value measurement

The Company's measurement of the fair values of financial instruments is reasonable, but if different valuation models or valuation parameters are adopted, the valuation results may differ. If the valuation parameters for financial instruments classified as Level 3 change, the effect on other comprehensive income is as follows:

	Input	Increase or decrease	Changes in fair values reflected in the current profit or loss	
			Favorable change	Unfavorable change
December 31, 2022				
Financial assets at fair value through other comprehensive income				
Investment in equity instruments without an active market	Discount for lack of marketability	1.00%	\$ <u>13</u>	<u>13</u>
"	Discount for minority interest	1.00%	\$ <u>3</u>	<u>3</u>

The favorable and unfavorable changes to the Company refer to the fluctuation of the fair values, and the fair values are determined with valuation techniques based on different levels of unobservable input parameters. If the fair value of a financial instrument is affected by more than one input, the above table only reflects the effect of a change in a single input and does not include the correlation and variability between inputs.

(7) There was no transfer between any fair value levels during 2022 and 2021.

(XXIII) Financial risk management

1. Summary

The Company is exposed to the following risks due to the use of financial instruments:

- (1) Credit risk
- (2) Liquidity risk
- (3) Market risk

This note discloses the Company's exposure to the above risks as well as objectives, policies and procedures for risk measurement and management. Please refer to the notes to the financial statements for more quantitative information.

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

### 2. Risk management framework

The Board of Directors is solely responsible for establishing and monitoring the Company's risk management structure. The Risk Management Committee established by the Board of Directors is responsible for developing and controlling the Company's risk management policies and reporting its operations to the Board of Directors on a regular basis.

The Company's risk management policy aims to identify and analyze the risks facing the Company, set appropriate risk limits and control measures, and monitor the compliance for risks and risk limits. The risk management policy and system are regularly reviewed to reflect changes in the market conditions and the Company's operations. The Company has developed a disciplined and constructive control environment through training, management guidelines, and operating procedures, enabling all employees to understand their roles and obligations.

The Company's Audit Committee supervises how the management monitors the compliance with the risk management policy and procedures and reviews the appropriateness of the risk management framework for the risks faced. Internal auditors assist the Audit Committee with its supervision. Such personnel conduct regular and exception reviews of risk management control measures and procedures and report the review results to the Audit Committee.

### 3. Credit risk

The Company's credit risk is the risk of financial loss suffered by the Company arising from the failure of customers or counterparties of financial instruments to fulfill contractual obligations, mainly from the Company's accounts receivable from clients and securities investment.

#### (1) Accounts receivable and other receivables

The Risk Management Committee has established a credit policy, as per which the Company analyzes each new client's credit rating before setting standard payment and delivery terms and conditions for them. The Company's review covers external ratings, if available, and, in some cases, notes sent by banks. A purchase limit is set on a client-by-client basis and represents the maximum outstanding balance that does not require the Risk Management Committee's approval. Such limits are regularly reviewed. Clients who do not meet the Company's standard credit rating can only conduct transactions with the Company on an advance receipt basis.

If sales of goods are subject to a retention of title clause, the Company is entitled to a collateral claim in the absence of payment. The Company collects certificates of deposit from clients and clients pledged real property to the Company as collateral for their notes and accounts receivable. The details are shown in Note 6(3).

#### (2) Investment

The credit risk arising from cash in bank, fixed-income investments and other financial instruments are measured and monitored by the Company's Finance Department. As the Company's transaction counterparties and contract counterparties are all creditworthy banks and financial institutions rated at investment grade and above, there is no significant doubts over contract performance, hence no significant credit risk.

### 4. Liquidity risk

The Company manages and maintains sufficient cash and cash equivalents to support its operations and alleviate the impact of cash flow fluctuations. The Company's management personnel supervise the use of bank financing facilities and ensure compliance with the terms of the loan contracts.

Bank borrowings are an important source of liquidity for the Company. As of December 31, 2022 and 2021, the Company's unused short-term bank financing facilities amounted to NT\$200,000 thousand and NT\$90,000 thousand, respectively.

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

### 5. Market risk

Market risk refers to the risk that affects the Company's revenue or the value of financial instruments held due to changes in market prices, such as changes in exchange rates, interest rates, or equity instrument prices. The purpose of market risk management is to control the exposure to market risks within a range of tolerance and optimize return on investment.

#### (1) Exchange rate risk

The Company is exposed to exchange rate risk arising from sales, procurement, and borrowings that are not denominated in its functional currency. The Company's functional currency is NTD. The main currencies, in which such transactions are denominated, are USD and CNY.

#### (2) Interest rate risk

The risk of fluctuations in fair value or future cash flows arise from the changes in interest rates on the Company's borrowings. The Company's policy is to manage the interest rate risk by ensuring that the exposure to the risk of changes in borrowing interest rates is assessed based on market interest rate trends, thereby maintaining an appropriate combination of floating and fixed rates.

#### (3) Other market price risks

The Company is exposed to the equity price risk due to investments in listed equity securities. Such equity investments are not held for trading but for strategic purposes. The Company does not actively trade such securities.

### (XXIV) Capital management

The policy of the Board of Directors aims to maintain a sound capital foundation to secure investors, creditors, and the market's confidence and support the development of the future operations. The capital includes the Company's share capital, capital surplus, and retained earnings. The Board of Directors controls the rate of return on capital and also controls the amount of common stock dividends.

