

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

For the Years Ended December 31, 2023 and 2022

Company address : No. 99, Xingye Road, Xuejia District, Tainan City
Tel.: (06)783-5100

Table of Contents

	Item	Page No.
I.	Cover	1
II.	Table of Contents	2
III.	Independent Auditors' Report	3
IV.	Balance Sheets	4
V.	Statements of Comprehensive Income	5
VI.	Statements of Changes in Equity	6
VII.	Statements of Cash Flows	7
VIII.	Notes to Financial Statements	
	(I) Organization and operations	8
	(II) Date and Procedure for Approval of Financial Statements	8
	(III) Application of New and Revised International Financial Reporting Standards	8-9
	(IV) Summary of Significant Accounting Policies	9-20
	(V) Critical Accounting Judgements and Key Sources of Estimation and Uncertainty	20-21
	(VI) Summary of Significant Accounting Items	21-48
	(VII) Related Party Transactions	48-50
	(VIII) Assets Pledged	50
	(IX) Significant Contingent Liabilities and Unrecognized Commitments	50
	(X) Major Disaster Loss	50
	(XI) Material Events After the Balance Sheet Date	50
	(XII) Others	51
	(XIII) Additional Disclosures	
	1. Information on Significant Transactions	52-53
	2. Information on Investees	53
	3. Information on Investment in Mainland China	53
	4. Information on Major Shareholders	53
	(XIV) Information on Operating Segments	53-54
IX.	Statements of Significant Accounting Items	55-71

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, 2023 and 2022 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 the opinion of our auditors, the individual financial statements referred to above have been prepared in all material respects in accordance with the Financial Reporting Standards for Issuers of Securities and the International Financial Reporting Standards, International Accounting Standards, Interpretations, and Interpretative Bulletins as approved and issued by the Financial Supervisory Commission and are effective. They are sufficient to present the financial position of Hsin-Li Chemical Industrial Corp. as of December 31, 2023, and 2022, as well as the financial performance and cash flows for the periods from January 1 to December 31, 2023, and 2022, respectively.

Basis for audit opinion

We conducted our audits by appointment 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, 2023, 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 current inventory valuation; Note 5 thereto for the accounting estimates and assumption uncertainties of current inventory valuation; Note 6(5) thereto for the details of current inventory valuation.

Details of key audit matters:

The inventory amount of Hsin-Li Chemical Industrial Corp. is measured at the lower of cost and net realizable value. Due to changes in market supply and demand and the potential for products to become obsolete or no longer meet market demand, the sales of related products may experience significant fluctuations, posing the risk that the cost of current inventory may exceed its net realizable value. Therefore, current inventory valuation is one of the important assessment matters when our auditors conduct the financial statement audit of Hsin-Li Chemical Industrial Corp.

Corresponding audit procedures:

The accountant's main audit procedures for the above-mentioned key audit matters include: understanding the evaluation policies adopted by the management to assess the reasonableness of the net realizable value of the inventories, and executing sampling procedures to check the accuracy of the net realizable value of the inventories; reviewing the inventory age table and implementing sampling procedures to verify its accuracy; examining the accuracy of management's past provisions for inventory allowances and comparing them with the provisions estimated for the current period to assess the appropriateness of the Company's valuation method and assumptions for the current period; and evaluating whether the Company's disclosure of inventory allowance losses is appropriate.

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, 2023. 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 Jin-Guan-Zheng-VI No. 0960069825
Approval Document No. : (2000)-Tai-Cai-Zeng-(VI) No. 62474
February 27, 2024

Hsin-Li Chemical Industrial Corp.

Balance Sheets

For the Years Ended December 31, 2023 and 2022

Unit: NT\$ thousand

		2023.12.31		2022.12.31				2023.12.31		2022.12.31	
		Amount	%	Amount	%			Amount	%	Amount	%
Assets						Liabilities and Equity					
Current assets:						Current liabilities:					
1100	Cash and cash equivalents (Note 6(1))	\$ 31,447	2	89,438	6	2100	Short-term borrowings (Notes 6(10) and 8)	\$ 110,000	7	179,910	13
1110	Current financial assets at fair value through profit or loss (Note 6(2))	297,594	19	152,321	11	2110	Short-term notes and bills payable (Note 6(10))	49,988	3	-	-
1136	Financial assets at amortized cost - current (Note 6(1))	14,190	1	8,050	1	2120	Current financial liabilities at fair value through profit or loss (Notes (2) and (11))	1,800	-	-	-
1150	Notes receivable, net (Note 6(3) and (19))	1,934	-	11,137	-	2130	Contract liabilities - current (Note 6(19))	700	-	212	-
1170	Net accounts receivable (Note 6(3), (19) and 7)	22,369	2	37,389	3	2170	Notes payable and accounts payable (Note 7)	12,578	1	18,002	1
1200	Other receivables (Note 6(4))	5,168	-	456	-	2200	Other payables	19,051	1	39,313	3
1220	Current income tax assets	431	-	-	-	2230	Current tax liabilities	-	-	1,596	-
130X	Inventories (Note 6(5))	28,660	2	40,576	3	2280	Lease liabilities - current (Note 6(13))	395	-	378	-
1470	Other current assets	3,950	-	7,237	-	2321	Bonds payable, current portion (Note (11))	292,626	19	-	-
1476	Other financial assets - current (Notes 6(1) and 8)	800	-	800	-	2322	Long-term borrowings-current portion (Note 6(12) and 8)	22,944	2	16,000	1
Total current assets		406,543	26	347,404	24	2399	Other current liabilities	2,174	-	2,175	-
Non-current assets:						Total current liabilities		512,256	33	257,586	18
1510	Non-current financial assets at fair value through profit or loss (Note 6(2))	352,833	23	341,191	24	Non-current liabilities:					
1517	Financial assets at fair value through other comprehensive income - non-current (Note 6(2))	926	-	926	-	2500	Financial liabilities at fair value through profit or loss - non-current (Note 6(2) and (11))	-	-	3,390	-
1600	Property, plant and equipment (Note 6(7), 8 and 9)	637,095	41	651,073	45	2530	Corporate bonds payable (Note 6(11))	-	-	287,491	20
1755	Right-of-use assets (Note 6(8))	581	-	596	-	2540	Non-current portion of non-current borrowings (Note 6(12) and 8)	49,024	3	27,000	2
1760	Investment property, net (Note 6(9), 8 and 9)	149,192	10	73,544	5	2570	Deferred tax liabilities (Note 6(16))	31,915	2	31,448	3
1840	Deferred tax assets (Note 6(16))	633	-	1,426	-	2580	Lease liabilities - non-current (Note 6(13))	199	-	223	-
1900	Other non-current assets (Note 6, (7), (9), and (15))	1,003	-	23,998	2	2645	Guarantee deposits received	2,575	-	2,572	-
1920	Guarantee deposits paid	502	-	1,785	-	2670	Other non-current liabilities (Note 6(15))	-	-	2,980	-
Total non-current assets		1,142,765	74	1,094,539	76	Total non-current liabilities		83,713	5	355,104	25
Total assets		\$ 1,549,308	100	1,441,943	100	Total liabilities		595,969	38	612,690	43
						Equity (Note 6(2), (11) and (17)):					
						3100	Share capital	675,000	44	675,000	47
						3200	Capital surplus	9,252	1	9,252	-
						Retained earnings:					
						3310	Legal reserve	166,420	11	166,420	12
						3350	Unappropriated retained earnings (losses to be covered)	102,622	7	(21,464)	(1)
								269,042	17	144,956	10
						3400	Other equity	45	-	45	-
						Total equity		953,339	62	829,253	57
						Total liabilities and equity		\$ 1,549,308	100	1,441,943	100

(See Notes to Financial Statements)

Chairman: Chang, Yu-Ming

Manager: Cheng, Yu-Tang

Accounting supervisor: Chen, Chien-Hung

Hsin-Li Chemical Industrial Corp.
Statements of Comprehensive Income
For the Years Ended December 31, 2023 and 2022

Unit: NT\$ thousand

		2023		2022	
		Amount	%	Amount	%
4000	Operating revenue (Notes 6(19) and 7)	\$ 161,724	100	325,363	100
5000	Operating costs (Notes 6(5), (15), (20), and 7)	152,605	94	263,655	81
5900	Gross profit	9,119	6	61,708	19
	Operating expenses (Notes 6(3), (13), (15), (20) and 7) :				
6100	Marketing expenses	7,187	4	12,759	4
6200	Management fees	28,887	18	26,747	8
6300	Research and development expenses	3,166	2	5,345	2
6450	Gain on reversal of expected credit impairment losses	-	-	(393)	-
	Total operating expenses	39,240	24	44,458	14
	Net operating profit (loss)	(30,121)	(18)	17,250	5
	Non-operating income and expenses (Note 6(6), (11), (13) and (21)) :				
7100	Interest revenue	976	1	305	-
7010	Other income	21,691	13	17,828	5
7020	Other gains and losses	142,948	88	(66,849)	(21)
7050	Financial cost	(10,800)	(7)	(5,746)	(2)
7060	Share of profit or loss of affiliates recognized using the equity method	-	-	(742)	-
	Total non-operating revenue and expenditure	154,815	95	(55,204)	(18)
7900	Net profit (loss) before tax	124,694	77	(37,954)	(13)
7950	Less: Income tax expenses (Note 6(16))	1,235	1	3,244	1
8200	Net income (loss) for this period	123,459	76	(41,198)	(14)
8300	Other comprehensive income (Note 6(2)(15)(16))				
8310	Items not reclassified to profit or loss				
8311	Remeasurement of defined benefit plans	375	-	1,326	-
8316	Unrealized valuation gains or losses on investment in equity instruments at fair value through other comprehensive income	327	-	45	-
8349	Less: Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	(75)	-	(265)	-
8300	Other comprehensive income for this period (net of tax)	627	-	1,106	-
8500	Total comprehensive income for this period	\$ 124,086	76	(40,092)	(14)
	Earnings per share (Unit: NT\$) (Note 6(18))				
9750	Basic earnings per share	\$ 1.83		(0.61)	
9850	Diluted earnings per share	\$ 1.60		(0.61)	

