

Stock Code: 4303



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

## **2023 Annual Report**

Published on April 30, 2024

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

<http://www.hsinli.com.tw/>

- ◎ Name, job title, contact number, and email of the spokesperson and the acting spokesperson:

Name of Spokesperson: Cheng, Yu-Tang	Name of Acting Spokesperson: Chen, Chien-Hung
Job title: President	Job title: Manager, Finance Department
Tel.: (06)7835100	Tel.: (06)7835100
Email: <a href="mailto:tang0621@hsinli.com.tw">tang0621@hsinli.com.tw</a>	Email: <a href="mailto:jeter@hsinli.com.tw">jeter@hsinli.com.tw</a>

- ◎ Address and telephone number of the headquarters and factories:

Address: No. 99, Xingye Rd., Xuejia Dist., Tainan City  
Telephone No.: (06)7835100

- ◎ Name, address, website, and telephone number of the share registrar agency:

Name: Registrar & Transfer Agency Dept., Grand Fortune Securities Co.,Ltd.  
Address: 5-7F, No. 6, Section 1, Zhongxiao West Rd., Taipei City  
Telephone No.: (02)23836888  
Website: <http://www.gfortune.com.tw>

- ◎ Name of CPAs and name, address, website, and telephone number of the accounting firm for the most recent year's financial statements:

Name of CPAs: Hsu, Chen-Lung and Chen, Kuo-Tsung  
Name of Accounting Firm: KPMG Taiwan  
Address: 12F-6, No. 211, Zhongzheng 4th Rd., Qianjin Dist., Kaohsiung City  
Telephone No.: (07)2130888  
Website: <http://kpmg.com/tw>

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

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

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## Chapter 1 Letter to Shareholders

Dear Shareholders,

Thanks to all shareholders for your strong support and encouragement. Due to the unstable situation during 2023 compared with 2022, our revenue decreased by 50.29%. We will continue to revise our production and sales strategies to lower our operating costs and expenses so that we can continue to make profits.

We will enhance our efforts in research and development and innovation, brand marketing and increase the added value of our products with all our employees. We need your continuous support and encouragement. The Company's 2023 operating performance and 2024 business plan are specified below:

### I. 2023 business report:

#### 1. Business plan implementation results

The Company's 2023 operating revenue was NT\$161,724 thousand, net income after tax was NT\$123,459 thousand, and earnings per share were NT\$1.83, with a 50.29% decrease in operating revenue and a 274.61% decrease in net operating income compared with 2022.

#### 2. Budget implementation:

Not applicable as the Company did not publish financial forecast for 2023.

#### 3. Analysis on financial income and expense and profitability:

##### (1) Financial income and expense

Item	2022	2023	Increase (decrease) in amount	Unit: NT\$ thousand
				Increase (decrease) (%)
Operating revenue	325,363	161,724	(163,639)	-50.29%
Operating costs	263,655	152,605	(111,050)	-42.12%
Net operating income	17,250	(30,121)	(47,371)	-274.61%
Net income for the period	(41,198)	123,459	164,657	-399.67%

##### (2) Profitability analysis

Item	2022 %	2023 %
Return on assets	-2%	9%
Return on equity	-5%	13%
Operating income as a percentage of paid-in capital	3%	-4%
Net income before tax as a percentage of paid-in capital	-6%	18%
Profit margin	-12%	77%
Earnings per share (NTD)	-0.61%	1.83

#### 4. Research and development (R&D):

##### (1) New product development

- ① In addition to the existing products, develop water-based high-solid foam products, in line with the environmental requirements of solvent-free process products with recycled base fabric, apply for international GRS certification, and actively develop PU composite products with PVB, in addition to improving the physical and chemical properties of products, and also increasing the texture variability, to provide customers with a wider range of choices, also focus on the development of water-based PU breathable film to cater to the miscellaneous applications for new customers.
- ② With the ban on free plastic bags, countries are advocating for reducing the use of disposable plastic products and developing new plasticizer-free, non-toxic, eco-friendly, and recyclable PVB products, which can be applied to furniture and handbags with international GRS certification.

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

On the basis of our existing products, we strive to expand our market, strengthen the integration of upstream and downstream players, form alliances with businesses in the same industry, and accelerate the R&D progress, while continuing to invest in R&D to improve product functions and expanding the product markets with strategic alliances with other companies to enhance the Company's growth momentum.

## II. Summary of the 2024 business plan

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

A total of 200,000 yards of PVC leather; 5 million yards of dry PU synthetic leather; 200,000 yards of wet PU synthetic leather.
3. Important production and marketing policies
  - (1) Production  
Increases PVC products with high physical properties of polymer and high softness and satisfy top international customers' more needs.
  - (2) Marketing  
Speed up the upstream and downstream integration process, go all out to meet customers' needs with our specialties and work with them at the same time, and avoid the vicious cycle of competition.
4. The Company's development strategies for the future
  - (1) Commit to Taiwan, integrate with international markets, and strengthen fundamentals.
  - (2) Develop new customers and environmentally friendly products.
  - (3) Plan upstream and downstream integration, shorten development period, and enhance competitiveness.
  - (4) Install solar energy facility on the roof of the factory for transformation and upgrade
5. Regarding the overall economic situation, due to the Russo-Ukrainian War, the Israeli-Palestinian conflict, the ensuing rising raw materials and inflation, the entire consumer market has adopted a more conservative approach, so we will be more cautious in our business operations. In addition to development of products and markets, we will strive to reduce costs more effectively and our enhance competitiveness, to achieve great performance every year.

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

Chairperson: Chang, Yu-Ming





## **Chapter 2 Company Profile**

I. Date of incorporation: June 22, 1973.

II. Company history:

(I) Company history

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

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

(III) Major transfer of or change in shares by directors, or major shareholders, each with more than 10% ownership interest, change in management rights, or material changes in the management method or business scope:

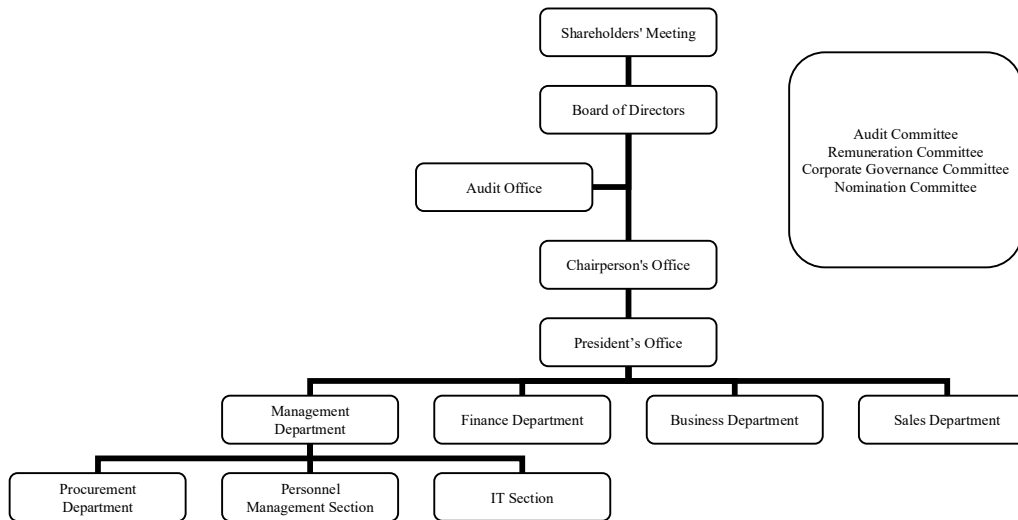
1. Chen, Chih-Chang resigned as an independent director of the Company on 2023/2/16, and the number of shares held before and after his resignation was zero.
2. Wu, Yi-Jen resigned as a director of the Company on 2024/2/6, the number of shares held before his resignation (2024/1/31) was 1,670,354 and the number of shares held after his resignation (2024/2/6) was 1,640,354.
3. Lin, Ching-Lung resigned as a director of the Company on 2024/2/6, the number of shares held before his resignation (2024/1/31) was 2,667,192 and the number of shares held after his resignation (2024/2/6) was 2,637,192.

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

## Chapter 3 Corporate Governance Report

### I. Organizational system

#### (I) Organizational structure



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

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

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

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

Date: March 29, 2024

Job title	Nationality	Name	Gender/Age	Date elected	Term of office	Date first elected	Number of shares held when elected		Number of shares currently held		Current shareholding of spouse or minor children		Shareholding in the name of others		Major education and experience	Concurrent positions at the Company or other companies	Spouse or relatives within second degree of kinship who are other officers, directors, or supervisors of the Company			Remarks
							Number of shares	Shareholding	Number of shares	Shareholding	Number of shares	Shareholding	Number of shares	Shareholding			Job title	Name	Relations	
Chairperson	R.O. C.	He Rui Investment Ltd.	Male 41–50 years old	2021.7.8	3	2018.6.22	329,000	0.47%	329,000	0.42%	-	-	-	-	Master of Business Administration, National Taiwan University	Chairperson and President of Sun Yad Construction Co., Ltd. Chairperson of U-Best Innovative Technology Co., Ltd. Chairperson of FEEI CHERNG DEVELOP TECHNOLOGY CO., LTD. Chairperson of Myson Century, Inc.	None	None	None	None
		representative: Chang, Yu-Ming					-	-	-	-	-	-	-	-						
Director	R.O. C.	Lin, Ching-Lung (Note 2)	Male 71–80 years old	2021.7.8	3	2000.6.17	2,667,192	3.81%					-	-	Master of Business Administration, University of Oklahoma The Company's former Chairperson		None	None	None	None
Director	R.O. C.	Wu, Yi-Jen (Note 2)	Male 71–80 years old	2021.7.8	3	1997.6.21	1,670,354	2.39%			-	-	-	-	Master of Business Administration, John F. Kennedy University		None	None	None	None
Director	R.O. C.	U-Best Innovative Technology Co., Ltd.	Male 61–70 years old	2021.7.8	3	2015.6.24	10,180,219	14.54%	10,180,219	13.06%	-	-	-	-	National Sinying Senior High School Business Executive, Chunghwa Telecom Co., Ltd. Representative of the director, Sun Yad Construction Co., Ltd.	Legal Representative of Corporate Director, Myson Century, Inc.	None	None	None	None
		representative: Chao, Tien-Tsung					12,997	0.02%			-	-	-	-						
Independent Director	R.O. C.	Wu, Chang-Cheng	Male 51–60 years old	2021.7.8	3	2015.6.24	-	-	-	-	-	-	-	-	MS/PhD of Institute of Electronics, National Chiao Tung University EMBA of National Chiao Tung University President of TrueLight Corporation President of InveStar Holdings Inc. President/Chairperson of uSenlight Corporation President of FORMERICA OPTOELECTRONICS INC.	Vice President of BIZLINK INTERNATIONAL CORPORATION and President of OptiWorks Inc. Director of SINGULAR WINGS MEDICAL CO., LTD.	None	None	None	None
Independent Director	R.O. C.	Chen, Chih-Chang (Note 1)	Male 51–60 years old	2021.7.8	3	2021.7.8	-	-	-	-	-	-	-	-	PhD in Business Administration, National Yunlin University of Science and Technology Master of Public Administration, Eastern Washington University Chair of the Department of Business Administration, National Taiwan University	Chairperson of TISO Technologies Co., Ltd. Independent Director of Chang-You Industrial Co., Ltd. Independent Director of Man Zai Industrial Co., Ltd.	None	None	None	None

Independent Director	R.O. C.	Hsu, Chi-Jeng	Female 41–50 years old	2021.7.8	3	2021.7.8	-	-	-	-	-	-	-	-	Department of Accounting, Tainan University of Technology Assistant Vice President of Underwriting Department, Firsttrade Securities Inc.	Special Assistant to President of CHIMEI MOTOR ELECTRONICS Co., Ltd. Independent Director of Myson Century, Inc.	None	None	None	None
Independent Director	R.O. C.	Huang, Ling-Tien (Note 3)	Female 51–60 years old	2023.5.26	3	2023.5.26									MBA of University of Leicester, UK Vice President of Human Resources and Administration Center, ProLogium Technology Head of Human Resources Division, Win Semiconductors Corp.	Chief HR Officer of Spirox Corporation Independent Director of Sun Yad Construction Co., Ltd.	None	None	None	None

Note 1: Chen, Chih-Chang resigned as an independent director on 2023/2/16.

Note 2: Wu, Yi-Jen and Lin, Ching-Long resigned as directors on 2024/2/6.

Note 3: Huang, Ling-Tien was elected as an independent director on 2023/5/26.