The Company's capital management aims to ensure the ability to continue as a going concern, continue to provide bonuses to shareholders and interests to other stakeholders, and maintain an optimal capital structure to reduce capital costs.

To maintain or adjust the capital structure, the Company may adjust the dividends paid to shareholders, reduce capital and refund capital to shareholders, issue new shares, or sell assets to settle liabilities.

The Company's capital management strategy in 2022 was the same as in 2021.

The debt ratio on December 31, 2022 and 2021 is as follows:

	<u>2022.12.31</u>	<u>2021.12.31</u>
Total liabilities	\$ 612,690	312,114
Less: Cash and cash equivalents	(89,438)	(23,498)
Net liability	<u>\$ 523,252</u>	<u>288,616</u>
Total equity	<u>\$ 829,253</u>	<u>947,348</u>
Debt ratio	<u>63.10%</u>	<u>30.47%</u>

The Company's debt ratio increased mainly due to the issuance of corporate bonds in 2022.

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

### (XXV) Non-cash transactions in investing and financing activities

The reconciliation of liabilities from the Company's financing activities during the years ended December 31, 2022 and 2021 is as follows:

	<u>Short-term borrowings</u>	<u>Corporate bonds payable</u>	<u>Lease liabilities</u>	<u>Long-term borrowings (including current portion)</u>	<u>Total liabilities from financing activities</u>
Balance on January 1, 2022	\$ 220,000	-	3,966	-	223,966
Cash flow					
Cash from borrowings	516,042	-	-	50,000	566,042
Repayment of borrowings	(556,132)	-	-	(7,000)	(563,132)
Cash obtained from issuance of convertible corporate bonds	-	294,665	-	-	294,665
Lease principal repayment	-	-	(514)	-	(514)
Non-cash changes					
Discounting and amortization	-	3,008	-	-	3,008
Other changes	-	(10,182)	(2,851)	-	(13,033)
Balance on December 31, 2022	<u>\$ 179,910</u>	<u>287,491</u>	<u>601</u>	<u>43,000</u>	<u>511,002</u>

	<u>Short-term borrowings</u>	<u>Lease liabilities</u>	<u>Total liabilities from financing activities</u>
Balance on January 1, 2021	\$ 208,000	3,516	211,516
Cash flow			
Cash from borrowings	483,000	-	483,000
Repayment of borrowings	(471,000)	-	(471,000)
Lease principal repayment	-	(679)	(679)
Other changes	-	1,129	1,129
Balance on December 31, 2021	<u>\$ 220,000</u>	<u>3,966</u>	<u>223,966</u>

## VII. Related Party Transactions

### (I) Parent company and ultimate controller

U-Best Innovative Technology Co., Ltd. (hereinafter referred to as "U-Best") is the parent company of the Company with 15.08% ownership of the Company's outstanding ordinary shares. Sun Yad Construction Co., Ltd. (hereinafter referred to as "Sun Yad") is the ultimate controller of the group to which the Company belongs. Both Sun Yad and U-Best have prepared and disclosed consolidated financial statements.

### (II) Name of the related party and relations

During the period covered by the financial statements, the transactions between the Company and related parties thereof are as follows:

<u>Name of related party</u>	<u>Relations with the Company</u>
U-Best Innovative Technology Co., Ltd. (U-Best)	Parent company of the Company
Luxe Bring Co., Ltd. (Luxe Bring)	Affiliate (Note)
Lin, Ching-Long	Director of the Company

Note: It no longer served as the director of the affiliate, Luxe Bring, from August 12, 2022.

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

### (III) Significant transactions with related parties

#### 1. Operating revenue

The Company's significant sales to related parties are as follows:

<u>Account title</u>	<u>Category/Name of related party</u>	<u>2022</u>	<u>2021</u>
Operating revenue	Affiliate: Luxe Bring	<u>\$ 1,162</u>	<u>4,371</u>

There is no similar transaction to refer to for the sales of goods, and the prices are determined by both parties through negotiation, and the payment conditions are similar to those with regular clients; the Company's payment period for related parties is 60 days.

To guarantee that Luxe Bring will continue to place orders to the Company, it provided the Company with a guarantee deposit of NT\$763 thousand as of December 31, 2021, which was recognized in "Guarantee deposits received" in the balance sheet.

#### 2. Purchases

The amounts of purchases by the Company from related parties are as follows:

<u>Category/Name of related party</u>	<u>2022</u>	<u>2021</u>
U-Best	\$ 7,515	2,021
Luxe Bring	-	2,392
	<u>\$ 7,515</u>	<u>4,413</u>

Except for those with no similar transactions to refer to and the prices determined by both parties through negotiation, the prices of purchases from the above related parties are similar to those regular suppliers; the payment terms are similar to those with regular clients. The payment period is 30–60 days.

#### 3. Accounts receivable from related parties

The details of the Company's receivables from related parties are as follows:

<u>Account title</u>	<u>Category/Name of related party</u>	<u>2021.12.31</u>
Accounts receivable	Affiliate: Luxe Bring	<u>\$ 255</u>

Accounts receivable from related parties are mainly from sales and are due 60 days after the settlement date. The accounts receivable are non-interest bearing.