(See Notes to Financial Statements)

Chairman: Chang, Yu-Ming

Manager: Cheng, Yu-Tang

Accounting supervisor: Chen, Chien-Hung

Hsin-Li Chemical Industrial Corp.
Statements of Changes in Equity
For the Years Ended December 31, 2023 and 2022

Unit: NT\$ thousand

	Other equity items						
	Retained earnings				Unrealised gains (losses) on financial assets measured at fair value through other comprehensive income		
	Ordinary share	Capital surplus	Legal reserve	Undistributed earnings (Deficit to be offset)		Treasury stock	Total equity
Balance as of January 1, 2022	\$ 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)
Total earnings appropriation and distribution	-	-	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	-
Balance as at December 31, 2022	675,000	9,252	166,420	(21,464)	45	-	829,253
Net income for this period	-	-	-	123,459	-	-	123,459
Other comprehensive income for this period	-	-	-	300	327	-	627
Total comprehensive income for this period	-	-	-	123,759	327	-	124,086
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	327	(327)	-	-
Balance as of December 31, 2023	\$ 675,000	9,252	166,420	102,622	45	-	953,339

(See Notes to Financial Statements)

Chairman: Chang, Yu-Ming

Manager: Cheng, Yu-Tang

Accounting supervisor: Chen, Chien-Hung

Hsin-Li Chemical Industrial Corp.
Statements of Cash Flows
For the Years Ended December 31, 2023 and 2022

Unit: NT\$ thousand

	2023	2022
Cash flow from operating activities:		
Profit (loss) before tax for this period	\$ 124,694	(37,954)
Adjustment items:		
Income and expenses		
Depreciation expenses	24,314	20,105
Amortization expenses	97	250
Gain on reversal of expected credit impairment losses	-	(393)
Net loss (gain) on financial assets and liabilities at fair value through profit or loss	(142,857)	67,842
Interest expenses	10,800	5,746
Interest revenue	(976)	(305)
Dividend income	(9,529)	(17,517)
Share of losses from affiliates recognized using the equity method	-	742
Gains on disposal and scrapping of property, plant and equipment	(101)	-
Lease modification gain	-	(41)
Unrealized foreign exchange losses	195	-
Total income and expenses	(118,057)	76,429
Movements in assets/liabilities related to operating activities:		
Decrease (increase) in notes receivable	9,203	(153)
Decrease in accounts receivable	15,020	4,574
Increase in other receivables	(4,537)	(28)
Decrease in inventories	11,916	15,337
Increase in net defined benefit assets	(161)	-
Decrease (increase) of other current assets	3,287	(501)
Increase (decrease) in contract liabilities	488	(396)
Decrease in notes payable and accounts payable	(5,424)	(4,826)
Increase (decrease) of other payables	(1,754)	762
Decrease in other current liabilities	(1)	(1,577)
Increase (decrease) in net defined benefit liability	(2,980)	28
Total adjustment items	(93,000)	89,649
Cash inflow from operations	31,694	51,695
Interest received	964	314
Dividends received	9,529	17,517
Interest paid	(5,515)	(2,758)
Income tax paid	(2,077)	(4,819)
Net cash inflow from operating activities	34,595	61,949
Cash flow from investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	(7,048)	-
Proceeds from disposal of financial assets at fair value through other comprehensive income	7,375	-
Acquisition of financial assets at amortized cost	(6,313)	(8,050)
Acquisition of financial assets at fair value through profit or loss	(144,137)	(125,867)
Proceeds from disposal of financial assets at fair value through profit or loss	129,247	50,737
Acquisition of property, plant and equipment	(26,709)	(99,594)
Proceeds from disposal of property, plant and equipment	180	-
Decrease in guarantee deposits paid	1,283	349
Acquisition of investment property	(55,757)	-
Decrease (increase) in other non-current assets	794	(23,378)
Net cash outflow from investing activities	(101,085)	(205,803)
Cash flow from financing activities:		
Increase in short-term borrowings	395,090	516,042
Decrease in short-term borrowings	(465,000)	(556,132)
Increase in short-term notes and bills payable	49,988	-
Issuance of corporate bonds	-	294,665
Long-term borrowings	49,500	50,000
Repayment of long-term borrowings	(20,532)	(7,000)
Increase (decrease) in guarantee deposits received	3	(12)
Lease principal repayment	(528)	(514)
Cash dividends paid out	-	(74,250)
Cost of treasury stock repurchase	-	(13,005)
Net cash inflow from financing activities	8,521	209,794
Effect of exchange rate changes on cash and cash equivalents	(22)	-
Increase (decrease) in cash and cash equivalents in the current period	(57,991)	65,940
Opening balance of cash and cash equivalents	89,438	23,498
Ending balance of cash and cash equivalents	\$ 31,447	89,438

(See Notes to Financial Statements)

Chairman: Chang, Yu-Ming

Manager: Cheng, Yu-Tang

Accounting supervisor: Chen, Chien-Hung

Hsin-Li Chemical Industrial Corp.
Notes to Financial Statements
For the Years Ended December 31, 2023 and 2022
(Unless otherwise stated, all amounts are in NT\$ thousand)

I. Organization and operations

Xin Li Chemical Industry Co., Ltd. (hereinafter referred to as the "Company") was established on June 22, 1973 with the approval of the Ministry of Economic Affairs. The registered address is No. 99, Xingye Rd., Xuejia 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

This financial report has been approved by the Board of Directors for publication on February 27, 2024.

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 began to apply the following newly amended IFRSs on January 1, 2023, and there was no significant impact on the financial statements.

- Amendments to IAS 1 "Disclosure of Accounting Policies"
- Amendments to IAS 8 "Definition of Accounting Estimates"
- Amendments to IAS 12 "Deferred Income Tax Relating to Assets and Liabilities arising from a Single Transaction"

The Company began to apply the following newly amended IFRSs on May 23, 2023, and there was no significant impact on the financial statements.

- Amendments to IAS No. 12 "International Tax Reform - Pillar 2 Template"

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

The Company has assessed that the application of the following newly amended IFRSs effective on January 1, 2024 will not have a significant impact on the financial statements.

- Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"
- Amendments to IAS 1 "Non-current liabilities with contractual clauses"
- Amendments to IAS 7 and IFRS 7 "Supplier Financing Arrangements"
- Amendments to IFRS 16 "Lease Liabilities in a Sale and Leaseback"

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

The Company expects the following new and amendments to standards that have not yet been approved to have no significant 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
- Amendment to IAS 21 "Lack of Convertibility"

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 liabilities (or assets) are measured in accordance with the present value of the defined benefit obligation less the fair value of pension fund assets and the effect of the upper limit stated in Note 4.

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 NTDs 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.

(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 (for example, financial assets held for trading or managed at fair value with performance assessed) are measured at fair value through gains and losses. 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

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

dividend and interest income) is recognized in profit or loss.

(4) Impairment of financial assets

For the Company's financial assets measured at amortized cost (including cash and cash equivalents, financial assets measured at amortized cost, notes receivable and accounts receivable, other receivables, deposits as collateral, and other financial assets), expected credit losses are recognized in an allowance for impairment.

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.

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

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.

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 an 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.

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.

The Company assesses whether there is credit impairment of financial assets measured at amortized cost on each reporting 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

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

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.

(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.

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

(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.

(7) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and presented in a 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.

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

(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.

(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.

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

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)	2–9 years
(4) Transportation equipment	5–6 years
(5) Other equipment (including electrical appliances)	2–20 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.

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.

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

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.

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.

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

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.

(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:

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

(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.

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.

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

(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.

Deferred income tax is measured and recognized on temporary differences between the carrying amount of assets and liabilities and their taxable bases at the reporting date. Temporary differences arising from the circumstances below are not recognized in deferred tax:

1. Assets or liabilities initially recognized in a transaction that is not a business merger, and does not affect accounting profit and taxable income (loss) at the time of the transaction, and does not generate equivalent taxable and deductible temporary differences;
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.

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

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 paid in shares.

(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.

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.

The Company may face economic uncertainties such as COVID-19, natural disasters, conflicts in Ukraine and Russia, and inflation. These events may have a significant impact on the following accounting estimates made by the Company in the next financial year, as these estimates involve forecasts for the future.