## Major shareholders of corporate shareholders

April 2, 2024

Name of corporate shareholder	Major shareholders of corporate shareholders	
	Name of shareholder	Shareholding percentage
He Rui Investment Ltd.	Chang, Yu-Ming	48.90%
	Chang, Hui-Feng	2.10%
	Chang, Pai-Hung	24.50%
	Chang, Jen-Wei	24.50%
U-Best Innovative Technology Co., Ltd.	Sun Yad Construction Co., Ltd.	13.37%
	Tseng, Chun-Jung	1.24%
	Hsin-Li Chemical Industrial Corp.	1.02%
	Chen, Che-Wei	1.02%
	Chen, Su-Ling	0.82%
	Boromi Optronics Corp.	0.80%
	Lin, Cheng-Chuan	0.72%
	Investment account of Barclay Capital SBL/PB under the custody of Citibank	0.67%
	Chen, Wen-Kuang	0.67%
	Chu, Jen-Chieh	0.53%

## Major shareholders of major institutional shareholders

April 2, 2024

Name of corporate shareholder	Major shareholders of corporate shareholders	
	Name of shareholder	Shareholding percentage
Sun Yad Construction Co., Ltd.	U-Best Innovative Technology Co., Ltd.	6.66%
	Kao, Jung-Te	2.97%
	FEEI CHERNG DEVELOP TECHNOLOGY CO., LTD.	2.45%
	Zhong Qing Technology Co., Ltd.	2.38%
	Hsin-Li Chemical Industrial Corp.	1.99%
	He Rui Investment Ltd.	1.98%
	Investment account of UBS Europe SE under the custody of Citibank Taiwan	0.98%
	Shih, Sheng-Chang	0.97%
	Jing Hong Ltd.	0.87%
	Chou, Pi-Chuan	0.80%
Hsin-Li Chemical Industrial Corp.	U-Best Innovative Technology Co., Ltd.	13.06%
	FEEI CHERNG DEVELOP TECHNOLOGY CO., LTD.	8.65%
	Shangyu Construction Co., Ltd.	6.89%
	Zhong Qing Technology Co., Ltd.	5.42%
	Boromi Optronics Corp.	4.02%
	Voyage Investment Limited	2.69%
	Chen, Che-Wei	1.30%
	Lu, Chun-Jui	1.08%
	Lin, Chia-Jung	0.95%
	Kuo, Mei	0.74%
Boromi Optronics Corp.	Shangyu Construction Co., Ltd.	100.00%

## Information on directors (2)

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

<div>Qualifications</div> <div>Name</div>	Professional qualification and experience (Note 1)	Independence (Note 2)	Number of other public companies where the individual serves as an independent director concurrently
Chairperson: Chang, Yu-Ming Representative of He Rui Investment Ltd.	<ol style="list-style-type: none"> <li>Master of Business Administration, National Taiwan University</li> <li>With extensive experience in business administration, formerly Chairperson of U-Best Innovative Technology Co., Ltd., Chairperson of Myson Century, Inc., Chairperson of FEEI CHERNG DEVELOP TECHNOLOGY CO., LTD. and Chairperson of SUN YAD CONSTRUCTION CO., LTD</li> <li>Not under any of the circumstances mentioned in Article 30 of the Company Act.</li> </ol>	<ol style="list-style-type: none"> <li>Concurrently as the Chairperson of Corporate Director, U-Best Innovative Technology Co., Ltd.</li> <li>Concurrently as a director of the Company's affiliate</li> <li>The other parts were verified in accordance with the independence requirements referred to in the "Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies" promulgated by the FSC and held satisfying such requirements.</li> </ol>	None
Director: Lin, Ching-Lung (Resigned on 2024.02.06)	<ol style="list-style-type: none"> <li>Master of Business Administration, University of Oklahoma.</li> <li>Has worked at the Company since September, 1975, as Vice President, President, and Chairperson ,with extensive experience in business administration.</li> <li>Not under any of the circumstances mentioned in Article 30 of the Company Act.</li> </ol>	The qualifications were verified in accordance with the independence requirements referred to in the "Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies" promulgated by the FSC and held satisfying such requirements.	None
Director: Wu, Yi-Jen (Resigned on 2024.02.06)	<ol style="list-style-type: none"> <li>Master of Business Administration, John F. Kennedy University.</li> <li>Has worked at the Company since December 1973 as Vice President, President, and Chairperson, with extensive experience in business administration.</li> <li>Not under any of the circumstances mentioned in Article 30 of the Company Act.</li> </ol>	The qualifications were verified in accordance with the independence requirements referred to in the "Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies" promulgated by the FSC and held satisfying such requirements.	None
Director: Chao, Tien-Tsung Representative of U-Best Innovative Technology Co., Ltd.	<ol style="list-style-type: none"> <li>National Sinying Senior High School</li> <li>Business Specialist of Chunghwa Telecom Co., Ltd.</li> <li>Not under any of the circumstances mentioned in Article 30 of the Company Act.</li> </ol>	<ol style="list-style-type: none"> <li>Concurrently as a representative of a corporate director of the Company's affiliate</li> <li>The other parts were verified in accordance with the independence requirements referred to in the "Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies" promulgated by the FSC and held satisfying such requirements.</li> </ol>	None
Independent director: Wu, Chang-Cheng	<ol style="list-style-type: none"> <li>PhD of National Chiao Tung University</li> <li>President of Truelight Corporation, President of InveStar Holdings Inc., and President of uSenlight Corporation.</li> <li>Not under any of the circumstances mentioned in Article 30 of the Company Act.</li> </ol>	According to the Company's Articles of Incorporation and "Corporate Governance Best Practice Principles," the directors shall be elected under the candidate nomination system. When nominating and electing the Board members, the Company has received the written statement, information about work experience, current certificate of employment and kinship chart from each director and, therefore, already verified the independence of them, their spouses, and relatives within 3rd degree of kinship as to the Company.	None
Independent director: Chen, Chih-Chang (Resigned on 2023.02.16)	<ol style="list-style-type: none"> <li>PhD in Business Administration, National Yunlin University of Science and Technology.</li> <li>Director of Bothand Enterprise Inc., Chairperson of TISO Technologies Co., Ltd., supervisor of Metal System Co., Ltd., independent director of Tsang Yow Industrial Co., Ltd., and independent director of Man Zai Industrial Co., Ltd.</li> <li>Not under any of the circumstances mentioned in Article 30 of the Company Act.</li> </ol>	Meanwhile, upon verification, the three independent directors identified in the left column were held satisfying the qualification requirements under the "Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies" promulgated by FSC and Article 14-2 of the Securities and Exchange Act within two years before they assume the positions and during their term of office. The independent directors have also been empowered to participate in the decision making and express opinions under Article 14-3 of the Securities and Exchange Act, in order to perform their job duties independently.	2
Independent director: Hsu, Chi-Jeng	<ol style="list-style-type: none"> <li>Department of Accounting, Tainan University of Technology.</li> <li>Assistant Vice President of Underwriting Department, Firstrade Securities Inc., Special Assistant to President of CHIMEI MOTOR ELECTRONICS Co., Ltd., Independent Director, Myson Century, Inc.</li> <li>Not under any of the circumstances mentioned in Article 30 of the Company Act.</li> </ol>		1
Independent director: Huang, Ling-Tien (Elected on 2023.05.26)	<ol style="list-style-type: none"> <li>MBA of University of Leicester, UK</li> <li>Vice President of Human Resources and Administration Center, ProLogium Technology, Head of Human Resources Division, Win Semiconductors Corp., Chief HR Officer of Spirox Corporation, Independent Director of Sun Yad Construction Co., Ltd.</li> <li>Not under any of the circumstances mentioned in Article 30 of the Company Act.</li> </ol>		1

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

Note 2: Please specify the independent directors' compliance of independence, including but not limited to, whether they or their spouses or relatives within 2nd degree of kinship serve as directors, supervisors or employees in the Company or any of its affiliated companies; the number and percentage of the Company's shares held in their own names or names of the spouses or relatives within 2nd degree of kinship (or proxy shareholder); whether they serve as directors, supervisors, or employees in any entity that has certain relationship with the Company (please refer to the subparagraphs 5-8, Paragraph 1, Article 3 of the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies); and the amount of remuneration received in the last two years for providing commercial, legal, financial, accounting or other professional services to the Company or its affiliated companies.

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

### (I) Diversity of Board of Directors:

The Company's policy on diversity of the board members is set out in Chapter 3, "Enhance the Competencies of the Board of Directors," of the "Corporate Governance Best Practice Principles". The Company's "Corporate Governance Best Practice Principles" stipulates that the composition of the Board of Directors should be diversified without restriction on gender, race, nationality, etc., and that, except that the number of directors with concurrent positions as managerial officers of the Company should not exceed one-third of the total number of directors, the Company shall also formulate appropriate diversity policy with respect to its own operation, business model and development needs, including but not limited to the following two major aspects.

- i. Basic criteria and values: Gender, age, nationality and culture, etc., of which the ratio of female directors should reach one-third of the Board of Directors.
- ii. Professional knowledge and skills: Professional background (e.g., law, accounting, industry, finance, marketing, or technology), professional skills, and industry management, etc. Board members should generally possess the knowledge, skills, and qualities necessary to perform their duties. In order to achieve the desired objectives of corporate governance, the Board as a whole should possess the following competencies:
  1. Business judgment.
  2. Accounting and financial analysis.
  3. Business administration.
  4. Crisis management.
  5. Industry knowledge.
  6. International market perspective.
  7. Leadership.
  8. Decision-making and other diverse professional backgrounds.

### Implementation of diversity in board members

The Company's current Board of Directors consists of seven directors, all of whom are ROC nationals, including three independent directors and four non-independent directors, with independent directors accounting for 42.9% of all board members, and two of the independent directors are women, accounting for 28.6% of all board members. The Company attaches importance to gender equality in the composition of the Board of Directors and aims to increase the number of female directors to more than one-third (i.e., 33%) of the total Board of Directors. Currently, the Board of Directors consists of 71.4 % (5) males and 28.6% (2) females, and we will endeavor to increase the number of female directors in the future in order to achieve the goal.

The age range of the board members is between 44 and 77 years old. The board members possess the necessary knowledge, skills and education to perform their duties (please refer to the aforementioned educations and experiences of directors), with diversity and in line with the needs of the Company's development, to enable the Board of Directors of the Company to fulfill its function of making business decisions and providing leadership and supervision.

Implementation by the board members is as follows:

Name of director	Gender	Age				Whether the term of office as an independent director exceeds three consecutive terms	Diverse core expertise				
		41–50	51–60	61–70	71–80		Financial accounting	Business	Law	Marketing	Industry technology
He Rui Investment Ltd. Representative: Chairperson Chang, Yu-Ming	Male	V				Not applicable	V	V		V	V
Director Lin, Ching-Lung (resigned on 2024.02.06)	Male				V	Not applicable		V		V	V
Director Wu, Yi-Jen (resigned on 2024.02.06)	Male				V	Not applicable		V		V	V
U-Best Innovative Technology Co., Ltd. representative: Director Chao, Tien-Tsung	Male			V		Not applicable		V		V	V
Independent director Wu, Chang-Cheng	Male		V			No		V		V	
Independent director Chen, Chih-Chang (Resigned on 2023.02.16)	Male		V			No	V	V		V	
Independent director Hsu, Chi-Jeng	Female	V				No	V	V	V	V	
Independent director Huang, Ling-Tien	Female		V			No		V		V	

(II) Independence of the board:

In order to improve the functions of the Company's Board of Directors and to strengthen the management mechanism, the Company established the "Nomination Committee" and adopts the "Candidate Nomination System" in accordance with Article 27 of the Corporate Governance Best Practice Principles, whereby all director candidates are nominated and their qualifications are examined by the "Nomination Committee", and the director candidates are approved by the Board of Directors and sent to the shareholders' meeting for election.

As per the Corporate Governance Best Practice Principles, more than half of all directors shall not be a spouse or relative within the second degree of kinship of any other director. None under any of the circumstances mentioned in Article 30 of the Company Act. The qualifications were verified in accordance with the independence requirements referred to in the "Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies" promulgated by the FSC and held satisfying such requirements.

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



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

Date: March 29, 2024

Job title	Nationality	Name	Gender	Date of taking office	Shareholding		Shareholding of spouse or minor children		Shareholding in the name of others		Major education and experience	Concurrent positions at other companies	Spouse or relatives within second degree of kinship who are other managerial officers of the Company			Remarks
					Number of shares	Shareholding	Number of shares	Shareholding	Number of shares	Shareholding			Job title	Name	Relations	
President	R.O.C.	Cheng, Yu-Tang	Male	2021.7.8	-	-	-	-	-	-	Department of Industrial Management, University of Kang Ning Factory Manager, Kangwei Technology Co., Ltd. Special Assistant to the President, Boromi Optronics Corp. Project Assistant Manager, President's Office, U-Best Innovative Technology Co., Ltd.	None	None	None	None	-
Assistant Vice President of the Sales Department	R.O.C.	Wu, Min-Tsung	Male	1984.9.24	-	-	-	-	-	-	Business Administration, New Taipei Municipal Tamsui Commercial Industrial Vocational Senior High School Assistant Vice President of the Sales Department	None	None	None	None	-
Assistant Vice President of the Business Department	R.O.C.	Li, Shan-Lung	Male	1984.7.24			-	-	-	-	Department of Business Administration, Chung Yuan Christian University. Assistant Vice President of the Business Department	None	None	None	None	-
Manager of the Finance Department	R.O.C.	Chen, Chien-Hung	Male	2023.11.10	--	--	--	--	--	--	Department of Accounting, Fu Jen Catholic University Accounting Section Chief of EVEREST TEXTILE CO.,LTD	None	None	None	None	-

Where the Chairperson and the President or person in an equivalent position (top-level managerial officer) are the same person, spouses, or relatives within the first degree of kinship, the reason for, reasonableness, necessity thereof, and countermeasures shall be disclosed: Not applicable.