#### 4. Accounts payable to related parties

The details of the Company's payables to related parties are as follows:

<u>Account title</u>	<u>Category/Name of related party</u>	<u>2022.12.31</u>	<u>2021.12.31</u>
Accounts payable	U-Best	<u>\$ 4,567</u>	<u>225</u>

Accounts payable to related parties are mainly from purchases and are due 30–60 days after the purchase date. The accounts payable are non-interest bearing.

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

### 5. Leasing

The Company leased a warehouse to Luxe Bring in March 2022, with the lease term from March 2022 through February 2027. The rental income recognized for 2022 was NT\$96 thousand, recognized in operating revenue in the statement of comprehensive income. As of December 31, 2022, the receivables for the aforementioned transactions have been received.

6. The Company sold transportation equipment to a director of the Company in July 2021 at the total price of NT\$1,806 thousand; the loss on the disposal was NT\$90 thousand, which was recognized in the non-operating income and expenses in the statement of comprehensive income. As of December 31, 2021, the receivables for the aforementioned transactions have been received.
7. The Company's key management personnel are the joint guarantors for the bank borrowings and the available facilities as of December 31, 2022 and 2021.

### (IV) Transactions with key management personnel

Key management personnel's remuneration includes:

	<u>2022</u>	<u>2021</u>
Short-term employee benefits	\$ 10,177	10,260
Post-employment benefits	-	1,173
	<u>\$ 10,177</u>	<u>11,433</u>

### VIII. Assets Pledged

The details of the book values of the assets pledged by the Company are as follows:

<u>Name of asset</u>	<u>Item for which assets pledged</u>	<u>2022.12.31</u>	<u>2021.12.31</u>
Time deposits (other financial assets)	Security deposit for natural gas	\$ 800	800
Property, plant and equipment	Bank borrowings	197,255	267,311
Investment property	Bank borrowings	65,558	66,091
		<u>\$ 263,613</u>	<u>334,202</u>

### IX. Significant Contingent Liabilities and Unrecognized Commitments

	<u>2022.12.31</u>	<u>2021.12.31</u>
Acquisition of property, plant and equipment	\$ 14,775	-
Acquisition of investment property	\$ 52,637	-

### X. Major Disaster Loss: None.

### XI. Material Events After the Balance Sheet Date: None.



## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

### XII. Others

(I) The employee benefits, depreciation, depletion, and amortization expenses of the year by function is summarized as follows:

By function By nature	2022			2021		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefit expenses						
Salary and wages	18,954	24,273	43,227	23,278	20,864	44,142
Labor and health insurance expenses	2,025	1,615	3,640	2,432	1,665	4,097
Pension expenses	988	756	1,744	1,229	749	1,978
Directors' remuneration	-	1,471	1,471	-	2,891	2,891
Other employee benefit expenses	1,567	677	2,244	1,627	2,521	4,148
Depreciation expenses	19,514	592	20,106	21,031	1,335	22,366
Amortization expenses	12	238	250	21	389	410

Additional information on the Company's number of employees and employee benefit expenses for 2022 and 2021 is as follows:

	2022	2021
Number of employees	<u>66</u>	<u>80</u>
Number of directors who do not concurrently serve as employees	<u>6</u>	<u>6</u>
Average employee benefit expenses	<u>\$ 848</u>	<u>735</u>
Average employee salary and wages	<u>\$ 720</u>	<u>597</u>
Average adjustment to employee salary and wages	<u>20.68%</u>	
Remuneration to supervisor	<u>\$ -</u>	<u>-</u>

The information on the Company's remuneration policy (including directors, supervisors, managers, and employees) is as follows:

1. Directors' remuneration: The remuneration to the Company's directors includes directors' remuneration, salary, executive differential pay, severance pay, various bonuses, and incentives for serving as employees concurrently.
2. Regarding directors' remuneration, as per the Company's Articles of Incorporation, after a cumulative deficit is deducted from the Company's profit for the year, if there are earnings, the Company shall appropriate not less than 1% of the balance for employee remuneration and no greater than 2% for directors' remuneration.
3. Salary for managers and employees: In addition to the base salary and allowances, we pay remuneration and bonuses to them depending on the Company's operating and personal performance.

(II) Seasonality of business:

The Company's business is not influenced by seasonal or cyclical factors.

### XIII. Additional Disclosures

(I) Information on Significant Transactions

As per the Regulations Governing the Preparation of Financial Reports by Securities Issuers, relevant information on significant transactions that the Company shall disclose during 2022 is as follows:

1. Loans to others: None.
2. Endorsements/guarantees provided to others: None.

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

### 3. Securities held at the end of the period (excluding investments in subsidiaries, affiliates, and joint ventures):

Unit: In thousands of shares

Company	Type and name of securities held	Relations with securities issuer	Account title	End of period				Remarks
				Number of shares	Carrying amount	Shareholding	Fair value	
The Company	Ordinary shares - E.SUN Financial Holding Co., Ltd.	-	Financial assets at fair value through profit or loss - non-current	3,547	85,312	0.02 %	85,312	
The Company	Ordinary shares-Taiwan Business Bank, Ltd.	-	Financial assets at fair value through profit or loss - non-current	9,254	119,836	0.12 %	119,836	
The Company	Ordinary shares - Taishin Financial Holding Co., Ltd.	-	Financial assets at fair value through profit or loss - non-current	9,009	136,043	0.07 %	136,043	
The Company	Ordinary shares - Shin Kong Financial Holding Co., Ltd.	-	Financial assets at fair value through profit or loss - current	3,200	28,064	0.02 %	28,064	
The Company	Ordinary shares - King's Town Bank Co., Ltd.	-	Financial assets at fair value through profit or loss - current	278	9,424	0.03 %	9,424	
The Company	Ordinary shares - We & Win Diversification Co., Ltd.	-	Financial assets at fair value through profit or loss - current	124	1,457	0.06 %	1,457	
The Company	Ordinary shares - Kuyue Development Co., Ltd.	-	Financial assets at fair value through profit or loss - current	112	1,820	0.07 %	1,820	
The Company	Ordinary shares - Da-Li Development Co., Ltd.	-	Financial assets at fair value through profit or loss - current	518	15,333	0.13 %	15,333	
The Company	Ordinary shares - China Development Financial Holding Corporation	-	Financial assets at fair value through profit or loss - current	832	10,483	-	10,483	
The Company	Preference shares - China Development Financial Holding Corporation	-	Financial assets at fair value through profit or loss - current	1,355	10,489	-	10,489	
The Company	Ordinary shares - Radium Life Tech Co., Ltd.	-	Financial assets at fair value through profit or loss - current	30	274	-	274	
The Company	Ordinary shares-Taiwan Semiconductor Manufacturing Co., Ltd.	-	Financial assets at fair value through profit or loss - current	5	2,243	-	2,243	
The Company	Ordinary shares -Eternal Materials Co., Ltd.	-	Financial assets at fair value through profit or loss - current	134	4,186	0.01 %	4,186	
The Company	Ordinary shares - Meiloon Industrial Co., Ltd.	-	Financial assets at fair value through profit or loss - current	96	1,877	0.06 %	1,877	
The Company	Ordinary shares - Formosa Optical Technology Co., Ltd.	-	Financial assets at fair value through profit or loss - current	80	4,640	0.13 %	4,640	
The Company	Ordinary shares - SanDi Properties Co., Ltd.	-	Financial assets at fair value through profit or loss - current	131	4,120	0.14 %	4,120	
The Company	Ordinary shares - Sun Yad Construction Co., Ltd.	Ultimate parent company of the Company	Financial assets at fair value through profit or loss - current	803	9,510	0.37 %	9,510	
The Company	Convertible corporate bonds - Sun Yad 5	Ultimate parent company of the Company	Financial assets at fair value through profit or loss - current	245	27,401	-	27,401	
The Company	Ordinary shares - U-Best Innovative Technology Co., Ltd.	Parent company of the Company	Financial assets at fair value through profit or loss - current	2,000	21,000	1.43 %	21,000	

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

The Company	Ordinary shares - Luxe Bring Co., Ltd.	-	Financial assets at fair value through other comprehensive income - non-current:	166	926	12.77 %	926
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4. Securities acquired or sold amounting to at least NT\$300 million or 20% of the paid-in capital: None.
5. Acquisition of real estate amounting to at least NT\$300 million or 20% of the paid-in capital: None.
6. Disposal of real estate amounting to at least NT\$300 million or 20% of the paid-in capital: None.
7. Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None.
8. Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None.
9. Derivatives Trading: Note 6(11).

### (II) Information on Investees:

The information on the Company's investees during 2022 is as follows (excluding investees in China):

Investor	Investee	Location	Main business activities	Initial investment amount		End of period			Current profit or loss on investee	Investment income or loss recognized for this period	Remarks
				End of this period	End of last year	Number of shares	Percent age	Carrying amount			
Hsin-Li Chemical Industrial Corp.	Luxe Bring Co., Ltd.	Taiwan	Wholesale of building materials and chemical raw materials	-	1,660	-	- %	-	(4,465)	(742)	Note

Note: The Company resigned as the director of Luxe Bring on August 11, 2022 and lost its significant influence on Luxe Bring. Thus, the Company has designated the investment in Luxe Bring measured at fair value through other comprehensive income.

### (III) Information on Investment in Mainland China: None.

### (IV) Information on Major Shareholders:

Unit: Share

Name of major shareholder	Shares	Number of shares held	Shareholding
U-Best Innovative Technology Co., Ltd.		10,180,219	15.08%
Feei Chemg Enterprise Co., Ltd.		6,970,000	10.32%
Shangyu Construction Co., Ltd.		3,408,650	5.04%

Note: (1) The major shareholders in this table are shareholders each holding 5% or more of the Company's ordinary and preference shares with registration of dematerialized securities completed (including treasury shares) on the last business day of each quarter calculated by the Taiwan Depository & Clearing Corporation. Share capital indicated in the Company's financial statements may differ from the actual number of shares that have been issued and delivered with registration of dematerialized securities completed as a result of different bases of preparation.

- (2) If a shareholder delivers its shareholding information to the trust, the aforesaid information shall be disclosed by the individual trustee who opened the trust account. Please visit the MOPS for information on shareholders, who declare to be insiders holding more than 10% of shares in accordance with the Securities and Exchange Act, and their shareholdings including their shareholdings plus their shares in a trust and shares with the right to make decisions on trust property.