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

The uncertainty of the following assumptions and estimates has a significant risk of causing a material adjustment to the book value of assets and liabilities in the next financial year. The relevant information is as follows:

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

	2023.12.31	2022.12.31
Cash on hand and petty cash	\$ 89	82
Current and checking account deposits	31,358	89,356
Cash and cash equivalents in the statements of cash flows	<u>\$ 31,447</u>	<u>89,438</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, 2023 and 2022. 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 \$14,190 and \$8,050 thousand at December 31, 2023 and 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.

(II) Financial assets

	2023.12.31	2022.12.31
Financial assets mandatorily at fair value through profit or loss:		
Convertible corporate bonds	\$ 31,941	27,401
Domestic listed stocks	609,848	466,111
Beneficiary certificates	8,638	-
Total	<u>\$ 650,427</u>	<u>493,512</u>
Current	\$ 297,594	152,321
Non-current	352,833	341,191
Total	<u>\$ 650,427</u>	<u>493,512</u>
Financial liabilities mandatorily measured at fair value through profit or loss - Current:		
Embedded derivatives - rights to reverse repurchase/redeem convertible corporate bonds	<u>\$ 1,800</u>	<u>-</u>
Financial liabilities mandatorily at fair value through profit or loss - non-current		
Embedded derivatives - rights to reverse repurchase/redeem convertible corporate bonds	<u>\$ -</u>	<u>3,390</u>

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

	2023.12.31	2022.12.31
Financial assets at fair value through other comprehensive income - non-current:		
Domestic non-listed stock - Luxe Bring Co., Ltd.	\$ 926	926

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.

On December 15, 2023, due to the liquidation of investment targets, the Company disposed of Financial assets at fair value through other comprehensive income. The fair value at the time of disposition was NT\$7,375 thousand, and the accumulated disposal gain was NT\$ 327 thousand. Therefore, the aforementioned accumulated disposition gains have been transferred from other equity to retained earnings.

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.

For credit risk and market risk information, please refer to Note 6(22).

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

(III) Notes and accounts receivable

	2023.12.31	2022.12.31
Notes receivable from operations	\$ 1,934	11,137
Accounts receivable at amortized cost	22,369	37,389
Less: Allowance for losses	-	-
	\$ 24,303	48,526

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:

	2023.12.31		
	Carrying amount of notes and accounts receivable	Weighted average expected credit loss ratio	Allowance for lifetime expected credit losses
Not past due	\$ 24,301	-	-
Overdue for 181 days or more	2	100%	-
	\$ 24,303		-

	2022.12.31		
	Carrying amount of notes and accounts receivable	Weighted average expected credit loss ratio	Allowance for lifetime expected credit losses
Not past due	\$ 48,526	0%~0.3%	-
Overdue for 181 days or more	-	100%	-
	\$ 48,526		-

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

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

	2023	2022
Opening balance	\$ -	393
Impairment loss reversed	-	(393)
Balance, ending	<u>\$ -</u>	<u>-</u>

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:

Item	2023.12.31	2022.12.31
Certificates of deposit	\$ 1,800	5,300
The maximum amount of property pledged	7,000	7,000

(IV) Other receivables

	2023.12.31	2022.12.31
Other receivables	\$ 5,168	456
Less: Allowance for losses	-	-
	<u>\$ 5,168</u>	<u>456</u>

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

(V) Inventories

	2023.12.31	2022.12.31
Raw materials	\$ 23,955	32,739
Work in progress	431	1,300
Finished goods	4,274	6,537
	<u>\$ 28,660</u>	<u>40,576</u>

The cost of sales is detailed below:

	2023	2022
Reclassified from inventories sold	\$ 145,328	262,387
Gain on inventory value recovery	(970)	(104)
Loss of idle capacity	5,121	-
Proceeds from sale of scrap	(306)	(248)
Others	3,432	1,620
Total	<u>\$ 152,605</u>	<u>263,655</u>

As of December 31, 2023 and 2022, the Company's inventories were not pledged as collateral.

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

(VI) Investments using equity method

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

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:

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

(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:

	Land	Land improvement	Buildings	Machinery and equipment (including instrument s)	Transport ation equipment	Other equipment (including electrical appliances)	Unfinishe d constructi on	Total
Cost or deemed cost:								
Balance on January 1, 2023	\$ 480,292	11,229	213,931	150,221	4,188	42,136	85,062	987,059
Additions	-	-	-	459	-	6,604	67	7,130
Disposal	-	-	-	(249)	(168)	-	-	(417)
Reclassification	-	-	-	-	-	85,129	(85,129)	-
Balance as of December 31, 2023	<u>\$ 480,292</u>	<u>11,229</u>	<u>213,931</u>	<u>150,431</u>	<u>4,020</u>	<u>133,869</u>	<u>-</u>	<u>993,772</u>
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>
Accumulated depreciation and impairment:								
Balance on January 1, 2023	\$ -	7,175	171,404	119,353	4,188	33,866	-	335,986
Depreciation	-	852	4,906	9,094	-	6,177	-	21,029
Disposal	-	-	-	(170)	(168)	-	-	(338)
Balance as of December 31, 2023	<u>\$ -</u>	<u>8,027</u>	<u>176,310</u>	<u>128,277</u>	<u>4,020</u>	<u>40,043</u>	<u>-</u>	<u>356,677</u>
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>
Carrying amount:								
Balance as of December 31, 2023	<u>\$ 480,292</u>	<u>3,202</u>	<u>37,621</u>	<u>22,154</u>	<u>-</u>	<u>93,826</u>	<u>-</u>	<u>637,095</u>
Balance on January 1, 2022	<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>
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>

Note: NT\$170 thousand reclassified from other non-current assets and NT\$18,745 reclassified from investment property.

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

Please refer to Note 8 for the provision of collaterals as collateral for the Company's property, plant and equipment as of December 31, 2023 and 2022.

(VIII) Right-of-use assets

The details of changes in the cost and accumulated depreciation of the Company's leased properties, buildings and structures as well as transportation equipment are as follows:

	Buildings	Transportation equipment	Total
Cost or deemed cost:			
Balance on January 1, 2023	\$ -	1,129	1,129
Additions	-	521	521
Balance as of December 31, 2023	<u>\$ -</u>	<u>1,650</u>	<u>1,650</u>
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>
Accumulated depreciation:			
Balance on January 1, 2023	\$ -	533	533
Depreciation	-	536	536
Balance as of December 31, 2023	<u>\$ -</u>	<u>1,069</u>	<u>1,069</u>
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>
Carrying amount:			
Balance as of December 31, 2023	<u>\$ -</u>	<u>581</u>	<u>581</u>
Balance on January 1, 2022	<u>\$ 2,944</u>	<u>972</u>	<u>3,916</u>
Balance on December 31, 2022	<u>\$ -</u>	<u>596</u>	<u>596</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:

	Land	Buildings	Total
Cost or deemed cost:			
Balance on January 1, 2023	\$ 65,473	81,476	146,949
Addition	11,412	44,345	55,757
Reclassification	4,098	18,542	22,640 (Note)
Balance as of December 31, 2023	<u>\$ 80,983</u>	<u>144,363</u>	<u>225,346</u>

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

	Land	Buildings	Total
Balance on January 1, 2022	\$ 84,218	81,476	165,694
Reclassification	(18,745)	-	(18,745) (Note 1)
Balance on December 31, 2022	\$ 65,473	81,476	146,949
Accumulated depreciation and impairment:			
Balance on January 1, 2023	\$ -	73,405	73,405
Depreciation	-	2,749	2,749
Balance as of December 31, 2023	\$ -	76,154	76,154
Balance on January 1, 2022	\$ -	72,468	72,468
Depreciation	-	937	937
Balance on December 31, 2022	\$ -	73,405	73,405
Carrying amount:			
December 31, 2023	\$ 80,983	68,209	149,192
January 1, 2022	\$ 84,218	9,008	93,226
December 31, 2022	\$ 65,473	8,071	73,544

Note: Reclassified from other non-current assets.

Note 1: Transferred to property, plant and equipment.

The fair value of the Company's investment property on December 31, 2023 and 2022 was \$208,709 thousand and \$169,202 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.

Please refer to Note 8 for the Company's investment property as of December 31, 2023 and 2022 being pledged as collateral.

(X) Short-term borrowings and short-term notes payable

	2023.12.31	2022.12.31
Unsecured bank borrowings	\$ 50,000	79,910
Secured bank borrowings	60,000	100,000
Unsecured short-term notes and payable	49,988	-
	\$ 159,988	179,910
Unused limit of short-term borrowings	\$ 330,000	200,000
Unused limit of short-term notes and bills payable	\$ -	-
Interest rate range of current borrowings	1.85%~2.235%	1.60%~2.11%
Interest rate range of short-term bills payable interest rate	1.75%	-

The above-mentioned short-term notes and bills payable are guarantee-free commercial papers issued. During the contractual period, unsecured commercial papers can be issued on a revolving basis for up to one year, during which the Company is required to pay handling fees and interest.

Please refer to Note 6(21) for interest expenses.