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

#### (I) Remuneration to general directors and independent directors (name and remuneration type are disclosed by individual)

Unit: NT\$ thousand

Job title	Name	Directors' remuneration								Sum of A, B, C, and D as a percentage of the net income after tax (%)		Remuneration received for serving as an employee concurrently								Sum of A, B, C, D, E, F, and G and the sum as a percentage of the net income after tax (%)		Remuneration from investees other than subsidiaries or from the parent company																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																				
		Base remuneration (A)		Severance and pension (B)		Profit-sharing remuneration for directors or supervisors (C)		Professional service fees (D)				Salary, bonus, and special allowance (E)		Severance and pension (F)		Profit-sharing remuneration for employees (G)																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																										
		The Company	All companies in the financial statements	The Company	All companies in the financial statements	The Company	All companies in the financial statements	The Company	All companies in the financial statements	The Company	All companies in the financial statements	The Company	All companies in the financial statements	The Company (Note)	All companies in the financial statements (Note)	The Company		All companies in the financial statements		The Company	All companies in the financial statements																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																					

1. Please specify the policy, system, standard, and structure of remuneration to the independent directors, and the association between the amount of remuneration and the responsibilities and risks assumed, time spent, and other factors:

We pay fixed remuneration to independent directors as per the Company's Directors and Committee Members Honoraria Standards without participating in the directors' profit-sharing remuneration paid out depending on the year's profits as per Article 28 of the Company's Articles of Incorporation.

2. Except as disclosed in the above table, the remuneration received by the Company's directors for providing services to (the parent company, all companies in the financial statements, or investees the serving as a consultant in a non-employee capacity) in the most recent year: None.

Note 1: The names of directors shall be listed separately (the names of institutional shareholders and their representatives shall be listed separately), and general directors and independent directors shall be listed separately, with various payment amounts disclosed in an aggregate manner. If a director concurrently serving as the President or the Vice President shall be entered in this table or table (3-1), or tables (3-2-1) and (3-2-2) below.

Note 2: Refers to the directors' remuneration in the most recent year (including director salary, executive differential pay, severance pay, various bonuses, and incentives).

Note 3: Refers to the amount of directors' profit-sharing remuneration approved by the resolution of the Board of Directors in the most recent year.

Note 4: Refers to the directors' professional service fees in the most recent year (including honoraria, special allowance, various allowances, dormitory rooms, and company cars). When houses, cars, and other means of transportation or exclusive personal expenses are provided, the nature and costs of the assets provided and the actual cost or fair market value of rents, fuels, and other payments shall be disclosed. In addition, when a chauffeur is provided, please indicate the relevant payments made by the Company to

- the chauffeur, but such payments are not included in the remuneration.
- Note 5: Refers to the salary, executive differential pay, severance pay, various bonuses, incentives, honoraria, special allowance, various allowances, dormitory rooms, and company cars received by directors who serve as employees concurrently (including the President, Vice Presidents, other managerial officers, and employees). When houses, cars, and other means of transportation or exclusive personal expenses are provided, the nature and costs of the assets provided and the actual cost or fair market value of rents, fuels, and other payments shall be disclosed. In addition, when a chauffeur is provided, please indicate the relevant payments made by the Company to the chauffeur, but such payments are not included in the remuneration. Salary and wages recognized in accordance with IFRS 2 Share-based Payments, including employee stock warrants and restricted stock awards acquired and shares for capital increased subscribed for, shall also be included in the remuneration.
- Note 6: Refers to directors who have received employee profit-sharing remuneration (including stock and cash) in the most recent year for serving as employees concurrently (including the President, Vice Presidents, other managerial officers, and employees). The amount of employee profit-sharing remuneration approved by the Board of Directors in the most recent year shall be disclosed. If it is impossible to estimate the amount, the percentage adopted for the amount paid out last year shall be adopted to calculate the proposed amount for this year, while Table 1-3 shall be filled out additionally.
- Note 7: The total amount of remuneration paid to the directors of the Company by all companies (including the Company) in the consolidated financial statements shall be disclosed.
- Note 8: The names of the directors shall be disclosed in the applicable ranges based on the total amount of remuneration paid by the Company to each director.
- Note 9: The total amount of remuneration paid to each of the Company's directors by all companies (including the Company) in the consolidated financial statements shall be disclosed, with the name of each director disclosed in their applicable range.
- Note 10: Net income after tax refers to the net income after tax of the standalone or individual financial statement for the most recent year.
- Note 11:
- This column shall clearly indicate the amount of remuneration received by the directors of the Company from investees other than subsidiaries or from the parent company (if there is none, please fill in "None").
  - If a director of the Company receives remuneration from investees other than subsidiaries or from the parent company, the remuneration received by the director from investees other than subsidiaries or from the parent company shall be included in column I of the remuneration range table with said column renamed "Parent company and all investees".
  - Remuneration refers to the compensation, profit-sharing remuneration (including employee, director, and supervisor profit-sharing remuneration), and professional service fees received by the directors of the Company for serving as directors, supervisors, or managerial officers of investees other than subsidiaries or the parent company.
- \* The remuneration disclosed in this Table is different in concept from the income under the Income Tax Act. Therefore, this Table is merely for information disclosure and not for tax return purposes.

(II) Remuneration paid to supervisors: Not applicable

(III) Remuneration paid to the President and Vice Presidents in the most recent year (name and remuneration type are disclosed by individual)

Unit: NT\$ thousand

Unit: NT\$ thousand

Job title	Name	Salary (A)		Severance and pension (B)		Bonus and special allowance (C)		Profit-sharing remuneration for employees (D)				Sum of A, B, C, and D as a percentage of the net income after tax (%)		Remuneration from investees other than subsidiaries or from the parent company
		The Company	All companies in the financial statements	The Company	All companies in the financial statements	The Company	All companies in the financial statements	The Company		All companies in the financial statements		The Company	All companies in the financial statements	
								Cash amount	Stock amount	Cash amount	Stock amount			
President	Cheng, Yu-Tang	2,133	2,133	87	87	-	-	-	-	-	-	1.80	1.80	None

(IV) Remuneration for the top five highest-paid officers (name and remuneration type are disclosed by individual)

Unit: NT\$ thousand

Unit: NT\$ thousand

Job title	Name	Salary (A)		Severance and pension (B)		Bonus and special allowance (C)		Profit-sharing remuneration for employees (D)				Sum of A, B, C, and D as a percentage of the net income after tax (%)		Remuneration from investees other than subsidiaries or from the parent company
		The Company	All companies in the financial statements	The Company	All companies in the financial statements	The Company	All companies in the financial statements	The Company		All companies in the financial statements		The Company	All companies in the financial statements	
								Cash amount	Stock amount	Cash amount	Stock amount			
President	Cheng, Yu-Tang	2,133	2,133	87	87	-	-	-	-	-	-	1.80	1.80	None
Assistant Vice President	Li, Shan-Lung	1,445	1,445	55	55	-	-	-	-	-	-	1.22	1.22	None
Assistant Vice President	Wu, Min-Tsung	1,269	1,269	55	55	-	-	-	-	-	-	1.07	1.07	None
Manager	Chen, Chien-Hung (Elected on 2023.11.10)	127	127	-	-	-	-	-	-	-	-	0.11	0.11	None

Name of the managerial officer who received employee profit-sharing remuneration and the distribution status: No employee profit-sharing remuneration was distributed in 2023.

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

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

Unit: NT\$ thousand

Item \ Year	2023		2022		Increase (decrease)
	Total remuneration	As a % of net income after tax	Total remuneration	As a % of net income after tax	
Director	5,327	4.31%	4,293	-9.93%	1,034
Supervisor	-	-	-	-	-
President and Vice President	2,220	1.80%	2,588	-5.99%	(368)

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

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

- (1) Note to ratio analysis:

The Company's 2023 net income after tax was NT\$123,459 thousand and 2022 net loss after tax was NT\$(41,198) thousand. Compared to 2022, annual income increased by NT\$164,657 thousand in 2023, and the increase in remuneration for directors and supervisors compared to 2022 is reasonable. The amount of remuneration to the President and Vice Presidents in 2023 decreased by NT\$368 thousand compared to 2022.

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

We determine directors, supervisors, the President, and Vice Presidents' remuneration as per each individual's participation in and contribution to the Company's operations while with reference to the Company's profitability and their contribution to the Company as a whole, and the general standards of the industry.

The remuneration for directors and supervisors, including travel expenses and directors' and supervisors' salaries, in accordance with the Company's Articles of Incorporation, and the remuneration for the President is approved by the Board of Directors.

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

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

#### IV. Operations of corporate governance

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

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

The Board of Directors held 7 meetings during 2023, and directors' attendance is as follows:

Job title	Name	Attendance in person	Attendance by proxy	Attendance (%)	Remarks
Chairperson	Representative of He Rui Investment Ltd.: Chang, Yu-Ming	7	-	100	
Director	Representative of U-Best Innovative Technology Co., Ltd.: Chao, Tien-Tsung	7	-	100	
Director	Lin, Ching-Lung	7	-	100	
Director	Wu, Yi-Jen	7	-	100	
Independent Director	Wu, Chang-Cheng	5	1	71.4	
Independent Director	Chen, Chih-Chang (resigned on 2023.02.16)	1	-	100	
Independent Director	Hsu, Chi-Jeng	7	-	100	
Independent Director	Huang, Ling-Tien (Elected on 2023.05.26)	4	-	100	

##### Additional information:

- I. If the operations of the Board of Directors is under any of the circumstances below, the date of the board meeting, the session, the content of the proposal, all independent directors' opinions, and the Company's response to said opinions shall be specified:
- (I) Matters under Article 14-3 of the Securities and Exchange Act: Please refer to the important resolutions adopted by the Board of Directors.
  - (II) Except for the above matters, other matters resolved by the Board of Directors with objection or reservation made by any independent directors, with records or a written statement: None.

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

Date of board meeting	Proposal	Reasons for recusal	Participation in voting
January 13, 2023	Matters reviewed at the 1st meeting of the Remuneration Committee in 2023.	It was to discuss directors' remuneration; directors' personal interest were involved and they should be recused from the discussion.	Director Chang, Yu-Ming recused himself from the discussions and voting, and the proposal was unanimously approved after the voting.

- III. The objectives of enhancing the functions of the Board of Directors in the current year and the most recent year (such as establishing an audit committee or enhancing information transparency) and the implementation
- (I) The Company established the Audit Committee on July 8, 2021, the Audit Committee met five times during 2023, and the financial statements are reviewed and approved by the Audit Committee ever quarter.
  - (II) The Company held a meeting on December 22, 2023 to enhance discussion and communication between independent directors and CPAs/internal audit officer.
  - (III) We actively provide information on various training courses and motivate directors and supervisors to actively participate in various corporate governance courses, thereby enhancing the board members' competencies. In 2023, all directors completed the required training courses.

(2) Implementation of the performance evaluation of the Board of Directors:

Evaluation cycle	Evaluation period	Evaluation scope	Evaluation method	Contents of evaluation
Once per year	2023/1/1 ~ 2023/12/31	The board as a whole, individual board members, and functional committees	Internal board self-evaluation, board member self-evaluation, and peer-to-peer evaluation	<p>(I) Board performance evaluation indicators:</p> <ol style="list-style-type: none"> <li>1. Degree of involvement in the Company's operations</li> <li>2. Improvement to the quality of the Board of Directors' decision-making.</li> <li>3. Composition and structure of the Board of Directors</li> <li>4. Election and continuing education of directors</li> <li>5. Internal control</li> </ol> <p>(II) Individual board members self-performance evaluation indicators:</p> <ol style="list-style-type: none"> <li>1. Alignment with the Company's goals and mission</li> <li>2. Awareness of responsibilities as a director</li> <li>3. Degree of involvement in the Company's operations</li> <li>4. Management of internal relations and communication</li> <li>5. Directors' professional and continuing education</li> <li>6. Internal control</li> </ol> <p>(III) Functional committee evaluation indicators:</p> <ol style="list-style-type: none"> <li>1. Degree of involvement in the Company's operations</li> <li>2. Awareness of responsibilities as a functional committee member</li> <li>3. Improvement to the quality of the functional committee's decision-making</li> <li>4. Composition and selection of members of the functional committees</li> <li>5. Internal control</li> </ol>

Evaluation results:

The evaluation results are excellent. The Board of Directors as a whole and functional committees are operating effectively. The results were reported to the Board of Directors on January 25, 2024 and placed on file.