## XIV. Information on Operating Segments

### (I) General information

The Company mainly engages in the manufacturing and sales of synthetic leather and plastic leather products and is a single segment to be reported, and the segment's financial information is the same as that in the financial statements. The operating segment's accounting policy is the same as that stated in Note 4.

### (II) Information on the segment's profit and loss, assets, liabilities, and the basis for measurement and reconciliation to be reported

The information on the segment's profit and loss, assets, and liabilities is the same as that in the financial statements. Please refer to the balance sheet and statement of comprehensive income.

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

### (III) Information on the enterprise as a whole

#### 1. Information on products and services

The Company mainly engages in the manufacturing and sales of synthetic leather and plastic leather products, and the information on products and services is the same as that in the financial statements. Please refer to Note 6 (19).

#### 2. Information by region

The Company's information by region is as follows, and revenue is classified by client's geographical location, while non-current assets are classified by geographical location of asset.

Revenue from external clients:

<u>Region</u>	<u>2022</u>	<u>2021</u>
Taiwan	\$ 311,765	352,685
Japan	11,815	8,404
Mainland China	1,694	3,678
Other countries	89	233
Total	<u>\$ 325,363</u>	<u>365,000</u>

Non-current assets:

<u>Region</u>	<u>2022.12.31</u>	<u>2021.12.31</u>
Taiwan	<u>\$ 750,996</u>	<u>631,839</u>

Non-current assets include property, plant and equipment, right-of-use assets, and other non-current assets but exclude non-current assets: financial instruments, deferred tax assets, assets of post-employment benefits, and rights from insurance contracts.

#### 3. Information on important clients

The details of clients whose contribution to the Company's sales revenue accounts for 10% or more of the net operating revenue in the statement of comprehensive income are as follows:

<u>Client</u>	<u>2022</u>	<u>2021</u>
Company A	<u>\$ 112,875</u>	<u>92,451</u>

Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

**Hsin-Li Chemical Industrial Corp.**  
**Statement of Cash and cash equivalents**  
**December 31, 2022**

Unit: NT\$ thousand

<u>Item</u>	<u>Summary</u>	<u>Amount</u>
Cash	Petty cash	\$ 82
	Demand deposits	83,779
	Foreign currency demand deposits (Note)	<u>5,577</u>
Total		<u>\$ 89,438</u>

Note: Foreign currency demand deposits have been translated at the spot exchange rate prevailing on 2022.12.31.  
 1 USD = 30.71 NTD  
 1 CNY = 4.408 NTD

**Statement of Financial Assets at Amortized Cost -  
 Current**

<u>Item</u>	<u>Summary</u>	<u>Amount</u>
Cash in bank	Foreign currency time deposits (Note)	<u>\$ 8,050</u>

Note: Foreign currency demand deposits have been translated at the spot exchange rate prevailing on 2022.12.31.  
 1 USD = 30.71 NTD

**Hsin-Li Chemical Industrial Corp.**

**Statement of Financial Assets at Fair Value Through Profit or Loss - Current**

**For the Years Ended December 31, 2022**

**Unit: NT\$ thousand**

**Unit: In thousands of shares**

Name	Opening balance		Increase in this period		Decrease in this period		Unrealized gain (loss) on financial products	Balance, ending		Collateral or pledge
	Number of shares	Fair value	Number of shares	Amount	Number of shares	Amount		Number of shares	Fair value	
Shin Kong Financial Holding Co., Ltd.	3,200	\$ 35,360	-	-	-	-	(7,296)	3,200	28,064	-
Ginko International Co., Ltd.	45	12,083	-	-	45	12,083	-	-	-	-
King's Town Bank Co., Ltd.	278	11,273	-	-	-	-	(1,849)	278	9,424	-
We & Win Diversification Co., Ltd.	124	1,792	-	-	-	-	(335)	124	1,457	-
Kunyue Development Co., Ltd.	112	1,730	-	-	-	-	90	112	1,820	-
YeaShin International Development Co., Ltd.	124	2,852	11	-	135	2,852	-	-	-	-
Da-li Development Co., Ltd.	97	2,953	424	13,112	3	92	(640)	518	15,333	-
Run Long Construction Co., Ltd.	16	886	-	-	16	886	-	-	-	-
China Development Financial Holding Corporation - ordinary shares	832	14,560	-	-	-	-	(4,077)	832	10,483	-
China Development Financial Holding Corporation - preference shares	759	7,281	596	5,541	-	-	(2,333)	1,355	10,489	-
Radium Life Tech Co., Ltd.	-	-	500	4,767	470	4,481	(12)	30	274	-
Taiwan Semiconductor Manufacturing Co., Ltd.	-	-	5	2,641	-	-	(398)	5	2,243	-
Eternal Materials Co., Ltd.	-	-	144	5,004	10	175	(643)	134	4,186	-
Meiloon Industrial Co., Ltd.	-	-	120	2,992	24	240	(875)	96	1,877	-
Formosa Optical Technology Co., Ltd.	-	-	80	5,008	-	-	(368)	80	4,640	-
SanDi Properties Co., Ltd.	-	-	131	4,189	-	-	(69)	131	4,120	-
International Games System Co., Ltd.	-	-	14	5,468	14	5,468	-	-	-	-
Sun Yad Construction Co., Ltd.	-	-	870	15,940	67	-	(6,430)	803	9,510	-
Sun Yad 5 convertible corporate bonds	245	48,755	-	-	-	-	(21,354)	245	27,401	-
U-Best Innovative Technology Co., Ltd.	-	-	2,000	26,957	-	-	(5,957)	2,000	21,000	-
Dimerco Express Corporation	-	-	28	3,077	28	3,077	-	-	-	-
T3EX Global Holdings Corp.	-	-	73	9,989	73	9,989	-	-	-	-
Evergreen Marine Corporation	-	-	142	16,126	142	16,126	-	-	-	-
Ruentex Development Co., Ltd.	-	-	65	5,056	65	5,056	-	-	-	-
<b>Total</b>		<b>\$ 139,525</b>		<b>125,867</b>		<b>60,525</b>	<b>(52,546)</b>		<b>152,321</b>	