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

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

(XI) Corporate bonds payable

	2023.12.31	2022.12.31
Total amount of convertible corporate bonds issued	\$ 300,000	300,000
Unamortized balance of discounted corporate bonds payable	(7,374)	(12,509)
Less: Current portion	(292,626)	-
Ending balance of corporate bonds payable	<u>\$ -</u>	<u>287,491</u>
Embedded Derivative - Put and Call Options (reported under financial liabilities at fair value through profit or loss)	<u>\$ 1,800</u>	<u>3,390</u>
Components of equity - conversion rights (recognized in capital surplus - stock options)	<u>\$ 9,252</u>	<u>9,252</u>
	<u>2023</u>	<u>2022</u>
Embedded derivatives - Put and Call Options Fair Value remeasurement (gain/loss) (reported under fair value through profit or loss - valuation gain/loss on financial liabilities measured at fair value through profit or loss)	<u>\$ 1,590</u>	<u>(2,460)</u>
Interest expenses (Note)	<u>\$ (5,135)</u>	<u>(3,008)</u>

Note: The effective interest rate for the issuance of the Company's first unsecured corporate bonds is 1.77%.

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.

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

(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.

(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:

2023.12.31				
	Currency	Interest rate range (%)	Year in which borrowings are due	Amount
Unsecured bank borrowings	NTD	2.42%	2024 - 2025	\$ 27,000
Secured bank borrowings	NTD	3.1237%	2024 - 2025	44,968
Subtotal				71,968
Less: Current portion				(22,944)
Total				<u><u>\$ 49,024</u></u>
Unused facilities				<u><u>\$ -</u></u>

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

	2022.12.31		
	Currency	Interest rate range (%)	Year in which borrowings are due Amount
Unsecured bank borrowings	NTD	2.18%	2023 - 2025 \$ 43,000
Less: Current portion			(16,000)
Total			<u>\$ 27,000</u>
Unused facilities			<u>\$ -</u>

Please refer to Note 8 for the Company's assets pledged as collateral for long-term loans.

(XIII) Lease liabilities

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

	2023.12.31	2022.12.31
Current	\$ 395	378
Non-current	199	223
	<u>\$ 594</u>	<u>601</u>

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

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

	2023	2022
Interest expenses on lease liabilities	<u>\$ 30</u>	<u>17</u>
Expenses of short-term leases	<u>\$ 83</u>	<u>408</u>
Expenses of low-value leased assets (excluding short-term leases and low-value leases)	<u>\$ 11</u>	<u>-</u>

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

	2023	2022
Total cash outflows from leases	<u>\$ 652</u>	<u>939</u>

1. 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). The contract does not specify the minimum future lease payment payable during the non-cancellable period.

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

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:

	2023.12.31	2022.12.31
Less than 1 year	\$ 6,541	6,569
1–2 years	2,050	2,164
2–5 years	<u>585</u>	<u>1,394</u>
Total undiscounted lease payments	<u>\$ 9,176</u>	<u>10,127</u>

Please refer to Note 6 (19) for the information on the rental income from operating leases during 2023 and 2022. Also, the direct operating expenses arising from the above operating leases during 2023 and 2022 were \$3,774 thousand and \$1,798 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:

	2023.12.31	2022.12.31
Present value of defined benefit obligations	\$ 708	3,731
Fair value of plan assets	<u>(1,244)</u>	<u>(751)</u>
Net defined benefit liabilities (assets)	<u>\$ (536)</u>	<u>2,980</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.

(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, 2023 and 2022, the balances of the Company's labor retirement reserve account with Bank of Taiwan amounted to \$1,244 thousand and \$751 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.

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

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

The movements in the present value of the Company's defined benefit obligations during 2023 and 2022 are as follows:

	2023	2022
Defined benefit obligations on January 1	\$ 3,731	7,115
Service cost in this period	66	125
Interest expenses	54	56
Remeasurement of net defined benefit liability (asset)		
- Actuarial gains or losses arising from experience adjustments	(450)	(729)
- Actuarial gains or losses arising from changes in financial assumptions	91	(398)
Benefits paid by the plan	(2,784)	(2,438)
Defined benefit obligations on December 31	\$ 708	3,731

(3) Movements in fair value of plan assets

The movements in the fair value of the Company's defined benefit plan assets during 2023 and 2022 are as follows:

	2023	2022
Fair value of plan assets on January 1	\$ 751	2,837
Interest revenue	11	22
- Actuarial gains or losses arising from experience adjustments	16	199
Amount contributed to the plan	3,250	131
Benefits paid by the plan	(2,784)	(2,438)
Fair value of plan assets on December 31	\$ 1,244	751

(4) Expenses recognized in profit or loss

The details of the Company's amounts recognized in expenses for 2023 and 2022 are as follows:

	2023	2022
Service cost in this period	\$ 66	125
Net interest on net defined benefit liabilities	43	34
	\$ 109	159
Operating costs	\$ 109	159

(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:

	2023.12.31	2022.12.31
Discount rate	1.28%	1.46%
Future salary increases	2.90%	2.00%

The Company expects to pay NT\$8 thousand to the defined benefit plan within one year after the 2023 reporting date.

The weighted average duration of the defined benefit plan is 13 years.

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

(6) Sensitivity analysis

The effect of changes in the main actuarial assumptions adopted on December 31, 2023 and 2022 on the present values of the defined benefit obligations is as follows:

	Effect on defined benefit obligations	
	<u>Increase by 0.5%</u>	<u>Decrease by 0.5%</u>
December 31, 2023		
Discount rate	\$ (44)	47
Future salary increases	46	(44)
December 31, 2022		
Discount rate	\$ (279)	303
Future salary increases	303	(279)

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 2023 and 2022 were NT\$1,183 thousand and NT\$1,585 thousand, respectively, which have been contributed to the Bureau of Labor Insurance.

(XVI) Income tax

1. Income tax expenses

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

	<u>2023</u>	<u>2022</u>
Current income tax expenses		
Incurred during this period	\$ -	3,225
Adjustment to the income tax for the prior period	50	(9)
	<u>50</u>	<u>3,216</u>
Deferred income tax expense		
Temporary differences incurred and reversed	1,185	28
Income tax expense	<u>\$ 1,235</u>	<u>3,244</u>

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

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

	2023	2022
Remeasurement of defined benefit plans	<u>\$ 75</u>	<u>265</u>

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

	2023	2022
Net profit (loss) before tax	<u>\$ 124,694</u>	<u>(37,954)</u>
Income tax calculated at the domestic tax rate where the Company is located	\$ 24,939	(7,591)
Effect of investment income or loss recognized using the equity method	-	148
Dividend income	(1,906)	(3,503)
Loss (gain) on financial assets at fair value through profit or loss	(23,871)	11,121
Tax collection on losses (income) from securities transactions	(4,382)	1,956
Loss that cannot be carried forward	3,360	-
Current taxation loss of unrecognized deferred income tax assets	2,235	-
Underestimated (overestimated) amount for the prior period	50	(9)
Surtax on undistributed earnings	-	444
Others	810	678
Income tax expense	<u>\$ 1,235</u>	<u>3,244</u>

2. Deferred tax assets and liabilities

(1) Unrecognized deferred income tax assets

The items that have not been recognized by the Company as deferred income tax assets are as follows:

	2023.12.31	2022.12.31
Tax losses	<u>\$ 12,375</u>	<u>-</u>

Tax losses are deductible from the current year's net income according to the provisions of the Income Tax Act, subject to verification by the tax authorities. Such losses can be carried forward for up to ten years, and the remaining profits are then subject to income tax assessment. Such items are not recognized as deferred income tax assets because it is not probable that the Company will have sufficient taxable income for their use in the future.

As of December 31, 2023, the deadline for the deduction of the Company's tax losses on deferred income tax assets is as follows:

Loss Years	Accumulated Loss Yet to Be Deducted	Final Eligible Deduction Year
Estimated Declaration Figures for the Year 2023	<u>\$ 12,375</u>	Year 2033

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

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

	Inventory valuation losses	Tax difference of pension expenses	Compensati on for unused annual leave	Unrealized gross margin	Others	Total
Deferred tax assets:						
January 1, 2023	\$ 556	597	175	60	38	1,426
Credit (debit) to profit or loss	(194)	(522)	(3)	-	1	(718)
Debit to other comprehensive income	-	(75)	-	-	-	(75)
December 31, 2023	\$ 362	-	172	60	39	633
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)
December 31, 2022	\$ 556	597	175	60	38	1,426
	Provision for land value increment tax	Tax difference of pension expenses	Others	Total		
Deferred tax liabilities:						
January 1, 2023	\$ 31,448	-	-	31,448		
Debit to profit or loss	-	107	360	467		
December 31, 2023	\$ 31,448	107	360	31,915		
January 1, 2022	\$ 31,448		27	31,475		
Credit to profit or loss	-	-	(27)	(27)		
December 31, 2022	\$ 31,448	-	-	31,448		

3. Approval of income tax returns

The Company's profit-seeking enterprise income tax returns filed up to 2021 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 were NT\$3,500,000 thousand at both December 31, 2023 and 2022, with a par value of NT\$10 per share. All issued shares amount to 67,500 thousand shares, and all proceeds from the issuance of shares have been collected.

On November 10, 2021, the Company's decision to cancel the treasury shares and reduce capital by 2,500 thousand 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:

	2023.12.31	2022.12.31
Issuance of convertible corporate bonds recognized in equity component - stock options	<u>\$ 9,252</u>	<u>9,252</u>

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. According to the regulations on the issuance and offering of securities by the issuer, for each fiscal year, the total amount of funds from the capital surplus that can be allocated to capital shall not exceed the total paid-in capital by a percentage of ten.