(II) Operations of the Audit Committee

The Company's Audit Committee is comprised of three independent directors. The Audit Committee is designed to assist the Board of Directors in fulfilling its responsibility to oversee the quality and integrity of the Company's execution of relevant accounting, auditing and financial reporting processes and financial controls.

Professional qualification and experience of the members are set out below:

Member	Professional qualification and experience
Hsu, Chi-Jeng	<ol style="list-style-type: none"> <li>1. Department of Accounting, Tainan University of Technology.</li> <li>2. Assistant Manager, Underwriting Department, MasterLink Securities Corporation, Assistant Vice President, Underwriting Department, Firstrade Securities Inc., independent director, Clean Air Technology Limited, and independent director, Myson Century, Inc.</li> <li>3. Not under any of the circumstances mentioned in Article 30 of the Company Act.</li> </ol>
Wu, Chang-Cheng	<ol style="list-style-type: none"> <li>1. PhD of National Chiao Tung University</li> <li>2. President of Truelight Corporation, President of InveStar Holdings Inc., and President of uSenlight Corporation.</li> <li>3. Not under any of the circumstances mentioned in Article 30 of the Company Act.</li> </ol>
Huang, Ling-Tien	<ol style="list-style-type: none"> <li>1. MBA of University of Leicester, UK</li> <li>2. Vice President of Human Resources and Administration Center, ProLogium Technology, Head of Human Resources Division, Win Semiconductors Corp., Chief HR Officer of Spirox Corporation, Independent Director of Sun Yad Construction Co., Ltd.</li> <li>3. Not under any of the circumstances mentioned in Article 30 of the Company Act.</li> </ol>

The Audit Committee held 5 meetings in 2023, mainly addressing the following matters:

1. Financial statement auditing and accounting policies and procedures
2. Policies and procedures relating to the internal control system
3. Qualifications, independence, and performance evaluation of attesting CPAs
4. Appointment, discharge or compensation of attesting CPAs
5. Review of loss make-up proposal for the 1st half of the year
6. Review of amendments or additions to management regulations
7. Appointment the financial-cum-accounting officer as the acting spokesperson.
8. Review of 2024 annual internal audit plan.

#### Operations in 2023

The Audit Committee held 5 meetings during 2023, and the independent directors' attendance is as follows:

Job title	Name	Attendance in person	Attendance by proxy	Attendance in person (%)	Remarks
Independent Director	Wu, Chang-Cheng	5	-	100	-
Independent Director	Chen, Chih-Chang	-	-	-	Resigned on 2023.02.16
Independent Director	Hsu, Chi-Jeng	5	-	100	-
Independent Director	Huang, Ling-Tien	3	-	100	Elected on 2023.05.26

Additional information:

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

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

Date and session	Proposal	Matters under Article 14-3 of the Securities and Exchange Act	Objection or reservation by independent directors
2023/02/24 1st meeting in 2023	1. Review of 2022 Business Report and financial statements. 2. Assessment of the effectiveness of the internal control system and statement of internal control system for 2022 3. Review of the professional fees for KPMG Taiwan's attestation services and assessment of the independence and suitability of CPAs for 2023	V	None
2023/05/11 2nd meeting in 2023	1. Review of the 1Q2023 financial statements	V	None
2023/08/10 3rd meeting in 2023	1. Review of the 2Q2023 financial statements	V	None
2023/11/10 4th meeting in 2023	1. Appointment the financial-cum-accounting officer as the acting spokesperson. 2. Review of the 3Q2023 financial statements	V	None
2023/12/22 5th meeting in 2023	1. Proposal to draw up the 2024 annual internal audit plan.	V	None

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

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

III. Communication between independent directors and the internal audit officer/CPAs (including material finance and business communicated and communication methods and results):



Time: 1:00 p.m. on December 22, 2023 (Friday)

Attended by:

Independent directors: Hsu, Chi-Jeng, Huang, Ling-Tien, Wu, Chang-Cheng

CPA: Chen, Kuo-Tsung

Audit Officer: Chuang, Shu-Chen

Recorder: Sung, Li-Lan

Contents of the discussion:

Matters	Description of communication	Suggestions and corrections
I. Audit progress and findings	1. The 2023 audit plan included 100 audit tasks; all tasks had been completed as of this meeting. After each audit, an audit report was submitted to the independent directors for review. 2. As of this meeting, all audited items for the year ended December 31, 2023 had been completed in compliance with regulations, and there were no significant defects or irregularities.	None
II. Discussion and communication with CPAs	Pre-audit planning and discussion and communication on new regulations for 2023	None
III. Other matters for discussion	1. Are there any enhanced audit items suggested or required? 2. Are there any other suggestions or corrections?	None

### (III) Operations of the Corporate Governance Committee

1. Qualifications required for appointment and their responsibilities: The committee shall comprise at least three directors, of whom the majority shall be independent directors, and the appointment shall be approved by the Board of Directors by resolution. Members of the committee shall exercise the care of a prudent administrator to faithfully perform the following duties, be accountable to the Board of Directors, and report the implementation status to the Board of Directors on a regular basis:
  - i. Review of the Corporate Governance Best Practice Principles and related regulations as well as the effectiveness of their implementation.
  - ii. Establishment, supervision, and review of corporate social responsibility policies, systems, or related management guidelines.
  - iii. Establishment, monitoring, and review of ethical corporate management policies and preventive plans.
  - iv. Establishment, monitoring, and review of the environmental sustainability system and targets.
  - v. Establishment, supervision, and review of risk management policies and mechanisms.
  - vi. Any other tasks instructed by the Board of Directors to be handled by the committee.
2. The Committee of the Company consists of three directors, two of whom are independent directors.
3. The term of office of the current term is from August 11, 2021 to July 7, 2024. During 2023, the Corporate Governance Committee held 1 meeting, and the attendance of the members and matters discussed are as follows:

Job title	Name	Attendance in person	Attendance by proxy	Attendance in person (%)	Remarks
Convener	Chang, Yu-Ming	1	-	100	-
member	Hsu, Chi-Jeng	1	-	100	-
member	Huang, Ling-Tien	1	-	100	Elected on 2023.05.26 -
Additional information: The committee's main proposals, including the date, term, details of the proposals, the members' suggestions or objections, the committee's resolution results, and the Company's response to the committee's opinions: None.					

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

Evaluation indicators		Operations			Deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and the reasons therefor																																					
		Yes	No	Brief description																																						
I.	Has the company formulated and disclosed the Corporate Governance Best Practice Principles in accordance with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies?	V		The Board of Directors approved the “Corporate Governance Best Practice Principles” on February 25, 2022, which is disclosed in the Investors section on the Company's website.	Aligned																																					
II.	The Company's shareholding structure and shareholders' equity																																									
(I)	Has the Company formulated internal operating procedures for handling shareholders' suggestions or questions or disputes and litigation with them and complied with the procedures?	V		(I) We have a spokesperson and acting spokesperson mechanism in place and disclosed an email in the Investors section on the Company's website to respond to shareholders' suggestions and disputes.	Aligned																																					
(II)	Does the company have a list of the major shareholders with ultimate control over the company and a list of the ultimate controllers of the major shareholders?	V		(II) Pursuant to Article 25 of the Securities and Exchange Act, the Company shall report changes in the shareholdings of insiders, including directors, managerial officers, and shareholders, each with more than 10% ownership interest, to the MOPS designated by the competent authority on a monthly basis.	Aligned																																					
(III)	Has the company established and implemented a risk control and a firewall mechanisms between itself and affiliates?	V		(III) The Company has formulated the “Corporate Governance Best Practice Principles”, the “Internal Control System”, the “Procedures for Loaning of Funds and Making of Endorsements/Guarantees”, the “Procedures for Asset Acquisition and Disposal”, and the “Procedures for Monitoring of Subsidiaries” as per the “Corporate Governance Best Practice Principles” for TWSE/TPEX Listed Companies, the “Regulations Governing Establishment of Internal Control Systems by Public Companies”, and the “Regulations Governing the Acquisition and Disposal of Assets by Public Companies”, to clearly divide the duties, powers, and responsibilities between the Company and affiliates. We also built appropriate firewalls based on the risk assessment results and continue to implement them to monitor affiliates.	Aligned																																					
(IV)	Has the company formulated internal regulations to prohibit insiders from using information undisclosed in the market to buy and sell securities?	V		(IV) We have formulated the “Procedures for Handling Material Inside Information” and the “Insider Trading Prevention Management Procedures”, and our relevant internal personnel should abide by applicable laws and regulations and internal operating procedures and must not engage in insider trading using the undisclosed information, nor shall they disclose such information to others to prevent others from using the unpublished information to engage in insider trading.																																						
III.	Composition and responsibilities of the Board of Directors																																									
(I)	Has the Board of Directors formulated a diversity policy and specific management objective for the board structure and implemented them accordingly?	V		(I) The Company’s Board of Directors consists of seven directors, including three independent directors. The excel at the industry knowledge, academic knowledge, finance, accounting, and business administration, which is aligned with the policy on the diversity of the board members. <table><tr><th rowspan="2">Name of director</th><th rowspan="2">Gender</th><th rowspan="2">Age</th><th colspan="5">Diverse core expertise</th></tr><tr><th>Financial accounting</th><th>Business</th><th>Law</th><th>Marketing</th><th>Industry technology</th></tr><tr><td>Chairperson Chang, Yu-Ming</td><td>Male</td><td>50</td><td>V</td><td>V</td><td></td><td>V</td><td>V</td></tr><tr><td>Director Lin, Ching-Lung</td><td>Male</td><td>75</td><td></td><td>V</td><td></td><td>V</td><td>V</td></tr><tr><td>Director Wu, Yi-Jen</td><td>Male</td><td>77</td><td></td><td>V</td><td></td><td>V</td><td>V</td></tr></table>	Name of director	Gender	Age	Diverse core expertise					Financial accounting	Business	Law	Marketing	Industry technology	Chairperson Chang, Yu-Ming	Male	50	V	V		V	V	Director Lin, Ching-Lung	Male	75		V		V	V	Director Wu, Yi-Jen	Male	77		V		V	V	Aligned
Name of director	Gender	Age	Diverse core expertise																																							
			Financial accounting	Business	Law	Marketing	Industry technology																																			
Chairperson Chang, Yu-Ming	Male	50	V	V		V	V																																			
Director Lin, Ching-Lung	Male	75		V		V	V																																			
Director Wu, Yi-Jen	Male	77		V		V	V																																			

Evaluation indicators	Operations									Deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and the reasons therefor	
	Yes	No	Brief description								
(II) Has the Company voluntarily established other functional committees in addition to the remuneration and the audit committees established in accordance with the law?	V		Director Chao, Tien-Tsung	Male	66		V		V	V	Aligned
			Independent Director Wu, Chang-Cheng	Male	57		V		V		
			Independent Director Chen, Chih-Chang (Resigned on 2023.02.16)	Male	55	V	V		V		
			Independent Director Hsu, Chi-Jeng	Female	44	V	V	V	V		
			Independent Director Huang, Ling-Tien	Female	58		V		V		
(III) Has the Company formulated board performance evaluation regulations and evaluation methods, conducted performance evaluations annually and regularly, reported the results of performance evaluations to the board of directors, and adopted such results as a reference for deciding the remuneration of and nominating candidates for individual directors?	V		(II) Chapter 3, "Enhance the Competencies of the Board of Directors," of the "Corporate Governance Best Practice Principles" of the Company approved at the 8th meeting of the Board of Directors of the 11th term held on February 25, 2022 provides for the diversity policy. The nomination and selection of the members of the Company's Board of Directors are conducting by following the provisions of the Company's Articles of Incorporation and adopting the candidate nomination system. In addition to evaluating the education and experience of each candidate, the Company also takes into account the opinions of stakeholders and complies with the "Rules for Election of Directors and Supervisors" and the "Corporate Governance Best Practice Principles," so as to ensure the diversity and independence of the Board of Directors. The Company's current Board of Directors consists of seven directors, all of whom are ROC nationals, including three independent directors and four non-independent directors, with independent directors accounting for 42.9% of all board members, and two of the independent directors are women, accounting for 28.6% of all board members. <u>The Company attaches importance to gender equality in the composition of the Board of Directors and aims to increase the number of female directors to more than one-third (i.e., 33%) of the total Board of Directors. Currently, the Board of Directors consists of 71.4 % (5) males and 28.6% (2) females, and we will endeavor to increase the number of female directors in the future in order to achieve the goal.</u>							Aligned	
(IV) Does the company regularly assess the independence of the attesting CPAs?	V		The age range of the board members is between 44 and 77 years old. The board members possess the necessary knowledge, skills and education to perform their duties (please refer to the aforementioned educations and experiences of directors), with diversity and in line with the needs of the Company's development, to enable the Board of Directors of the Company to fulfill its function of making business decisions and providing leadership and supervision. (III) The Company's Board of Directors approved the establishment of the "Corporate Governance Committee" on August 11, 2021 and the "Nomination Committee" on November 10, 2023  (IV) The Company conducts the performance evaluation of the Board of Directors in accordance with the Regulations Governing the Evaluation of the Performance of the Board of Directors at the end of each year. The evaluation include the evaluation of the Board of Directors as a whole and the director self-evaluation. The performance of the Board of Directors as a whole, individual board members, and functional committees was evaluated with an internal self-							Aligned	