**Hsin-Li Chemical Industrial Corp.**

**Statement of Notes Receivable**

**December 31, 2022**

**Unit: NT\$ thousand**

<u>Name of client</u>	<u>Summary</u>	<u>Amount</u>
6451	Business	\$ 2,862
6456	"	2,781
T526	"	2,234
Others (Note)	"	3,260
Total		<u>\$ 11,137</u>

Note: The balance of each client did not exceed 5% of the total amount of this account.

**Statement of Accounts Receivable**

<u>Name of client</u>	<u>Summary</u>	<u>Amount</u>
8A49	Business	\$ 17,527
7F27	"	2,891
6451	"	2,854
7F38	"	2,259
T008	"	2,013
Others (Note)	"	9,845
Subtotal		37,389
Less: Allowance for losses		-
Total		<u>\$ 37,389</u>

Note: The balance of each client did not exceed 5% of the total amount of this account.

**Hsin-Li Chemical Industrial Corp.**

**Statement of Other Receivables**

**December 31, 2022**

**Unit: NT\$ thousand**

<u>Name of client</u>	<u>Summary</u>	<u>Amount</u>
Yee Chai Polyester Co., Ltd.	Natural gas and utilities	\$ 383
Others	Sponsorship for year-end party and interest	73
Total		<u>\$ 456</u>

**Statement of Inventories**

<u>Item</u>	<u>Amount</u>		<u>Remarks</u>
	<u>Cost</u>	<u>Net Realizable Value</u>	
Raw materials	\$ 34,001	39,582	Market price depending on net realizable value
Finished goods	7,401	9,074	"
Work in progress	1,955	2,924	"
Less: An allowance for inventory valuation losses	<u>2,781</u>		
	<u>\$ 40,576</u>		



**Hsin-Li Chemical Industrial Corp.**  
**Statement of Other Current Assets**  
**December 31, 2022**

**Unit: NT\$ thousand**

<u>Item</u>	<u>Summary</u>	<u>Amount</u>
Prepaid insurance premiums		\$ 450
Excess business tax paid	Excess business tax paid	4,581
Rights of merchandize to be returned	Rights of merchandize to be returned	1,600
Others	Prepaid expenses and prepayments for purchase of raw materials	<u>605</u>
Total		<u><u>\$ 7,236</u></u>

**Statement of Other Financial Assets - Current**

<u>Item</u>	<u>Summary</u>	<u>Amount</u>
Restricted cash in bank	Pledged time deposit	<u><u>\$ 800</u></u>

**Hsin-Li Chemical Industrial Corp.**  
**Statement of Financial Assets at Fair Value Through Profit or Loss - Non-Current**  
**For the Years Ended December 31, 2022**

Unit: NT\$ thousand

Unit: In thousands of shares

<u>Name</u>	<u>Opening balance</u>		<u>Increase in this period</u>		<u>Decrease in this period</u>		<u>Unrealized gain (loss) on financial products</u>	<u>Balance, ending</u>		<u>Collateral or pledge</u>
	<u>Number of shares</u>	<u>Fair value</u>	<u>Number of shares</u>	<u>Amount</u>	<u>Number of shares</u>	<u>Amount</u>		<u>Number of shares</u>	<u>Fair value</u>	
E.SUN Financial Holding Co., Ltd.	3,323	\$ 93,219	224	-	-	-	(7,907)	3,547	85,312	None
Taiwan Business Bank Co., Ltd.	8,924	88,343	330	-	-	-	31,493	9,254	119,836	None
Taishin Financial Holding Co., Ltd.	8,585	<u>162,677</u>	425	<u>-</u>	-	<u>-</u>	<u>(26,634)</u>	9,010	<u>136,043</u>	None
Total		<u>\$ 344,239</u>		<u>-</u>		<u>-</u>	<u>(3,048)</u>		<u>341,191</u>	

**Hsin-Li Chemical Industrial Corp.**  
**Statement of Movements in Financial Assets at Fair Value Through Other**  
**Comprehensive Income - Non-current**  
**For the Years Ended December 31, 2022**

Unit: NT\$ thousand

Name	Opening balance		Increase in this period		Decrease in this period		Unrealized gain (loss) on financial products	Balance, ending		Collateral or pledge
	Number of shares	Fair value	Number of shares	Amount	Number of shares	Amount		Number of shares	Fair value	
	Unit: In thousands of shares									
Luxe Bring	-	\$ -	166,000	<u>881</u> (Note)	-	<u>-</u>	<u>45</u>	166,000	<u>926</u>	None

Note: The Company resigned as the director of Luxe Bring on August 11, 2022 and lost its significant influence on Luxe Bring. Thus, the Company has designated the investment in Luxe Bring measured at fair value through other comprehensive income.