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

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 Company had no accumulated earnings available for distribution in the year 2022. The proposal to offset the loss for the year 2022 was approved at the Company's annual general meeting on May 26, 2023. For further information, please refer to the MOPS Pipeline inquiry or other relevant channels.

The 2021 earnings distribution proposals was resolved by the annual general meeting on June 30, 2022. The dividends distributed to owners are as follows:

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

The 2023 earnings distribution of the Company was proposed through the Board of Directors on February 27, 2024. The amount of dividends distributed to the shareholders is as follows:

	2023	
	Payout ratio	
	(NTD)	Amount
Dividends distributed to owners of ordinary shares:		
Cash	\$ 1.36	91,800

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. The Company has completed the registration of changes to the capital amount following the cancellation of treasury shares.

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

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

	2022	
	Number of shares (thousand shares)	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	-	\$ -

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:

	2023	2022
Net income (loss) attributable to holders of the Company's ordinary equity	\$ 123,459	(41,198)
Weighted average number of ordinary shares outstanding (thousand shares)	67,500	67,509
Basic earnings per share (NTD)	\$ 1.83	(0.61)
Net income (loss) attributable to holders of the Company's ordinary equity	123,459	(41,198)
Effect of potential dilutive ordinary shares:		
Convertible corporate bonds	2,836	-
Net income (loss) attributable to the Company's common stock shareholders (after adjusting for the potential dilutive effect of common stock shares)	\$ 126,295	(41,198)
Weighted average number of ordinary shares outstanding (thousand shares)	67,500	67,509
Effect of potential dilutive ordinary shares:		
Remuneration to employees (thousand shares)	100	-
Convertible bonds (thousand shares)	11,338	-
Weighted average number of ordinary shares outstanding (adjusted for the dilutive effect of potential ordinary shares) (thousand shares)	78,938	67,509
Diluted earnings per share (NTD)	\$ 1.60	(0.61)

Including the potential common shares in 2022 would have an anti-dilutive effect, so it is not included in the calculation of diluted earnings per share.

(XIX) Revenue from customer contracts

1. Details of revenue

	2023	2022
Main regional markets:		
Taiwan	\$ 155,699	311,765
Other countries	6,025	13,598
Total	\$ 161,724	325,363

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

	<u>2023</u>	<u>2022</u>	
Main product and service lines:			
Dry PU synthetic leather	\$ 93,730	172,764	
Plastic leather	8,167	51,360	
Wet PU synthetic leather	29,033	43,253	
Others	22,481	48,819	
Rental income	8,313	9,167	
	<u><u>\$ 161,724</u></u>	<u><u>325,363</u></u>	
2. Balance of contracts			
	<u>2023.12.31</u>	<u>2022.12.31</u>	<u>2022.1.1</u>
Notes receivable	\$ 1,934	11,137	10,984
Accounts receivable	22,369	37,389	41,963
Less: Allowance for losses	-	-	(393)
Total	<u><u>\$ 24,303</u></u>	<u><u>48,526</u></u>	<u><u>52,554</u></u>
	<u>2023.12.31</u>	<u>2022.12.31</u>	<u>2022.1.1</u>
Contract liabilities	<u><u>\$ 700</u></u>	<u><u>212</u></u>	<u><u>608</u></u>

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

The opening balance of contract liabilities on January 1, 2023 and 2022 was recognized as income in the amounts of NT\$172 thousand and NT\$459 thousand in 2023 and 2022.

(XX) Employee remuneration and directors' remuneration

According to the original Articles of Incorporation of the Company, if the Company makes a profit in the year, no less than 1% of the profit should be distributed to employees, and no more than 2% of the Company's remuneration to directors. The shareholders' meeting resolved to amend the Articles of Incorporation on June 30, 2022, so that if there is a profit in the year, 2% to 5% of the profit should be distributed as employee remuneration, and no more than 5% should be distributed as director remuneration. However, in the event that the Company still has accumulated losses, an amount should be retained for makeup. The recipients of the employee remuneration in the preceding paragraph may include the employees at affiliates who satisfy certain criteria.

The Company did not need to estimate employee and director remuneration in the year 2022 due to operating losses. The provision for employee and director remuneration in the year 2023 amounted to NT\$2,151 thousand for both periods. This provision is calculated by multiplying the net profit before tax for the respective period by the distribution percentage of employee and director remuneration as stipulated in the Company's Articles of Incorporation, after deducting the remuneration of employees and directors. This serves as the estimation basis and is reported as operating costs or expenses for the period. All distributions are made in cash. For relevant information, please refer to the Market Observation Post System (MOPS).

The amount of remuneration for employees and directors distributed as resolved by the above-mentioned board meeting is no different from the estimated amount in the Company's 2023 and 2022 financial reports.

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

(XXI) Non-operating income and expenses

1. Interest income

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

	2023	2022
Interest on cash in bank	\$ 393	231
Interest income from financial assets measured at amortized cost	542	-
Other interest income	41	74
Total	<u>\$ 976</u>	<u>305</u>

2. Other income

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

	2023	2022
Subsidy income	\$ 250	-
Compensation income	-	8
Revenue from sale of wastewater	37	210
Electricity sales revenue	11,524	-
Dividend income	9,529	17,517
Other income	351	93
Total	<u>\$ 21,691</u>	<u>17,828</u>

3. Other gains and losses

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

	2023	2022
Gains on disposals of property, plant and equipment	\$ 101	-
Lease modification gain	-	41
Foreign exchange gain (loss)	(10)	952
Gains (losses) on financial assets and liabilities measured at fair value through profit or loss	142,857	(67,842)
Total	<u>\$ 142,948</u>	<u>(66,849)</u>

4. Financial costs

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

	2023	2022
Bank borrowings	\$ (5,633)	(2,719)
Amortization of discounted corporate bonds payable	(5,135)	(3,008)
Lease liabilities	(30)	(17)
Other interest expenses	(2)	(2)
Total	<u>\$ (10,800)</u>	<u>(5,746)</u>

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

(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, 2023 and 2022, the carrying amounts of the Company's receivables were 37% and 47%, respectively, from one client and two clients, respectively.

(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	Within 6 months	6–12 months	1–2 years	2–5 years	More than 5 years
December 31, 2023							
Non-derivative financial liabilities							
Short-term borrowings (floating rates)	\$ 110,000	110,743	75,665	35,078	-	-	-
Payable short-term notes (fixed interest rate)	49,988	50,000	50,000	-	-	-	-
Notes payable and accounts payable	12,578	12,578	12,578	-	-	-	-
Other payables	19,051	19,051	19,051	-	-	-	-
Long-term borrowings (including current portion) (floating rates)	71,968	73,930	12,504	12,295	49,131	-	-
Corporate bonds payable (fixed rates) due within one year	292,626	300,000	-	-	300,000	-	-
Lease liabilities	594	620	287	127	190	16	-
Guarantee deposits received	2,575	2,575	454	342	706	1,073	-
Derivative financial liabilities							
Current financial liabilities at fair value through profit or loss	1,800	1,800	-	-	1,800	-	-
	\$ 561,180	571,297	170,539	47,842	351,827	1,089	-
December 31, 2022							
Non-derivative financial liabilities							
Short-term borrowings (floating rates)	\$ 179,910	180,621	150,554	30,067	-	-	-
Notes payable and accounts payable	18,002	18,002	18,002	-	-	-	-
Other payables	39,313	39,313	39,313	-	-	-	-
Long-term borrowings (including current portion) (floating rates)	43,000	44,252	7,433	9,354	18,409	9,056	-
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	-
	\$ 574,279	588,756	215,708	39,952	18,905	314,191	-

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

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:

	2023.12.31			2022.12.31		
	Foreign currency (NT\$thous and)	Exchang e rate	NTD	Foreign currency (NT\$tho usand)	Exchang e rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
RMB	\$ -	-	-	224	4.408	987
USD	507	30.705	15,560	417	30.71	12,814

(2) Sensitivity analysis

The exchange rate risk of the Company's monetary accounts mainly comes from the cash and cash equivalents and accounts receivable denominated in foreign currencies, and the foreign currency exchange gains and losses arise during the translation. On December 31, 2023 and 2022, if NTD had depreciated or appreciated by 1% against USD and CNY, with all other factors held constant, the net income after tax would have increased or decreased by NT\$124 thousand for 2023 and \$110 thousand for 2022. 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:

	2023		2022	
	Exchange gain (loss)	Average exchange rate	Exchange gain (loss)	Average exchange rate
NTD	\$ <u>(10)</u>	-	<u>952</u>	-

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.