Evaluation indicators	Operations			Deviation from the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and the reasons therefor
	Yes	No	Brief description	
			evaluation method in 2023. The performance evaluation results were reported to the Board of Directors on January 25, 2024 and disclosed on the Company's website and in this Annual Report. (V) The Company's Audit Committee reviews the independence and suitability of the attesting CPAs on an annual basis to check if they are the Company's directors, shareholders, or employees receiving salary from the Company and confirms that they are non-interested parties. We also require the attesting CPAs to provide a "Declaration of Independence" and the "Audit Quality Indicators" to be included in our evaluation process. During the process of assessing the independence of the attesting CPAs in 2023, we completed the "Assessment of Independence of CPAs" internally and submitted it to the Board of Directors for resolution.	
IV. Has the company appointed an appropriate number of competent corporate governance personnel and designated a corporate governance officer to be responsible for corporate governance affairs (including but not limited to providing directors and supervisors with the materials required for performance of their duties, assisting directors and supervisors with compliance, handling matters related to board meetings and the shareholders' meetings, and preparing minutes of board meetings and shareholders' meetings)?	V		The Board of Directors approved, on August 11, 2021, the appointment of Sung, Li-Lan from the Finance Department as the Corporate Governance Officer concurrently to manage the corporate governance business.	Aligned
V. Has the company established communication channels with stakeholders and set up a section dedicated to stakeholders on the company's website to properly respond to stakeholders' major CSR issues of concern?	V		We have a spokesperson mechanism in place to handle relevant matters in accordance with regulations and is working on the establishment of a Stakeholders section on the Company's website.	Aligned
VI. Does the Company appoint a professional stock affairs agency to handle the affairs related to shareholders' meetings?	V		We appointed Grand Fortune Securities Co.,Ltd. to handle the affairs related to the shareholders' meeting.	Aligned
VII. Information disclosures (I) Has the Company set up a website to disclose information on finance and business and corporate governance? (II) Does the Company adopt other methods to disclose information (such as setting up an English website, designating personnel to collect and disclose company information, implementing a spokesperson system, or placing the proceeding of investor conferences on the company website)? (III) Does the Company announce and submit an annual financial report to the competent authority within two months after the end of each fiscal year and announce and submit the financial reports for the Q1, Q2, Q3 and the operations of each month to the competent authority before a specified deadline?	V     V  V		(I) We have set up a website and regularly update the latest finance and business and corporate governance information on the website. (II) We have a spokesperson mechanism in place and disclose material information and financial information on the Market Observation Post System (MOPS). (III) We disclose our annual financial reports, quarterly financial reports for Q1, Q2, and Q3, and the operating performance of each month prior to a deadline as required.	Aligned Aligned  Aligned
VIII. Does the Company have other important information that facilitates the understanding of the operations of corporate governance (including but not limited to employee rights,	V		1. Employee rights and interest and care The Company has established an "Employees Welfare Committee" to contribute to the benefit	Aligned

Evaluation indicators	Operations			Deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and the reasons therefor
	Yes	No	Brief description	
employee care, investor relations, supplier relations, stakeholders' rights, directors' and supervisors' continuing education, the implementation of risk management policies and risk measurement standards, the implementation of customer policies, and the company's purchase of directors and supervisors liability insurance)?			<p>funds periodically for various activities. We value employees' rights and interest and harmonious labor relations and express our care for them. We are committed to providing employees with a safe and healthy work environment and organize plant-wide employee health checks to ensure the health and well-being of all employees.</p> <p>2. Investor relations</p> <p>3. Adhering to the principle of fairness and openness to all shareholders, we convene a shareholders' meeting per year in accordance with the Company Act and applicable laws and regulations and inform all shareholders to attend the shareholders' meeting in accordance with relevant regulations and encourage them to actively participate in the election of directors and supervisors at the shareholders' meeting or the voting on the proposal for amendments to the Articles of Incorporation. We also report on major finance and business activities to the shareholders' meeting, such as disposal of assets or endorsements/guarantees provided. We offer shareholders sufficient opportunities to ask questions or make proposals to achieve the effect of checks and balances. We formulated the Rules of Procedure for Shareholders' Meetings in accordance with the law, properly keep the minutes of the shareholders' meeting, and disclose relevant information on the MOPS. Also, to ensure that shareholders have the right to know, participate in, and make decisions on the Company's major issues, we have a spokesperson and an acting spokesperson in place and have designated personnel to respond to shareholders' suggestions, questions, and disputes. Since the Company's stock was publicly offered, we have adhered to the principle of information disclosures and appointed personnel to collect and disclose the Company's information, announce and report relevant information, and provide information that may affect investors' decisions in a timely manner. Supplier relations</p> <p>We pay attention to the reasonableness of the purchase prices and make decisions after complete comparison of the unit prices, specifications, payment terms, delivery time, product and service quality, or other information. We have established long-term close partnerships with suppliers on the basis of mutual trust and mutual benefit to jointly pursue sustainable and win-win growth.</p> <p>4. Protection of stakeholders</p> <p>We have disclosed the contact numbers and emails for stakeholders on the Company's website to establish communication channels with employees, shareholders, and other stakeholders to safeguard their relevant rights.</p> <p>5. Directors and supervisors' continuing education</p> <p>We promote the courses and channels of continuing education to directors from time to time and discloses the training situation on the MOPS.</p> <p>6. Implementation of risk management policies and risk measurement criteria</p> <p>The Company's risk management policies and procedures were approved by the Board of Directors on December 22, 2021 and are implemented accordingly. The risk management during 2023 was reported to the Board of Directors on December 22, 2023.</p> <p>7. Implementation of customer policy</p> <p>We communicate with customers in real-time about their complaints, understand their needs, and set the deadline for closing customers' (appeals) complaints, to quickly and efficiently improve the interaction between the Company and customers, while reviewing and improving any defects at monthly business meetings.</p> <p>8. Purchase of directors and supervisors liability insurance</p>	

Evaluation indicators	Operations			Deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and the reasons therefor
	Yes	No	Brief description	
			The Company has purchased a NT\$60,000,000 liability insurance policy for all directors and reported the relevant insurance in the Market Observation Post System (MOP).	
IX. Please specify any improvements made as per the results of the corporate governance evaluation announced by the Corporate Governance Center, Taiwan Stock Exchange Corporation, in the most recent year and put forth prioritized measures to improve those that have not yet improved: Improvements required in response to the results of the corporate governance assessment are summarized below: <ol style="list-style-type: none"> <li>1. Established a system for reporting illegal and unethical behavior by internal and external personnel, which is disclosed on the Company's website.</li> <li>2. Organize annual employee seminars on prevention of insider trading and implementation of ethical management.</li> <li>3. Established operating standards for finance and business among related parties.</li> <li>4. Improved on the information upload of the date of shareholders' meeting and other relevant matters</li> <li>5. Established an information security risk management framework.</li> </ol>				

© Directors and supervisors' continuing education during 2023 is as follows:

Job title	Name	Organizer	Course title	Training hours
Chairperson	Chang, Yu-Ming	Taiwan Corporate Governance Association	How a Lighthouse Factory Uses Digital Transformation to Achieve Sustainability	3
		Taiwan Institute of Directors	Just Minding Your Own Safety Does Not Mean You Are Truly Safe - Enterprise Resilience-oriented Supply Chain Information Security Management and Risk Control for Enterprise Toughness Orientation	3
Director	Chao, Tien-Tsung	Taiwan Corporate Governance Association	How a Lighthouse Factory Uses Digital Transformation to Achieve Sustainability	3
		Taiwan Institute of Directors	Just Minding Your Own Safety Does Not Mean You Are Truly Safe - Enterprise Resilience-oriented Supply Chain Information Security Management and Risk Control for Enterprise Toughness Orientation	3
Director	Lin, Ching-Lung	Taiwan Investor Relations Institute	Business Opportunities and Challenges under the Net-Zero Trend	3
		Securities and Futures Institute	Advanced Seminar for Directors and Supervisors and Corporate Governance Officers - Legal Liability and Case Study on Insider Trading	3
Director	Wu, Yi-Jen	Taiwan Academy of Banking and Finance	Regulations for Insider Equity Transactions and Risk Analysis	3
		Taiwan Institute of Directors	Business Opportunities and Challenges under the Net-Zero Trend	3
Independent Director	Wu, Chang-Cheng	Taiwan Institute of Directors	Business Opportunities and Challenges under the Net-Zero Trend	3
		Accounting Research and Development Foundation	Seminar on Transformational Finance and Sustainable Disclosure in 2023	3
Independent Director	Hsu, Chi-Jeng	Taiwan Investor Relations Institute	Business Opportunities and Challenges under the Net-Zero Trend	3
		Taiwan Institute of Directors	Just Minding Your Own Safety Does Not Mean You Are Truly Safe - Enterprise Resilience-oriented Supply Chain Information Security Management and Risk Control for Enterprise Toughness Orientation	3
Independent Director	Huang, Ling-Tien	Securities Investment Trust & Consulting Association of the R.O.C.	Case Studies on Patterns of Suspicious Money Laundering or Terrorism Financing Risks	3
		Taiwan Stock Exchange Corporation	Cathay Sustainable Finance and Climate Change Forum 2023	6
		Accounting Research and Development Foundation	Seminar on Transformational Finance and Sustainable Disclosure in 2023	3
		Taiwan Corporate Governance Association	How a Lighthouse Factory Uses Digital Transformation to Achieve Sustainability	3

© Information on the training received by the Corporate Governance Officer during 2023 is as follows:

Job title	Name	Organizer	Course title	Training hours
Corporate Governance Officer	Sung, Li-Lan	Taiwan Corporate Governance Association	How a Lighthouse Factory Uses Digital Transformation to Achieve Sustainability	3
		Taipei Exchange	Promotional Seminar on the Action Plan for Sustainable Development of TWSE/TPEX Listed Companies	3
		Taiwan Investor Relations Institute	Business Opportunities and Challenges under the Net-Zero Trend	3
		Taiwan Academy of Banking and Finance	Corporate Governance Forum	3

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

i. Remuneration Committee

1. Composition of the Committee: The Committee consists of three members, who are appointed by the Board of Directors, with one of them being the convener. The professional qualifications and independence of the members of the Committee are in compliance with Articles 5 and 6 of the Remuneration Committee's Charter.
2. Responsibilities of the Committee: The Committee shall faithfully perform the following duties with the attention of a good administrator and propose its recommendations to the Board of Directors for discussion.

- (1) Set and periodically refine the policies, formulations, standards and structures for performance evaluation and remuneration of directors and managerial officers.
- (2) Periodically review and propose directors' and managerial officers' remuneration.

3. Operations of the Committee: The operations of the Committee are normal.

- (1) Information on members of the Remuneration Committee

December 31, 2023

Criteria (Note 1)	Qualifications	Professional qualification and experience (Note 2)	Independence (Note 3)	Number of other public companies where the individual serves as a member of the remuneration committee concurrently
Independent Director	Hsu, Chi-Jeng (convener)	1. Department of Accounting, Tainan University of Technology. 2. Assistant Manager, Underwriting Department, MasterLink Securities Corporation, Assistant Vice President, Underwriting Department, Firstrade Securities Inc., independent director, Clean Air Technology Limited, and independent director, Myson Century, Inc. 3. Not under any of the circumstances mentioned in Article 30 of the Company Act.	According to the Company's Articles of Incorporation and "Corporate Governance Best Practice Principles," the directors shall be elected under the candidate nomination system. When nominating and electing the Board members, the Company has received the written statement, information about work experience, current certificate of employment and kinship chart from each director and, therefore, already verified the independence of them, their spouses, and relatives within 3rd degree of kinship as to the Company. Meanwhile, upon verification, the three independent directors identified in the left column were held satisfying the qualification requirements under the "Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies" promulgated by FSC and Article 14-2 of the Securities and Exchange Act within two years before they assume the positions and during their term of office. The independent directors have also been empowered to participate in the decision making and express opinions under Article 14-3 of the Securities and Exchange Act, in order to perform their job duties independently.	1
Independent Director	Chen, Chih-Chang (Resigned on 2023.02.16)	1. PhD in Business Administration, National Yunlin University of Science and Technology. 2. Director of Bothhand Enterprise Inc., Chairperson of TISO Technologies Co., Ltd., supervisor of Metal System Co., Ltd., independent director of Tsang Yow Industrial Co., Ltd., and independent director of Man Zai Industrial Co., Ltd. 3. Not under any of the circumstances mentioned in Article 30 of the Company Act.		
Independent Director	Wu, Chang-Cheng	1. PhD of National Chiao Tung University 2. President of Truelight Corporation, President of InveStar Holdings Inc., and President of uSenlight Corporation. 3. Not under any of the circumstances mentioned in Article 30 of the Company Act.		-
Independent Director	Huang, Ling-Tien (Elected on 2023.05.26)	1. MBA of University of Leicester, UK 2. Vice President of Human Resources and Administration Center, ProLogium Technology, Head of Human Resources Division, Win Semiconductors Corp., Chief HR Officer of Spirox Corporation, Independent Director of Sun Yad Construction Co., Ltd. 3. Not under any of the circumstances mentioned in Article 30 of the Company Act.		1

- (2) Information on the operations of the Remuneration Committee

① There are three members in the Remuneration Committee.