**Hsin-Li Chemical Industrial Corp.**  
**Statement of Movements in Investments Using Equity Method**  
**For the Years Ended December 31, 2022**

Unit: NT\$ thousand

<u>Name</u>	<u>Opening balance</u>		<u>Increase in this period</u>		<u>Decrease in this period</u>		<u>Investment income or loss</u>	<u>Balance, ending</u>			<u>Total net equity</u>	<u>Collateral or pledge</u>
	<u>Number of shares</u>	<u>Amount</u>	<u>Number of shares</u>	<u>Amount</u>	<u>Number of shares</u>	<u>Amount</u>		<u>Number of shares</u>	<u>Shareholding</u>	<u>Amount</u>		
Luxe Bring	166,000	\$ <u>1,623</u>	-	<u>-</u>	166,000	<u>881</u>	<u>(742)</u>	-	-	%	<u>-</u>	-
						<u>(Note)</u>						

Note: The Company resigned as the director of Luxe Bring on August 11, 2022 and lost its significant influence on Luxe Bring. Thus, the Company has designated the investment in Luxe Bring measured at fair value through other comprehensive income.

**Hsin-Li Chemical Industrial Corp.**  
**Statement of Movements in Property, Plant and  
Equipment**  
**For the Years Ended December 31, 2022**

**Unit: NT\$ thousand**

See Note 6(7) for information on property, plant and equipment.

**Statement of Right-of-use Assets**

See Note 6(8) for information on right-of-use assets.

**Statement of Movements in Investment Property**

See Note 6(9) for information on investment property.

**Statement of Guarantee Deposits Paid**  
**December 31, 2022**

<u>Item</u>	<u>Summary</u>	<u>Amount</u>
Performance bond	Guarantee deposits for CPC Corporation's natural gas engineering project and car rental	<u>\$ 1,785</u>

**Hsin-Li Chemical Industrial Corp.**  
**Statement of Other Non-current Assets**  
**December 31, 2022**

**Unit: NT\$ thousand**

<u>Item</u>	<u>Summary</u>	<u>Amount</u>
Prepayment for property	Prepayment for property for office building	\$ 23,501
Others	Other deferred expenses	497
Total		<u>\$ 7,236</u>

**Statement of Short-Term Borrowings**

<u>Types of borrowings</u>	<u>Note</u>	<u>Ending balance</u>	<u>Contract period</u>	<u>Range of annual rate of interest</u>	<u>Mortgage or collateral</u>
Secured borrowings	Mega International Commercial Bank	\$ 28,000	2022.07.20–2023.01.16	2.11%	Note
Secured borrowings	Mega International Commercial Bank	10,000	2022.11.09–2023.02.07	2.01%	Note
Secured borrowings	Mega International Commercial Bank	22,000	2022.11.18–2023.02.16	2.01%	Note
Secured borrowings	Mega International Commercial Bank	40,000	2022.12.22–2023.03.22	2.01%	Note
Unsecured borrowings	MEGA Securities Co., Ltd.	49,910	2022.12.12–2023.02.10	1.60%	-
Unsecured borrowings	Yuanta Commercial Bank Co., Ltd.	<u>30,000</u>	2022.09.20–2023.08.14	1.78%	-
Total		<u>\$ 179,910</u>			

Note: See Note 8.

**Hsin-Li Chemical Industrial Corp.**

**Statement of Notes Payable**

**December 31, 2022**

**Unit: NT\$ thousand**

<u>Name of supplier</u>	<u>Summary</u>	<u>Amount</u>
H100	Business	\$ 150
S928	"	67
L006	"	39
S923	"	39
Others (Note)	"	6
Total		<u>\$ 301</u>

Note: The balance of each client did not exceed 5% of the total amount of this account.

**Statement of Accounts Payable**

<u>Name of supplier</u>	<u>Summary</u>	<u>Amount</u>
D215	Business	\$ 4,567
D539	"	3,175
D600	"	2,191
D124	"	1,869
D615	"	1,106
B108	"	955
Others (Note)	"	3,838
Total		<u>\$ 17,701</u>

Note: The balance of each client did not exceed 5% of the total amount of this account.

**Hsin-Li Chemical Industrial Corp.**

**Statement of Other Payables**

**December 31, 2022**

**Unit: NT\$ thousand**

<u>Item</u>	<u>Summary</u>	<u>Amount</u>
<b>Other payables:</b>		
Payable - machinery and equipment	Payable - Solar power facility construction	\$ 20,684
Salary and bonus payable	December salary and annual bonus payable	11,645
Business tax payable	Business tax payable	955
Others	Service charges, natural gas, insurance, and taxes	<u>6,029</u>
Total		<u>\$ 39,313</u>

**Statement of Lease Liabilities**

<u>Item</u>	<u>Summary</u>	<u>Lease period</u>	<u>Interest rate</u>	<u>Amount</u>
Transportation equipment	President's company car	2021.08.02-2024.08.01	1.09%	<u>\$ 601</u>
			Current	<u>\$ 378</u>
			Non-current	<u>\$ 223</u>