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

If the interest rate had increased or decreased by 1%, with all other variables held constant, the Company's net income after tax would have increased or decreased by NT\$1,456 thousand for 2023 and NT\$1,783 thousand for 2022, 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	2023		2022	
	Other comprehensive income after tax	After-tax profit (loss)	Other comprehensive income after tax	After-tax profit (loss)
Increase by 3%	\$ 28	18,555	28	13,983
Decrease by 3%	\$ (28)	(18,555)	(28)	(13,983)

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:

	2023.12.31				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Financial assets mandatorily at fair value through profit or loss	\$ 650,427	650,427	-	-	650,427
Financial assets at amortized cost					
Cash and cash equivalents	31,447	-	-	-	-
Financial assets at amortized cost	14,190	-	-	-	-
Notes receivable	1,934	-	-	-	-
Accounts receivable	22,369	-	-	-	-
Other receivables	5,168	-	-	-	-
Other financial assets	800	-	-	-	-
Guarantee deposits paid	502	-	-	-	-
Subtotal	76,410				
Financial assets at fair value through other comprehensive income					
Financial assets at fair value through other comprehensive income	926	-	-	926	926
Total	\$ 727,763				

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

2023.12.31					
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss					
Financial liabilities mandatorily at fair value through profit or loss	\$ 1,800	-	1,800	-	1,800
Financial liabilities at amortized cost					
Short-term borrowings	110,000	-	-	-	-
Short-term notes payable and bills payable	49,988	-	-	-	-
Notes payable and accounts payable	12,578	-	-	-	-
Other payables	19,051	-	-	-	-
Lease liabilities	594	-	-	-	-
Long-term borrowings (including current portion)	71,968	-	-	-	-
Corporate bonds payable (including those due within one year)	292,626	-	295,860	-	295,860
Guarantee deposits received	2,575	-	-	-	-
Subtotal	559,380				
Total	\$ 561,180				
2022.12.31					
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Financial assets mandatorily at fair value through profit or loss	\$ 493,512	493,512	-	-	493,512
Financial assets at amortized cost					
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	149,055				
Financial assets at fair value through other comprehensive income					
Financial assets at fair value through other comprehensive income	926	-	-	926	926
Total	\$ 643,493				
Financial liabilities at fair value through profit or loss					
Financial liabilities mandatorily at fair value through profit or loss	\$ 3,390	-	3,390	-	3,390

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

	Carrying amount	2022.12.31			
		Fair value			
		Level 1	Level 2	Level 3	Total
Financial liabilities at amortized cost					
Short-term borrowings	179,910	-	-	-	-
Notes payable and accounts payable	18,002	-	-	-	-
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	<u>2,572</u>	-	-	-	-
Subtotal	<u>570,889</u>				
Total	\$ 574,279				

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.

(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.

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

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 and beneficiary certificates 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

	Financial assets at fair value through other comprehensive income
	Equity instruments without quoted prices in an active market
Balance on January 1, 2023 (i.e. balance as of December 31, 2023)	\$ 926
Balance on January 1, 2022	\$ -
Reclassification	881
Recognized in other comprehensive income	45
Balance on December 31, 2022	\$ 926

(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.

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

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	· Minority equity discount (25% on 2022.12.31) · Discount for lack of marketability (As of December 31, 112 and December 31, 111, both are 30%)	· 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	Change up or down	Changes in fair values reflected in the current profit or loss	
			Favorable change	Unfavorable change
December 31, 2023				
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>
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 2023 and 2022.

(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, 2023 and 2022, the Company's unused short-term bank financing facilities amounted to NT\$330,000 thousand and NT\$200,000 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 transactions denominated in non-functional currencies. 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

Equity and Fund Price Risk refers to the uncertainty of future prices of equity instruments and funds held by the Company. The Company manages the price risk of equity instruments and funds through diversified investments and regular monitoring of their financial conditions.

(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 debt ratio on December 31, 2023 and 2022 is as follows:

	2023.12.31	2022.12.31
Total liabilities	\$ 595,969	612,690
Less: Cash and cash equivalents	(31,447)	(89,438)
Net liability	<u>\$ 564,522</u>	<u>523,252</u>
Total equity	<u>\$ 953,339</u>	<u>829,253</u>
Debt ratio	<u>59.22%</u>	<u>63.10%</u>

As of December 31, 2023, the capital management method of the Company has not been changed.

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, 2023 and 2022 is as follows:

	Short-term borrowings	Short-term notes payable and bills payable	Corporate bonds payable	Lease liabilities	Long-term borrowings (including current portion)	Total liabilities from financing activities
Balance on January 1, 2023	\$ 179,910	-	287,491	601	43,000	511,002
Cash flow						
Cash from borrowings	395,090	49,988	-	-	49,500	494,578
Repayment of borrowings	(465,000)	-	-	-	(20,532)	(485,532)
Lease principal repayment	-	-	-	(528)	-	(528)
Non-cash changes						
Discounting and amortization	-	-	5,135	-	-	5,135
Other changes	-	-	-	521	-	521
Balance as of December 31, 2023	<u>\$ 110,000</u>	<u>49,988</u>	<u>292,626</u>	<u>594</u>	<u>71,968</u>	<u>525,176</u>

	Short-term borrowings	Corporate bonds payable	Lease liabilities	Long-term borrowings (including current portion)	Total liabilities from financing activities
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>

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.

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

(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:

Name of related party	Relations with the Company
SUN YAD CONSTRUCTION CO., LTD (Hereinafter referred to as Sun Yad)	Ultimate parent company of the Company
U-Best Innovative Technology Co., Ltd. (hereinafter referred to as U-Best)	Parent company of the Company
Luxe Bring Co., Ltd. (hereinafter referred to as Luxe Bring)	Affiliate (Note)
Boromi Optronics Corp. (hereinafter referred to as Boromi Optronics)	Other related party

Note: No longer serves as a director of the affiliate, Luxe Bring, since August 12, 2022.

(III) Significant transactions with related parties

1. Operating revenue

The Company's significant sales to related parties are as follows:

Account title	Category/Name of related party	2023	2022
Operating revenue	Affiliate: Luxe Bring	\$ -	1,162
	Other related party - Boromi Optronics	36	-
		<u>\$ 36</u>	<u>1,162</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 30 to 60 days.

2. Purchases

The amounts of purchases by the Company from related parties are as follows:

Category/Name of related party	2023	2022
U-Best	<u>\$ 13,553</u>	<u>7,515</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 60 days.

3. Accounts receivable from related parties

The details of the Company's receivables from related parties are as follows:

Account title	Category/Name of related party	2023.12.31
Accounts receivable	Other related party - Boromi Optronics	<u>\$ 1</u>

Accounts receivable from related parties are mainly from sales and are due 30 days after the settlement date. The accounts receivable are non-interest bearing.

There was no such transaction in 2022.

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

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>2023.12.31</u>	<u>2022.12.31</u>
Accounts payable	U-Best	<u>\$ 2,254</u>	<u>4,567</u>

Accounts payable to related parties are mainly from purchases and are due 60 days after the purchase date. The accounts payable are non-interest bearing.

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's key management personnel are the joint guarantors for the bank borrowings and the available facilities as of December 31, 2023 and 2022.

7. In the year 2023, the Company received a final cash dividend payment from the parent company, Sun Yad, amounting to NT\$2,529 thousand dollars.

(IV) Transactions with key management personnel

Key management personnel's remuneration includes:

	<u>2023</u>	<u>2022</u>
Short-term employee benefits	<u>\$ 9,617</u>	<u>10,177</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>2023.12.31</u>	<u>2022.12.31</u>
Time deposits (other financial assets)	Security deposit for natural gas	\$ 800	800
Property, plant and equipment	Bank borrowings	196,148	197,255
Investment property	Bank borrowings	138,911	65,558
		<u>\$ 335,859</u>	<u>263,613</u>

IX. Significant Contingent Liabilities and Unrecognized Commitments

	<u>2023.12.31</u>	<u>2022.12.31</u>
Acquisition of property, plant and equipment	<u>\$ -</u>	<u>14,775</u>
Acquisition of investment property	<u>\$ -</u>	<u>52,637</u>

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 and amortization expenses of the year by function is summarized as follows:

By function By nature	2023			2022		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefit expenses						
Salary and wages	13,061	16,912	29,973	18,954	24,273	43,227
Labor and health insurance expenses	1,317	1,204	2,521	2,025	1,615	3,640
Pension expenses	704	588	1,292	988	756	1,744
Directors' remuneration	-	3,004	3,004	-	1,471	1,471
Other employee benefit expenses	1,416	630	2,046	1,567	677	2,244
Depreciation expenses	19,094	5,220	24,314	19,513	592	20,105
Amortization expenses	-	97	97	12	238	250

Additional information on the number of employees and employee benefit expenses as of 2023 and 2022 is as follows:

	2023	2022
Number of employees	<u>52</u>	<u>66</u>
Number of directors who do not concurrently serve as employees	<u>6</u>	<u>6</u>
Average employee benefit expenses	<u>\$ 779</u>	<u>848</u>
Average employee salary and wages	<u>\$ 652</u>	<u>720</u>
Average adjustment to employee salary and wages	<u>(9.50)%</u>	
Remuneration to supervisor	<u>\$ -</u>	<u>-</u>

The information on the Company's remuneration policy (including directors, 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 2-5% of the balance for employee remuneration and no greater than 5% 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.