- ② The term of office of the current term is from July 8, 2021 to July 7, 2024. During 2023, the Remuneration Committee held 2 meetings, and the qualification and attendance of the members are as follows:

Job title	Name	Attendance in person	Attendance by proxy	Attendance in person (%)	Remarks
Convener	Hsu, Chi-Jeng	2	-	100	-
member	Wu, Chang-Cheng	2	-	100	-
member	Chen, Chih-Chang	1	-	100	Resigned on 2023.02.16
member	Huang, Ling-Tien	1		100	Elected on 2023.05.26
Additional information:					
I. Where the Board of Directors rejects or modifies the suggestions from the Remuneration Committee, please disclose the date and session of the meeting, contents of the motions, resolution made by Board of Directors' meeting, and how the Company has responded to Remuneration Committee's opinions (describe the differences and reasons, if any, should the Board of Directors approve a solution that is more favorable than the one proposed by the Remuneration Committee): None.					
II. For proposals resolved by the Remuneration Committee, if any members expressed objection or reservation with a record or written statement, the date of the Remuneration Committee meeting, the session, the content of the proposal, all members' opinions, and the response to the members' opinions shall be specified: None.					

ii. Nomination Committee:

In order to improve the functions of the Board of Directors and strengthen the management mechanism, the Company promulgated the "Nomination Committee Charter" in accordance with Article 27 of the Corporate Governance Best Practice Principles.

- Composition of the Committee: The Committee consists of three members. The Board of Directors resolved to appoint Chairperson Chang, Yu-Ming and Independent Directors Hsu, Chi-Jeng and Huang, Ling-Tien as the members of the Nomination Committee for the first term of office from November 10, 2023 to July 7, 2024 (the same as the Board of Directors' term of office by which the appointments were made).

Name of member of Nomination Committee:	Whether or not the member is an independent director	Expertise
Chang, Yu-Ming (Chairperson)	X	Finance, commerce, marketing, Industry technology
Hsu, Chi-Jeng	V	Finance, commerce, law, marketing
Huang, Ling-Tien	V	Business management, human resources

- Responsibilities of the Committee: The Committee shall faithfully perform the following duties with the attention of a good administrator and propose its recommendations to the Board of Directors for discussion.
  - Formulate and review the composition, qualifications, and other selection criteria for directors and managerial officers, and succession plans.
  - Select and review suitable candidates for directors and managerial officers, evaluate the independence of independent directors, and propose a list of candidates to the Board of Directors.
  - Formulate and review the establishment, duties and operations of various committees under the Board of Directors, and examine the qualifications and potential conflicts of interest of the members of the committees.
  - Plan and implement a program of continuing education for directors.
  - Any other tasks instructed by the Board of Directors to be handled by the committee.
- Operations of the Committee: The Committee was established on November 10, 2023, and the 1st meeting of the Nominating Committee of the 1st term was held on February 27, 2024. The professional qualifications and experience of the members, their attendance, and matters discussed are as follows:

Job title	Name	Professional qualification and experience	Attendance in person	Attendance by proxy	Attendance in person (%)	Remarks
Convener	Chang, Yu-Ming	1. Master of Business Administration, National Taiwan University 2. With extensive experience in business administration, formerly Chairperson of U-Best Innovative Technology Co., Ltd., Chairperson of Myson Century, Inc., Chairperson of FEEI CHERNG DEVELOP TECHNOLOGY CO., LTD. and Chairperson of SUN YAD CONSTRUCTION CO., LTD	1	-	100	

member	Hsu, Chi-Jeng	1. Department of Accounting, Tainan University of Technology. 2. Assistant Manager, Underwriting Department, MasterLink Securities Corporation, Assistant Vice President, Underwriting Department, Firsttrade Securities Inc., independent director, Clean Air Technology Limited, and independent director, Myson Century, Inc.	1	-	100	
member	Huang, Ling-Tien	1. MBA of University of Leicester, UK 2. Vice President of Human Resources and Administration Center, ProLogium Technology, Head of Human Resources Division, Win Semiconductors Corp., Chief HR Officer of Spirox Corporation, Independent Director of Sun Yad Construction Co., Ltd.	1	-	100	
<p>Additional information:</p> <p>Main motions addressed by the Committee:</p> <ol style="list-style-type: none"> <li>1. Election of the Convener - The members in attendance unanimously elected Mr. Chang, Yu-Ming as the Convener of the Company's "Nomination Committee" of the 1st term and the meeting chair.</li> <li>2. Nomination and resolution of the list of director candidates - The Company shall elect four directors and three independent directors at this year's annual general shareholders' meeting under the candidate nomination system, and this motion was approved without objection after deliberation by all members in attendance.</li> </ol>						

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

Items	Implementation			Deviation from the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies and the reasons therefor
	Yes	No	Brief description	
I. Has the company established a governance structure to promote sustainable development and set up a dedicated (concurrent) unit to promote sustainable development, governed by the senior management as authorized by the board of directors, which supervises the implementation?	V		The "Sustainable Development Committee" has been set up with the President as the Chairperson and three task forces: the "Corporate Governance Task Force", the "Environmental Sustainability Task Force" and the "CSR Task Force" to carry out the implementation of sustainable development related programs and report to the Board of Directors annually on the status of implementation.	No material difference.
II. Does the Company conduct risk assessments of environmental, social, and corporate governance issues related to company operations as per the principle of materiality? Has the company formulated relevant risk management policies or strategies?	V		<p>I. Environmental protection We have formulated energy conservation and carbon reduction policies and raise employees' awareness of environmental protection and relevant issues.</p> <p>II. Social issues To achieve the organization's goals and meet the talent development needs, we have formulated and implemented reasonable employee benefit measures and formulated the work rules with a clear and effective reward and punishment mechanism, to cultivate professional and technical talents.</p> <p>III. Labor-management relations We recruit personnel based on each department's needs for manpower, identify manpower needs, find outstanding talents in alignment with the Company's core values, and strive to retain talents, while objectively learning about the reasons for employees' resignation through interviews and collecting relevant information, analyzing the data, and providing follow-up improvement plans.</p> <p>IV. Corporate governance We have formulated the Corporate Governance Best Practice Principles in accordance with the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies", regularly conduct board performance self-evaluations, and disclose the results in the Annual Report of the shareholders' meeting.</p> <p>V. Customer privacy We ensure the confidentiality of trade secrets and prohibit employees from inquiring about or collecting information on suppliers' or customers' trade secrets, trademarks, patents, works, and other intellectual property rights not related to their jobs, and they shall not disclose such information to others to protect our trade secrets.</p> <p>VI. Socioeconomic legal compliance We have formulated relevant operating procedures for compliance with laws and regulations and hold education and training on laws on a regular basis per year to enhance our employees' compliance with laws and regulations and reduce operational risks.</p>	No material difference.
III. Environmental issues (I) Has the Company set up an appropriate	V		We adhere to the environmental protection concept in product R&D, design, production, and	No material difference.

Items	Implementation			Deviation from the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies and the reasons therefor																																																								
	Yes	No	Brief description																																																									
environmental management system as per its industrial characteristics?			packaging and work to improve the use efficiency of various resources by adopting recycled raw materials, reducing waste, recycling resources, saving energy, and reducing water consumption.																																																									
(II) Is the company committed to improving the use efficiency of various resources and adopting recycled materials with low environmental impact?	V		The Company is committed to enhancing the power usage effectiveness and the efficiency of fuel oil and water usage, thereby improving the resource use efficiency. The Company's empty metal drums and wastewater are recycled and processed externally to increase the percentage of resources for reuse, thereby continuing to reduce the burden on the environment.	No material difference.																																																								
(III) Has the company assessed its current and future potential risks and opportunities of climate change and taken countermeasures against climate-related issues?	V		The Company has assessed the potential risks and opportunities of climate change for the business now and in the future, and has taken measures to address climate-related issues as follows: 1. Continue to reduce waste at source to reduce waste output and increase the reuse rate of waste materials. 2. Replace oil boilers with natural gas. 3. Commit to improving energy efficiency and recycling and reuse, increasing the recycling rate, and continuing to reduce the burden on the environment.	No material difference.																																																								
(IV) Has the company counted the greenhouse gas emissions, water consumption, and total weight of waste over the past two years and formulated policies on energy conservation and carbon reduction, greenhouse gas reduction, water consumption reduction, or other waste management?	V		<div>Greenhouse gas emissions: Information on Hsin-Li's annual greenhouse gas emissions, water consumption and waste</div> <div>Scope I: Inventory of natural gas</div> <table><tr><th>Year</th><th>Natural gas (m3)</th><th>GJ</th><th>Coverage</th></tr><tr><td>2021</td><td>737,703</td><td>24,710</td><td>All plants, including PVC and PU plants</td></tr><tr><td>2022</td><td>665,021</td><td>22,275</td><td>All plants, including PVC and PU plants</td></tr><tr><td>2023</td><td>356,102</td><td>11,928</td><td>All plants, including PVC and PU plants</td></tr></table> <div>Scope II: Inventory of electricity consumption</div> <table><tr><th>Year</th><th>Electricity consumption (kWh)</th><th>GJ</th><th>Coverage</th></tr><tr><td>2021</td><td>2,421,392</td><td>8,719</td><td>All plants, including PVC and PU plants</td></tr><tr><td>2022</td><td>2,164,744</td><td>7,798</td><td>All plants, including PVC and PU plants</td></tr><tr><td>2023</td><td>1,332,393</td><td>4,798</td><td>All plants, including PVC and PU plants</td></tr></table> <div>Scope II: Inventory of water consumption</div> <table><tr><th>Year</th><th>Water consumption (m3)</th><th>CO<sub>2</sub> emissions (KG)</th><th>Coverage</th></tr><tr><td>2021</td><td>10,532</td><td>1,582</td><td>All plants, including PVC and PU plants</td></tr><tr><td>2022</td><td>9,484</td><td>1,439</td><td>All plants, including PVC and PU plants</td></tr><tr><td>2023</td><td>6,555</td><td>1,031</td><td>All plants, including PVC and PU plants</td></tr></table> <div>Statistics on waste: All of the Company's waste is non-hazardous.</div> <table><tr><th>Year</th><th>Domestic waste (tonnes)</th><th>Waste and plastic mix (tonnes)</th><th>Coverage</th></tr><tr><td>2021</td><td>43.05</td><td>29.09</td><td>All plants, including PVC and PU plants</td></tr></table>	Year	Natural gas (m3)	GJ	Coverage	2021	737,703	24,710	All plants, including PVC and PU plants	2022	665,021	22,275	All plants, including PVC and PU plants	2023	356,102	11,928	All plants, including PVC and PU plants	Year	Electricity consumption (kWh)	GJ	Coverage	2021	2,421,392	8,719	All plants, including PVC and PU plants	2022	2,164,744	7,798	All plants, including PVC and PU plants	2023	1,332,393	4,798	All plants, including PVC and PU plants	Year	Water consumption (m3)	CO <sub>2</sub> emissions (KG)	Coverage	2021	10,532	1,582	All plants, including PVC and PU plants	2022	9,484	1,439	All plants, including PVC and PU plants	2023	6,555	1,031	All plants, including PVC and PU plants	Year	Domestic waste (tonnes)	Waste and plastic mix (tonnes)	Coverage	2021	43.05	29.09	All plants, including PVC and PU plants	No material difference.
Year	Natural gas (m3)	GJ	Coverage																																																									
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2021	43.05	29.09	All plants, including PVC and PU plants																																																									

Items	Implementation						Deviation from the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies and the reasons therefor
	Yes	No	Brief description				
			2022	30.13	4.6	All plants, including PVC and PU plants	
			2023	28.91	0.8	All plants, including PVC and PU plants	
			In an effort to help reduce the greenhouse gases, the Company replaced the heavy fuel oils for the boilers with natural gas. As natural gas is colorless, non-toxic, and non-corrosive with a high heating value and great combustion efficiency and emits less exhaust gas and pollutants after combustion, it is called green fuels. All of the Company's waste is non-hazardous. Formulation of energy saving and carbon reduction plans: Switched boiler fuel from heavy oil to natural gas, lowered the floor slabs of all conference rooms, phased out LE lamps, installed solar power generation system, and conducted garbage sorting. Completed installation of the solar power generation system in 2023, with a total investment of \$92,460 thousand, a total power generation of 2,677 kWh in 2023, and a reduction of 1,325 metric tons of carbon emissions.				
IV. Social issues							No material difference.
(I) Has the company formulated relevant management policies and procedures in accordance with applicable laws and the International Bill of Human Rights?	V		We have formulated relevant labor operating procedures in accordance with labor laws and regulations and a human rights policy (published on the Company website) to protect workers and avoid situations that may undermine their basic rights.				
(II) Has the Company formulated and implemented reasonable employee benefit measures (including remuneration, leave, and other benefits) and reflected business performance or achievements in employee remuneration appropriately?	V		We value employees and care for them, with an complete employee retirement system and a friendly workplace. We also provide employees with a complete salary, bonus, dividends, and benefit system, to motivate them to make contribution to the Company. Relevant benefit measures include labor insurance, health insurance, and group insurance for employees; bonuses upon three major holidays; employee health checks and employee travel; an Employee Welfare Committee that provide subsidies/allowances for marriage, childbirth, travel, injury, illness, or death. We also provide parental leave. In addition, to encourage efficient production and outstanding contribution, when the production efficiency and contribution have reached a certain level, we will pay out corresponding bonuses. We have properly reflected the business performance in the employee remuneration. As per the Articles of Incorporation, to motivate employees and the management team, after a cumulative deficit is deducted from the Company's profit for the year, the Company shall provide not lower than 2%–5% of the balance for employee profit-sharing remuneration.				No material difference.
(III) Does the Company provide employees with a safe and healthy work environment and offer safety and health education to employees regularly?	V		We regularly organize employee health checks and safety and health seminars per year. We have also signed on-site health services with nearby medical clinics. Occupational health physicians provided on-site health consultation services once per year and occupational health nurses once per month.				No material difference.
(IV) Has the Company established an effective career development training program for employees?	V		We attach great importance to employee training and development. To provide them with a clear career development roadmap, we invest sufficient resources in employee training. We provide new employee training on the Company's business policy, corporate social				No material difference.