**Hsin-Li Chemical Industrial Corp.**  
**Statement of Long-Term Borrowings**

**December 31, 2022**

**Unit: NT\$ thousand**

<u>Creditor</u>	<u>Summary</u>	<u>Amount of borrowings</u>	<u>Contract period</u>	<u>Interest rate</u>	<u>Mortgage or collateral</u>
Bank Of Panhsin	Working capital				
	Principal and interest are amortized per quarter	\$ 43,000	2022.05.30–2025.05.30	2.18%	None
Less: Current portion		<u>(16,000)</u>			
		<u><u>\$ 27,000</u></u>			

**Hsin-Li Chemical Industrial Corp.**  
**Statement of Corporate Bonds Payable (Including Current Portion)**  
**December 31, 2022**

Unit: NT\$ thousand

<u>Name of bond</u>	<u>Guarantor</u>	<u>Trustee</u>	<u>Date of issuance</u>	<u>Coupon rate</u>	<u>Total amount of issuance</u>	<u>Amount converted/repurchased</u>	<u>Ending balance</u>	<u>Unamortized discount</u>	<u>Book value</u>	<u>Repayment method</u>	<u>Guarantee</u>	<u>Remarks</u>
The first domestic unsecured convertible corporate bonds	None	Taichung Bank Securities Co., Ltd.	2022.05.27	0%	<u>\$ 300,000</u>	<u>-</u>	<u>300,000</u>	<u>12,509</u>	<u>287,491</u>	Note 1	None	-

Note 1: Please refer to Note 6 (11) for details of corporate bonds payable.

**Hsin-Li Chemical Industrial Corp.**  
**Statement of Guarantee Deposits Received**  
**December 31, 2022**

**Unit: NT\$ thousand**

<u>Item</u>	<u>Summary</u>	<u>Amount</u>
Performance bond	Security deposit	\$ 1,328
Performance bond	Security deposit for natural gas	1,244
		<u>\$ 2,572</u>

**Statement of Operating Revenue**  
**For the Years Ended December 31, 2022**

<u>Item</u>	<u>Number</u>	<u>Unit</u>	<u>Amount</u>
Dry PU synthetic leather	7,956,811	yards	\$ 172,764
Plastic leather	363,982	yards	51,360
Wet PU synthetic leather	263,831	yards	43,253
Others	386,683	yards	48,819
Rental income			<u>9,167</u>
Total			<u>\$ 325,363</u>

**Hsin-Li Chemical Industrial Corp.**  
**Statement of Operating Costs**  
**For the Years Ended December 31, 2022**

**Unit: NT\$ thousand**

<u>Item</u>	<u>Amount</u>
Opening balance of raw materials	\$ 27,633
Add: Net purchase during this period	157,081
Less: Ending balance of raw materials	19,243
Raw materials sold	31,391
Picked and used for R&D	1,112
Raw material inventory loss	<u>83</u>
Consumption of direct raw materials	132,885
Opening balance of supplies	18,332
Add: Net purchase during this period	9,014
Less: Ending balance of supplies	14,758
Supplies sold	<u>22</u>
Consumption of indirect materials	12,566
Direct labor	17,958
Overhead	<u>64,005</u>
Manufacturing cost	<u>227,414</u>
Opening balance of work in progress	4,963
Less: Ending balance of work in progress	<u>1,955</u>
Costs of finished goods	230,422
Add: Opening balance of finished goods	7,870
Less: Ending balance of finished goods	<u>7,401</u>
Cost of finished goods sold	230,891
Add: Cost of raw materials sold	31,391
Cost of supplies sold	22
Inventory loss	83
Other operating costs	1,620
Less: Revenue from the sales of scraps	(248)
Gain on inventory value recovery	<u>(104)</u>
Operating costs	<u><u>\$ 263,655</u></u>

**Hsin-Li Chemical Industrial Corp.**  
**Statement of Marketing Expenses**  
**For the Years Ended December 31, 2022**

**Unit: NT\$ thousand**

<u>Item</u>	<u>Summary</u>	<u>Amount</u>
Salary and wages	Salary, wages, and pension	\$ 6,703
Freight	Freight for sales	3,945
Traveling expenses	Traveling expenses	799
Others	Labor and health insurance, entertainment, and food stipend	<u>1,312</u>
Total		<u>\$ 12,759</u>

**Statement of Management Fees**

<u>Item</u>	<u>Summary</u>	<u>Amount</u>
Salary and wages	Salary, wages, and pension	\$ 15,403
Labor service fees	Consultation and certification expenses	3,547
Others	Taxes, stock affairs fees, and entertainment	<u>7,797</u>
Total		<u>\$ 26,747</u>

## Notes to the Financial Statements of Hsinli Chemical Industrial Corp. (Continued)

### Hsin-Li Chemical Industrial Corp. Statement of Research and Development Expenses For the Years Ended December 31, 2022

Unit: NT\$ thousand

<u>Item</u>	<u>Summary</u>	<u>Amount</u>
Salary and wages	Salary, wages, and pension	\$ 3,524
Research material expense	Materials needed for research and development	1,128
Others	Training expense, labor and health insurance, and food stipend	693
Total		<u>\$ 5,345</u>

### Statement of Non-operating Income and Expenses

Please refer to Note 6(21) for information on non-operating income and expenses.