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

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 2023 is as follows:

1. Loans to others: None.
2. Endorsements/guarantees provided to others: None.
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	2,789	71,957	0.02 %	71,957	
The Company	Ordinary shares-Taiwan Business Bank, Ltd.	-	Financial assets at fair value through profit or loss - non-current	8,853	121,281	0.11 %	121,281	
The Company	Ordinary shares - Taishin Financial Holding Co., Ltd.	-	Financial assets at fair value through profit or loss - non-current	8,817	159,595	0.07 %	159,595	
The Company	Ordinary shares - Shin Kong Financial Holding Co., Ltd.	-	Financial assets at fair value through profit or loss - current	1,675	14,824	0.01 %	14,824	
The Company	Ordinary shares - King's Town Bank Co., Ltd.	-	Financial assets at fair value through profit or loss - current	104	4,155	0.01 %	4,155	
The Company	Ordinary shares - China Development Financial Holding Corporation	-	Financial assets at fair value through profit or loss - current	832	10,442	- %	10,442	
The Company	Preference shares - China Development Financial Holding Corporation	-	Financial assets at fair value through profit or loss - current	1,355	9,581	0.09 %	9,581	
The Company	Ordinary shares - SanDi Properties Co., Ltd.	-	Financial assets at fair value through profit or loss - current	131	4,310	0.14 %	4,310	
The Company	Convertible corporate bonds- Horizon Securities 1	-	Financial assets at fair value through profit or loss - current	78	7,691	-	7,691	
The Company	Common stock- Sun Yad Construction Co., Ltd.	Ultimate parent company of the Company	Financial assets at fair value through profit or loss - current	4,603	58,452	1.65 %	58,452	
The Company	Convertible corporate bonds - Sun Yad 5	Ultimate parent company of the Company	Financial assets at fair value through profit or loss - current	211	24,250	-	24,250	
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	27,100	1.43 %	27,100	
The Company	Common stock- TEKCORE CO., LTD	-	Financial assets at fair value through profit or loss - current	500	9,250	0.97 %	9,250	
The Company	Common stock- Myson Century, Inc.	Subsidiary of SUN YAD CONSTRUCTION CO., LTD	Financial assets at fair value through profit or loss - current	1,445	111,265	9.83 %	111,265	
The Company	Common stock- FU TA MATERIAL TECHNOLOGY CO., LTD.	-	Financial assets at fair value through profit or loss - current	494	6,200	0.73 %	6,200	
The Company	Common stock- Associated Industries China, Inc.	-	Financial assets at fair value through profit or loss - current	133	1,436	0.24 %	1,436	
The Company	Yuanta U.S. Treasury 20+ Year Bond ETF Umbrella Securities Investment Trust Fund	-	Financial assets at fair value through profit or loss - current	280	8,638	0.01 %	8,638	
The Company	Ordinary shares - Luxe Bring Co., Ltd.	-	Financial assets at fair value through other comprehensive income - non-current:	166	926	10.38 %	926	

4. Securities acquired or sold amounting to at least NT\$300 million or 20% of the paid-in capital: None.

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

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.

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

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(2)(11).

(II) Information on Investees: None.

(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 CHERNG DEVELOP TECHNOLOGY CO., LTD.		6,900,000	10.22%
Shangyu Construction Co., Ltd.		5,213,650	7.72%
Zhong Qing Technology Co., Ltd.		4,625,000	6.85%
Voyage Investment Limited		3,946,000	5.84%

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.

(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).

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

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>2023</u>	<u>2022</u>
Taiwan	\$ 155,699	311,765
Other countries	6,025	13,598
Total	<u>\$ 161,724</u>	<u>325,363</u>

Non-current assets:

<u>Region</u>	<u>2023.12.31</u>	<u>2022.12.31</u>
Taiwan	<u>\$ 787,837</u>	<u>750,996</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>2023</u>	<u>2022</u>
Company A	<u>\$ 58,565</u>	<u>112,875</u>

Hsin-Li Chemical Industrial Corp.
Statement of Cash and cash equivalents

December 31, 2023

Unit: NT\$ thousand

<u>Item</u>	<u>Summary</u>	<u>Amount</u>
Cash	Petty cash	\$ 89
Cash in bank	Checking account deposits	13
	Demand deposits	29,972
	Foreign currency demand deposits	1,373
	(Note)	
Total		<u><u>\$ 31,447</u></u>

Note: Foreign currency demand deposits have been translated at the spot exchange rate prevailing on 2023.12.29.

1 USD = 30.705 NTD

1 CNY = 4.327 NTD

1 JPY = 0.2172 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	<u><u>\$ 14,190</u></u>
	(Note)	

Note: Foreign currency demand deposits have been translated at the spot exchange rate prevailing on 2023.12.29.

1 USD = 30.705 NTD

Hsin-Li Chemical Industrial Corp.
Statement of Financial Assets at Fair Value Through Profit or Loss -
Current

For the Years Ended December 31, 2023

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	\$ 28,064	-	-	1,525	14,213	973	1,675	14,824	-
King's Town Bank Co., Ltd.	278	9,424	-	-	174	6,954	1,685	104	4,155	-
We & Win Diversification Co., Ltd.	124	1,457	-	-	124	1,824	367	-	-	-
Kunyue Development Co., Ltd.	112	1,820	-	-	112	1,726	(94)	-	-	-
Da-li Development Co., Ltd.	518	15,333	-	-	518	15,928	595	-	-	-
China Development Financial Holding Corporation - ordinary shares	832	10,483	-	-	-	-	(41)	832	10,442	-
China Development Financial Holding Corporation - preference shares	1,355	10,489	-	-	-	-	(908)	1,355	9,581	-
Radium Life Tech Co., Ltd.	30	274	-	-	30	286	12	-	-	-
Taiwan Semiconductor Manufacturing Co., Ltd.	5	2,243	-	-	5	2,641	398	-	-	-
Eternal Materials Co., Ltd.	134	4,186	-	-	134	4,829	643	-	-	-
Meiloon Industrial Co., Ltd.	96	1,877	1	20	97	2,773	876	-	-	-
FORMOSA OPTICAL TECHNOLOGY CO., LTD.	80	4,640	-	-	80	5,008	368	-	-	-
SanDi Properties Co., Ltd.	131	4,120	-	-	-	-	190	131	4,310	-
SUN YAD CONSTRUCTION CO., LTD	803	9,510	3,800	42,719	-	-	6,223	4,603	58,452	-
Sun Yad 5 convertible corporate bonds	245	27,401	-	-	34	4,048	897	211	24,250	-
U-Best Innovative Technology Co., Ltd.	2,000	21,000	-	-	-	-	6,100	2,000	27,100	-
TEKCORE CO., LTD	-	-	1,200	19,795	700	11,457	912	500	9,250	-
Myson Century, Inc.	-	-	1,451	44,701	6	169	66,733	1,445	111,265	-
FU TA MATERIAL TECHNOLOGY CO., LTD.	-	-	494	5,861	-	-	339	494	6,200	-
Associated Industries China, Inc.	-	-	133	1,473	-	-	(37)	133	1,436	-
HORIZON SECURITIES I	-	-	120	11,318	42	3,961	334	78	7,691	-
Fubon Financial Holding Co., Ltd.	-	-	98	5,722	98	5,722	-	-	-	-
CHIA TA WORLD CO., LTD.	-	-	139	2,106	139	2,106	-	-	-	-
Yuanta US Treasury 20+	-	-	-	-	-	-	-	-	-	-
Year Bond ETF	-	-	280	8,361	-	-	277	280	8,638	-
Total		\$ 152,321		142,076		83,645	86,842		297,594	

Hsin-Li Chemical Industrial Corp.

Statement of Notes Receivable

December 31, 2023

Unit: NT\$ thousand

<u>Name of client</u>	<u>Summary</u>	<u>Amount</u>
8A81	Business	\$ 399
8653	"	358
8652	"	171
7F04	"	99
6451	"	520
Others (Note)	"	387
Total		<u>\$ 1,934</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	Operating	\$ 9,037
8A45	"	2,058
T008	"	1,880
6694	"	1,166
Others (Note)	"	8,228
Subtotal		22,369
Less: Allowance for losses		-
Total		<u>\$ 22,369</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, 2023

Unit: NT\$ thousand

<u>Item</u>	<u>Summary</u>	<u>Amount</u>
Other receivables	Natural gas and utilities	\$ 436
Sales tax refund receivable	Sales tax refund	4,502
Others	Interests receivable and shares sold	230
Total		<u>\$ 5,168</u>

Statement of Inventories

<u>Item</u>	<u>Amount</u>		<u>Remarks</u>
	<u>Costs</u>	<u>Net Realizable Value</u>	
Raw materials	\$ 25,746	23,955	Net realizable value at market price
Work in progress	451	431	"
Finished goods	4,274	4,274	"
Less: An allowance for inventory valuation losses	<u>1,811</u>		
	<u>\$ 28,660</u>		

Hsin-Li Chemical Industrial Corp.