Items	Implementation			Deviation from the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies and the reasons therefor
	Yes	No	Brief description	
			responsibility concept, and relevant policies, and then offer training courses depending on individual competencies.	
(V) Does the company comply with applicable laws and international standards regarding customer health and safety, customer privacy, as well as marketing and labelling of products and services? Has it formulated relevant policies and complaint procedures to protect consumers' rights and interest?	V		We have disclosed the contact numbers and emails for complaints on the Company's website, and established a channel to protect consumers' rights and interest and protect relevant people's rights. In addition, the Sales Department is responsible for responding to customer complaints and checking their needs as the basis for continuous improvement.	No material difference.
(VI) Has the Company formulated a supplier management policy, required suppliers to follow applicable regulations on issues, such as environmental protection, occupational safety and health, or labor rights? The implementation thereof?		V	The contracts between the Company and our major suppliers do not contain the clauses on the left, and we will revise our contracts where appropriate in the future depending on our operations.	We will make plans depending on our needs in the future.
V. Has the Company referred to the internationally accepted reporting standards or guidelines to prepare reports, such as ESG reports that discloses the Company's non-financial information? Has a third-party verification entity provided assurance or assurance opinion for said report?		V	The Company has not yet prepared reports, such as ESG reports that discloses the Company's non-financial information with reference to the internationally accepted reporting standards or guidelines. The Company plans to prepare the ESG report in 2024.	Plans to prepare the ESG report in 2024.
VI. Where the Company has formulated its own sustainable development code in accordance with the "Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies", please specified the differences between the implementation and the principles: The Company's Board of Directors approved to adopt the "Sustainable Development Best Practice Principles" on December 26, 2022, and we implement it accordingly without material deviation.				
VII. Other important information that facilitates the understanding of the promotion of sustainable development:				
1. Environmental protection: We have dedicated personnel in place dedicated to environmental management and the planning, management, and auditing of environmental protection. We also have two Class B air pollution control and prevention personnel, one Class A waste personnel, and two Class B toxic chemical substances personnel in place and comply with laws and regulations, including the Waste Disposal Act and the Air Pollution Control Act to duly implement pollution prevention and control and maintain environmental quality. 2. Community participation, social contribution, social service, and social charity: We regularly sponsor social charity activities in the community, provide graduation scholarships to from nearby elementary and junior high schools, and participate in various activities of local police and firefighter associations, thereby actively giving back to the local community. 3. Consumer rights and interest: We learn about customer satisfaction and ensure existing and potential customers' support, to improve the Company's competitiveness with proactive, rapid, and effective services. 4. Human rights: All our employees enjoy equal employment opportunities, regardless of gender, religion, and political affiliation, and we provide them with a friendly work environment to ensure that they are free from discrimination and harassment. 5. Safety and health: We comply with the government's regulations on labor safety and health and implement various safety and health tasks, while specifying labor safety and health details in the work rules.				

(VI) Climate-related information of TWSE/TPEX-listed companies

1 Implementation status of climate-related information

Item	Status
1. Specify the monitoring and governance of climate-related risks and opportunities by the Board of Directors and the management.	The greenhouse gas inventory and verification schedule was reported to the Board of Directors on a quarterly basis in 2023. The talent training, strategic goals, control mechanism, and internal verification plan have been completed by the end of September 2023.
2. Specify how the identified climate risks and opportunities affect the Company's business, strategy and finance (short-, medium-, and long-term).	For more details, please refer to the "myson-2023, 2022 and 2021 GHG emissions and reduction information" on the website of the Company myson.com.tw [Social Responsibility] / Corporate Sustainability Report] [Social Responsibility] / Corporate Sustainability Report].
3. Specify the financial impact of extreme climate events and transformation actions.	Extreme weather events such as typhoons, floods or extreme high temperatures may cause damage to the Company's physical assets, including production facilities, supply chain logistics and inventory. These losses may lead to increased insurance claims and facility repair costs, thereby affecting the Company's financial performance. The transformation actions targeting extreme weather, such as green products and low- carbon economy strategies, will initially face the need for additional investment, including updating production technologies, improving energy efficiency, and developing more environment-friendly products. New investments may cause financial pressure in the short term, but are expected to achieve long-term environmental and financial benefits in the medium to long term. Therefore, the Company is evaluating the specific financial impacts of extreme climate events and transformation actions, and developing response strategies to ensure that the Company can adjust to these changes while maintaining financial stability during the transformation process.
4. Specify how climate risk identification, assessment, and management processes are integrated into the overall risk management system.	Risk management not only affects the company's operations, but also has a significant impact on the company's reputation. The overall risk management related policies of the Company have been approved by the board of directors and documented principles has been established. After identifying the risks and presenting countermeasures, the departments report these to the President, who in turn reports to the Corporate Governance Committee and

Item	Status
	eventually to the Board of Directors. Each relevant department is responsible for assessing the occurrence possibility of each risk factor and the extent of the impact, They shall formulate and implement necessary measures and properly manage each risk.
5. If a scenario analysis is used to assess the resilience to climate change risks, the scenarios, parameters, assumptions, analysis factors, and main financial impacts used shall be specified.	The Company has not yet used scenario analysis to evaluate climate change risk resilience, but will actively consider introducing this method. The future scenario analysis may include different climate scenarios, future emissions and policy assumptions to analyze their potential impacts on company operations and finance.
6. If there is a transformation plan to manage climate-related risks, specify the contents of the plan, and the indicators and goals used to identify and manage physical and transition risks.	Please see instructions 2 above.
7. If internal carbon pricing is used as a planning tool, the basis for setting the price shall be specified.	Internal carbon pricing has not yet been used as a planning tool.
8. If climate-related goals are set, the activities covered, the scope of greenhouse gas emissions, the planning schedule, annual achievement progress and other information shall be specified; if carbon offsets or renewable energy certificates (RECs) are used to achieve relevant goals, the source and quantity of offset carbon reduction credits or the quantity of RECs shall be specified.	Carbon offsets or renewable energy certificates (RECs) are not currently being used to meet the targets.
9. Greenhouse gas inventory and assurance, reduction goals, strategies and specific action plans (to be provided 1-1 and 1-2 separately).	

1-1 Greenhouse gas inventory and assurance status in the most recent two years

1-1-1 Greenhouse gas inventory information



Describe the emission volume (metric tons CO<sub>2</sub>e), intensity (metric tons CO<sub>2</sub>e/million yuan) and data coverage of greenhouse gases in the past two years.

一. Inventory of corporate greenhouse gas emissions. The main greenhouse gas generated by company operations is carbon dioxide. The coverage and boundaries are explained as follows:

(一) Category 1 is direct greenhouse gas emissions: the greenhouse gas emission boiler fuel is changed from heavy oil to natural gas, and there are no other direct greenhouse gas emission sources.

Scope I : Inventory of natural gas

Year	Natural(m <sup>3</sup> )	GJ	Intensity(KGCO <sub>2</sub> e/M <sup>2</sup> )	Coverage
2022	665,021	22,275	15.67	All plants, including PVC and PU plants
2023	356,102	11,928	8.39	All plants, including PVC and PU plants

(二) Category 2 refers to indirect greenhouse gas emissions from energy, primarily from purchased electricity and water.

Scope II : Inventory of electricity consumption

Year	Electricity consumption(kWh)	GJ	Intensity(KGCO <sub>2</sub> e/M <sup>2</sup> )	Coverage
2022	2,164,744	7,798	12.56	All plants, including PVC and PU plants
2023	1,332,393	4,798	7.69	All plants, including PVC and PU plants

Scope II : Inventory of water consumption

Year	Water consumption(m <sup>3</sup> )	CO <sub>2</sub> emissions(KG)	Intensity(KGCO <sub>2</sub> e/M <sup>2</sup> )	Coverage
2022	9,484	1,439	0.02	All plants, including PVC and PU plants
2023	6,555	1,031	0.02	All plants, including PVC and PU plants

(三) Category 3 refers to emissions generated by company activities, non-energy indirect emissions: no statistics.

Note 1: Direct emissions (scope 1, i.e. directly from the emission sources owned or controlled by the Company), indirect energy emissions (scope 2, i.e. indirect greenhouse gas emissions from input electricity, heat or steam), and other indirect emissions (scope 3 i.e. emissions generated from company activities that are not indirect energy emissions but come from emission sources owned or controlled by other companies) .

Note 2: The data coverage of the direct emissions and the indirect emissions from energy shall be handled in accordance with the schedule specified in the regulations referred to in Paragraph 2, Article 10 of these Guidelines. The information of other indirect emissions may be disclosed voluntarily.

Note 3: Greenhouse gas inventory standard: Greenhouse Gas Protocol (GHG Protocol) or ISO 14064-1 issued by the International Organization for Standardization (ISO).

Note 4: The intensity of greenhouse gas emissions can be calculated per unit of product/service or turnover, and at least the data calculated based on turnover (NT\$ million) shall be stated.

1-1-2 Specify the assurance status in the most recent two years and up to the publication date of this annual report, including the scope, institution, criteria and opinion of the assurance.

Assurance from external institutions has not yet been implemented. The process will be completed in accordance with the FSC's "Roadmap for the Sustainable Development of TWSE/TPEX Listed Companies."
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Assurance from external institutions has not yet been implemented. The process will be completed in accordance with the FSC's "Roadmap for the Sustainable Development of TWSE/TPEX Listed Companies."
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Note 1: The schedule specified in the regulations referred to in Paragraph 2, Article 10 of these Guidelines shall apply. If the company fails to obtain a complete greenhouse gas assurance opinion as the publication date of this annual report, it shall indicate that "the complete assurance information will be disclosed in the sustainability report." If the company does not prepare a sustainability report, it shall indicate that "the complete assurance information will be disclosed on the MOPS", and shall disclose complete assurance information in the annual report of the next year.

Note 2: The assurance institution shall comply with the relevant requirements that TWSE and TPEX have established for sustainability report assurance institutions.

Note 3: For disclosure content, please refer to the best practice reference examples on the website of the TWSE Corporate Governance Center.

#### 1-2 Reduction goals, strategies and specific action plans

Describe the greenhouse gas reduction base year and its data, reduction targets, strategies and specific action plans, as well as the achievement of reduction targets.
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The Company has not yet set a greenhouse gas reduction target and strategy.
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Note 1: The procedures shall be carried out in accordance with the provisions of Paragraph 2, Article 10 of the Standards.

Note 2: The base year should be the year in which the inventory is completed for the consolidated financial report. For example, in accordance with the provisions of Paragraph 2, Article 10 of the Standards, companies with a capital of over NT\$10 billion or more, the inventory should be completed in 2025 for the consolidated financial report for 2024; therefore, the base year is 2024. If the company has completed the inventory for the consolidated financial report in advance, the earlier year can be used as the base year. The data for the base year can be calculated based on the average of a single or multiple years.

Note 3: For the disclosure content, please refer to the best practice reference examples on the website of the Taiwan Stock Exchange Corporate Governance Center.