Statement of Other Current Assets

December 31, 2023

Unit: NT\$ thousand

<u>Item</u>	<u>Summary</u>	<u>Amount</u>
Prepaid expenses	Prepaid insurance premiums	\$ 389
Prepayments to suppliers	Prepayment for materials purchased	976
Rights of merchandize to be returned	Rights of merchandize to be returned	1,600
Others	Office supplies and Business tax carry forward	985
Total		<u><u>\$ 3,950</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, 2023

Unit: NT\$ thousand

<u>Name</u>	<u>Opening balance</u>		<u>Increase in this period</u>		<u>Decrease in this period</u>		<u>Unrealized gain (loss)</u> <u>on financial products</u>	<u>Balance, ending</u>		<u>Collateral or pledge</u>
	<u>Number of</u> <u>shares</u>	<u>Fair value</u>	<u>Number of shares</u>	<u>Amount</u>	<u>Number of</u> <u>shares</u>	<u>Amount</u>		<u>Number of</u> <u>shares</u>	<u>Fair value</u>	
E.SUN Financial Holding Co., Ltd.	3,547	\$ 85,312	289	2,982	1,047	13,312	(3,025)	2,789	71,957	None
TAIWAN BUSINESS BANK, LTD.	9,254	119,836	209	-	610	4,111	5,556	8,853	121,281	None
Taishin Financial Holding Co., Ltd.	9,010	136,043	378	-	571	6,429	29,981	8,817	159,595	None
Total		<u>\$ 341,191</u>		<u>2,982</u>		<u>23,852</u>	<u>32,512</u>		<u>352,833</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, 2023

Unit: NT\$ thousand

<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</u>	<u>Fair value</u>	<u>Number of</u>	<u>Amount</u>	<u>Number of</u>	<u>Amount</u>		<u>Number of</u>	<u>Fair value</u>	
	<u>shares</u>		<u>shares</u>		<u>shares</u>			<u>shares</u>		
Shin Kong No.1 REIT	-	\$ -	325	7,048	325	7,048	-	-	-	None
Luxe Bring	166	<u>926</u>	-	=	-	=	=	166	<u>926</u>	None
Total		<u>\$ 926</u>		<u>7,048</u>		<u>7,048</u>	=		<u>926</u>	

Hsin-Li Chemical Industrial Corp.
Statement of Movements in Property, Plant and Equipment
For the Years Ended December 31, 2023

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, 2023

<u>Item</u>	<u>Summary</u>	<u>Amount</u>
Performance bond	Deposits for corporate car rental	<u><u>\$ 502</u></u>

Hsin-Li Chemical Industrial Corp.
Statement of Other Non-current Assets

December 31, 2023

Unit: NT\$ thousand

<u>Item</u>	<u>Summary</u>	<u>Amount</u>
Net defined benefit asset		\$ 536
Others	Other deferred charges and prepayment for business facilities	467
Total		<u>\$ 1,003</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	\$ 20,000	2023.10.11~2024.01.09	2.235%	Note
Secured borrowings	Mega International Commercial Bank	10,000	2023.12.15~2024.03.14	2.235%	Note
Secured borrowings	Taiwan Business Bank	30,000	2023.09.05~2024.03.05	1.85%	Note
Unsecured borrowings	First Commercial Bank	7,000	2023.08.08~2024.08.08	2.095%	None
Unsecured borrowings	First Commercial Bank	28,000	2023.08.08~2024.08.08	2.095%	None
Unsecured borrowings	First Commercial Bank	<u>15,000</u>	2023.11.07~2024.02.07	1.95%	None
Total		<u>\$ 110,000</u>			

Note: See Note 8.

Hsin-Li Chemical Industrial Corp.
Statement of Short-term notes payable and
bills payable

December 31, 2023

Unit: NT\$ thousand

<u>Item</u>	<u>Guarantee institution</u>	<u>Contract period</u>	<u>Interest rate ranges</u>	<u>Issue amount</u>	<u>Unamortized discount of short-term notes and bills payable</u>	<u>Carrying amount</u>
Commercial papers payable	Mega Bills Finance Co., Ltd.	2023.11.07~2024.01.05	1.75%	<u>\$ 50,000</u>	<u>(12)</u>	<u>49,988</u>

Statement of notes payable and accounts payable

<u>Name of supplier</u>	<u>Summary</u>	<u>Amount</u>
B196	Business	\$ 1,227
D187	"	1,124
D539	"	3,071
D215	"	2,254
D636	"	882
B155	"	690
Others (Note)	"	3,330
Total		<u>\$ 12,578</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, 2023

Unit: NT\$ thousand

<u>Item</u>	<u>Summary</u>	<u>Amount</u>
Other payables:		
Salary and bonus payable	December salary and annual bonus payable	\$ 7,168
Compensation payable to directors	Compensation payable to directors	2,151
Employee bonus payable	Employee bonus payable	2,151
Payable for stock purchases	Payable for stock purchases	921
Payable - machinery and equipment	Payables for machinery and equipment	126
Others	Temp worker salaries, service charges, natural gas, insurance expenses, and taxes, etc.	6,534
Total		<u><u>\$ 19,051</u></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%	\$ 222
Transportation equipment	Corporate vehicle	2023.02.08~2026.02.07	6%	372
				<u><u>\$ 594</u></u>
			Current	\$ 395
			Non-current	199
				<u><u>\$ 594</u></u>

Hsin-Li Chemical Industrial Corp.
Statement of Long-Term Borrowings

December 31, 2023

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	\$ 27,000	2022.05.30–2025.05.30	2.42 %	None
CTBC Bank	Principal and interest are amortized monthly	44,968	2023.01.13~2025.01.13	3.1237 %	Note
Less: Current portion		<u>(22,944)</u>			
		<u><u>\$ 49,024</u></u>			

Note: See Note 8.

Hsin-Li Chemical Industrial Corp.
Statement of bonds payable (current portion)
December 31, 2023

Unit: NT\$ thousand

<u>Name of bond</u>	<u>Guarantor</u>	<u>Trustee</u>	<u>Issue date</u>	<u>Coupon rate</u>	<u>Total issue amount</u>	<u>Amount converted/repurchased</u>	<u>Balance, ending</u>	<u>Unamortized discount</u>	<u>Book value</u>	<u>Repayment method</u>	<u>Collateral</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>300,000</u>	<u>7,374</u>	<u>292,626</u>	Note	None	-

Note: Please refer to Note 6 (11) for details of bonds payable.

Hsin-Li Chemical Industrial Corp.
Statement of Guarantee Deposits Received

December 31, 2023

Unit: NT\$ thousand

<u>Item</u>	<u>Summary</u>	<u>Amount</u>
Performance bond	Security deposit	\$ 1,330
Performance bond	Purchase deposit	1,005
Performance bond	Security deposit for natural gas	<u>240</u>
		<u>\$ 2,575</u>

Statement of Operating Revenue
For the Years Ended December 31, 2023

<u>Item</u>	<u>Number</u>	<u>Unit</u>	<u>Amount</u>
Dry PU synthetic leather	4,062,680	yards	\$ 93,730
Plastic leather	55,889	yards	8,167
Wet PU synthetic leather	174,982	yards	29,033
Others	192,977	yards	22,481
Rental income			<u>8,313</u>
Total			<u>\$ 161,724</u>

Hsin-Li Chemical Industrial Corp.
Statement of Operating Costs
For the Years Ended December 31, 2023 **Unit: NT\$ thousand**

<u>Item</u>	<u>Amount</u>
Opening balance of raw materials	\$ 19,243
Add: Net purchase during this period	75,659
Less: Ending balance of raw materials	13,066
Raw materials sold	24,418
Picked and used for R&D	<u>754</u>
Consumption of direct raw materials	56,664
Opening balance of supplies	14,758
Add: Net purchase during this period	3,391
Less: Ending balance of supplies	12,680
Supplies sold	<u>425</u>
Consumption of indirect materials	5,044
Direct labor	12,261
Overhead	<u>41,885</u>
Manufacturing cost	<u>115,854</u>
Opening balance of work in progress	1,955
Less: Ending balance of work in progress	<u>451</u>
Costs of finished goods	117,358
Add: Opening balance of finished goods	7,401
Less: Ending balance of finished goods	<u>4,274</u>
Cost of finished goods sold	120,485
Add: Cost of raw materials sold	24,418
Cost of supplies sold	425
Other operating costs	3,432
Loss of idle capacity	5,121
Less: Revenue from the sales of scraps	(306)
Gain on inventory value recovery	<u>(970)</u>
Operating costs	<u>\$ 152,605</u>

Hsin-Li Chemical Industrial Corp.
Statement of Marketing Expenses
For the Years Ended December 31, 2023 **Unit: NT\$ thousand**

<u>Item</u>	<u>Summary</u>	<u>Amount</u>
Salary and wages	Salary, wages, and pension	\$ 3,326
Freight	Freight for sales	2,314
Traveling expenses	Traveling expenses	771
Others	Labor and health insurance, entertainment, and food stipend	<u>776</u>
Total		<u>\$ 7,187</u>

Statement of Management Fees

<u>Item</u>	<u>Summary</u>	<u>Amount</u>
Salary and wages	Salary, wages, and pension	\$ 12,111
Directors' remuneration	Directors' remuneration	2,151
Labor service fees	Audit fees	1,574
Depreciation	Depreciation of fixed assets, right-of-use assets and investment property	5,187
Taxes	House tax and land value tax	1,817
Others	Entertainment expense, fees for listing on Taipei Exchange (TPEx) and stock agency fees	<u>6,047</u>
Total		<u>\$ 28,887</u>

Hsin-Li Chemical Industrial Corp.
Statement of Research and Development Expenses

For the Years Ended December 31, 2023

Unit: NT\$ thousand

<u>Item</u>	<u>Summary</u>	<u>Amount</u>
Salary and wages	Salary, wages, and pension	\$ 2,063
Research material expense	Materials needed for research and development	773
Others	Labor and national health insurance expenses and meal expense	<u>330</u>
Total		<u><u>\$ 3,166</u></u>

Statement of Non-operating Income and Expenses

Please refer to Note 6(21) for information on non-operating income and expenses.