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

Evaluation indicators	Operations (Note 1)			Deviation from the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and the reasons therefor
	Yes	No	Brief description	
<p>I. Formulation of ethical management policies and plans</p> <p>(I) Has the company formulated an ethical management policy approved by the board of directors and disclosed the policy and practice of ethical management in its regulations and public documents? Are the board of directors and the senior management committed to actively implementing the policy?</p> <p>(II) Has the Company established an assessment mechanism for the risk of unethical conduct to regularly analyze and evaluate the business activities with a higher risk of unethical conduct within the business scope and formulated a prevention plan accordingly, at least covering the prevention measures for the acts under each subparagraph under Article 7, paragraph 2 of the "Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies"?</p> <p>(III) Has the Company clearly specified operating procedures, guidelines for conduct, and a violation punishment and complaint system in the unethical conduct prevention plan and duly implemented them? Does the Company regularly review and revise said plan?</p>	<p>V</p> <p>V</p> <p>V</p>		<p>(I) The Company established the "Ethical Corporate Management Best Practice Principles" on December 26, 2022 and disclosed such on the Company's website to make public our ethical management policies and practices and the commitment of the Board of Directors and management to actively implement the policies and practices.</p> <p>(II) The Company has established the "Ethical Management Best Practice Principles", which clearly defines the behavioral standards that all employees should follow, and the "Whistleblower Reporting System for Illegal (including Corruption) and Unethical Behavior by Internal and External Personnel", which stipulates that employees shall not speculate, conceal, or deceive in order to obtain undue benefits, and that employees shall be punished for violating the Principles in accordance with the provisions of the Company's work rules on disciplines. If a person subject to the preceding disciplinary measures believes that the Company has handled the matter improperly, he/she may file a complaint for relief in accordance with the Company's relevant complaint processing regulations.</p> <p>(III) The Company has established procedures for internal communication and investor relations, and organizes promotional education and training from time to time. An e-mail system has been set up on both the Company's internal and external websites to allow employees and related personnel to report any improper business practices, which will be handled by the Company's designated senior management.</p>	<p>No material difference.</p> <p>No material difference.</p> <p>No material difference.</p>
<p>II. Implementation of ethical management</p> <p>(I) Does the Company evaluate each counterparties records for ethics? Has the Company specified the terms of ethical conduct in each contract signed with each counterparty?</p> <p>(II) Has the company established a dedicated (concurrent) unit under the board of directors to conduct ethical corporate management, regularly (at least once a year) report to the board of directors on its ethical management policies and prevention plans for unethical conduct, and supervise the implementation?</p> <p>(III) Has the company formulated policies to prevent conflicts of interest, provided appropriate methods for stating one's conflicts of interest, and</p>	<p>V</p> <p>V</p> <p>V</p>		<p>(I) Before engaging in business activities with suppliers, customers, or other transaction counterparties, we consider the legality of the transaction counterparties and whether they have a record of unethical conduct and only be carry out a transaction after the credit investigation is completed.</p> <p>(II) The Company's Corporate Governance Committee governs such task forces as the corporate governance, CSR, ethical management, environmental sustainability, and risk management, etc. The President assigns the heads of relevant units to take charge and carry out the work of each task force. At least once a year, the solely responsible unit will report to the Board of Directors on the implementation of ethical management.</p> <p>(III) An e-mail system has been set up on both the Company's internal and external websites to allow employees and related personnel to report any improper business practices, which will be handled by the Company's designated senior management.</p> <p>(IV) In order to enforce the implementation of ethical management, the Company has</p>	<p>No material difference.</p> <p>No material difference.</p> <p>No material difference.</p> <p>No material difference.</p>

Evaluation indicators	Operations (Note 1)			Deviation from the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and the reasons therefor
	Yes	No	Brief description	
<p>implemented them appropriately?</p> <p>(IV) Has the Company has established an effective accounting system and an internal control system for the implementation of ethical management and assigned the internal audit unit to formulate relevant audit plans based on the assessment results of the risk of unethical conduct and audit the compliance with the unethical conduct prevention plan accordingly or commissioned a CPA to perform such audits?</p> <p>(V) Does the company regularly hold internal and external education and training on ethical management?</p>	<p>V</p> <p>V</p>		<p>established an effective accounting system and an internal control system, and internal auditors regularly audit the compliance with the foregoing systems. Currently, there is no need to appoint CPAs to perform the audit.</p> <p>(V) The Company has established procedures for internal communication and investor relations, and organizes promotional education and training from time to time.</p>	No material difference.
<p>III. Implementation of the Company's whistleblowing system</p> <p>(I) Has the company formulated a specific whistleblowing and reward system, established a convenient whistleblowing method, and assigned appropriate personnel to handle the party accused?</p> <p>(II) Has the company formulated standard operating procedures for investigation of reported cases, the follow-up measures to be taken after the investigation is completed, and a confidentiality mechanism?</p> <p>(III) Does the company take measures to protect whistleblowers from being mistreated due to their whistleblowing behavior?</p>	<p>V</p> <p>V</p> <p>V</p>		<p>(I) An e-mail system has been set up on both the Company's internal and external websites to allow employees and related personnel to report any improper business practices, which will be handled by the Company's designated senior management.</p> <p>(II) If there is any violation of the Ethical Management Best Practice Principles, the Company will punish the violator in accordance with the provisions of the Company's work rules on disciplines.</p> <p>(III) If a person subject to the preceding disciplinary measures believes that the Company has handled the matter improperly and that his/her legitimate rights and interests have been violated, he/she may file a complaint for relief to the management department in accordance with the Company's relevant complaint processing regulations.</p> <p>(IV) The responsible personnel declare in writing that they will keep the identity of the whistleblower and the content reported confidential and promise to protect the whistleblower from being improperly treated due to the whistleblowing behavior.</p>	<p>No material difference.</p> <p>No material difference.</p> <p>No material difference.</p> <p>No material difference.</p>
<p>IV. Enhancement of information disclosure</p> <p>Has the company disclosed the content of its Corporate Governance Best Practice Principles and the effectiveness of the implementation of the principles on its website and the MOPS?</p>	V		<p>The Company has disclosed the contents of the Ethical Management Best Practice Principles on the Company's website and on the Market Observation Post System (MOPS). The Company's implementation of ethical management is disclosed in the Annual Report, which is available for investors to download from the MOPS.</p>	No material difference.
<p>V. If the Company has formulated its own Corporate Governance Best Practice Principles as per the "Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies", please specify the difference between its operation and the principles:</p> <p>To establish a corporate culture of ethical corporate management for the Company's sustainable development, we have established the Company's "Ethical Management Best Practice Principles" in accordance with the "Ethical Corporate Management Best Practice Principles" for TWSE/TPEx Listed Companies". There is no material difference between the implementation and the principles.</p>				

Evaluation indicators	Operations (Note 1)			Deviation from the Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies and the reasons therefor
	Yes	No	Brief description	
VI. Other important information that facilitates the understanding of the company's ethical corporate management: None.				

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

(IX) Implementation of the internal control system

1. Statement of the Internal Control System

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

Date: December 31, 2023

The Company's internal control system for 2023 as per the results of our self-assessment is hereby declared as follows:

- I. The Company is clearly aware that the establishment, implementation, and maintenance of an internal control system is the responsibility of the Company's Board of Directors and managerial officers, and the Company has established such a system. It aims to provide reasonable assurance for the achievement of the objectives, namely the effectiveness and efficiency of operations (including profitability, performance, and asset security protection), the reliability, timeliness, and transparency of financial reporting, and compliance with applicable laws and regulations.
- II. Some limitations are inherent in all internal control systems. No matter how perfect the design is, an effective internal control system can only provide a reasonable assurance regarding the achievement of the above three intended objectives; moreover, due to changes in the environment and circumstances, the effectiveness of the internal control system may change accordingly. However, the Company's internal control system is equipped with a self-monitoring mechanism. Once a defect is identified, the Company will take action to rectify it.
- III. The Company judges whether the design and implementation of the internal control system is effective based on the criteria for judging the effectiveness of the internal control system set out in the "Regulations Governing Establishment of Internal Control Systems by Public Companies" (hereinafter referred to as the "Regulations"). The said criteria under the Regulations are divided into five constituent elements as per the management and control process: 1. control environment, 2. risk assessment, 3. control activities, 4. information and communication, and 5. monitoring activities. Each constituent element includes several items. For said items, please refer to the Regulations.
- IV. The Company has adopted the aforesaid judgment criteria for the internal control system to determine whether the design and implementation of the internal control system are effective.
- V. Based on the results of the assessment in the preceding paragraph, the Company is of the opinion that, as of December 31, 2023, the internal control system (including the supervision and management of its subsidiaries), including the understanding the effectiveness of operations and the extent to which efficiency targets are achieved, reliable, timely, and transparent reporting, and compliance with applicable rules and applicable laws and regulations, is effective and can reasonably assure the achievement of the foregoing objectives.
- VI. This statement will form the main content of the Company's Annual Report and prospectus and will be made public. If the disclosed content above is false or there is material information concealed deliberately or otherwise, the Company will be legally liable pursuant to Articles 20, 32, 171, and 174 of the Securities and Exchange Act.
- VII. This statement has been approved by the Company's Board of Directors on February 27, 2024. Among the 5 directors present, none of them expressed objections. All the others agreed with the content of this statement. Therefore, this statement is hereby declared.



Hsin-Li Chemical Industrial Corp.

Chairperson: Chang, Yu-Ming



Signature

President: Cheng, Yu-Tang



Signature

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

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

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

1. Motions for the shareholders' meeting

Date	Summary of the contents
Shareholders' Meeting	
Motion	
2023/5/26	<p>I. Date of the general shareholders' meeting: 2023/5/26</p> <p>II. Important resolutions:</p> <p>Adoption:</p> <p>No. 1: Proposed by the Board of Directors</p> <p>Brief: The Company's 2022 business report and financial statements are hereby submitted for adoption.</p> <p>Resolution: This proposal was voted on by shareholders on site and by electronic means:  For: 37,986,667 voting rights; against: 14,088 voting rights; abstentions: 28,525 votes; null ballots:  0. The number of votes for accounted for 99.88% of the total voting rights represented by shareholders present, which exceeded the percentage as required by law; thus, this proposal was approved as proposed.</p> <p>Implementation: The resolution results have been followed.</p> <p>No. 2: Proposed by the Board of Directors</p> <p>Brief: The Company loss make-up proposal for 2022 is hereby submitted for adoption.</p> <p>Resolution: This proposal was voted on by shareholders on site and by electronic means:  For: 37,982,643 voting rights; against: 18,113 voting rights; abstentions: 28,524 votes; null ballots:  0. The number of votes for accounted for 99.87% of the total voting rights represented by shareholders present, which exceeded the percentage as required by law; thus, this proposal was approved as proposed.</p> <p>Implementation: The resolution results have been followed.</p> <p>Election:</p> <p>No. 1: Proposed by the Board of Directors</p> <p>Brief: By-election of one independent director is hereby proceeded for you to vote.</p> <p>Resolution: This election was held in accordance with the Company's Rules for Election of Directors, and Ms. Huang, Ling-Tien was elected as an independent director of the Company with 37,613,000 voting rights.</p> <p>Implementation: Ms. Huang, Ling-Tien serves as an independent director of the Company.</p> <p>Other motions:</p> <p>No. 1: Proposed by the Board of Directors</p> <p>Brief: The proposal to remove the non-compete clause for new directors is hereby submitted for discussion.</p> <p>Resolution: This motion was voted on by shareholders on site and by electronic means:  For: 37,970,868 voting rights; against: 27,217 voting rights; abstentions: 31,195 votes; null ballots:  0. The number of votes for accounted for 99.84% of the total voting rights represented by shareholders present, which exceeded the percentage as required by law; thus, this proposal was approved as proposed.</p> <p>Implementation: The amended version was adopted</p> <p>There were no questions from shareholders at the shareholders' meeting.</p>

2. Important resolutions by the Board of Directors during 2023 and the current year up to the publication date of this Annual Report:

Date	Summary of the contents	Circumstances referred to in Article 14-3 of the Securities and Exchange Act	Objection or reservation by independent directors
2023/01/13 (1st meeting)	1. Addition of credit line from CTBC Bank Co., Ltd. 2. Presentation on the assessment of the independence of the attesting CPAs of the Company 3. Matters reviewed at the 1st meeting of the Remuneration Committee in 2023. Resolution: Passed by the directors present without objection.	V	None
2023/02/24 (2nd meeting)	1. 2022 business report and financial statements. 2. Loss make-up proposal for 2022 3. The Company's statement of the internal control system. 4. Appointment of CPAs for attestation services and assessment of the independence and suitability of CPAs for 2023 5. Change of Company's business address 6. By-election of one independent director. 7. Nomination and review of the list and qualifications of independent director candidates. 8. Proposal to remove the non-compete clause for new directors. 9. Proposal to set out the agenda for the 2023 general shareholders' meeting. Resolution: Passed by the directors present without objection.	V V V	None
2023/05/11 (3rd meeting)	1. Review of the 1Q2023 financial statements of the Company 2. Proposal to draw up the general principles for the Company's pre-approval of the non-assurance financial policy. Resolution: Passed by the directors present without objection.	V	None
2023/05/26 (4th meeting) (Interim)	1. Post-factum appointment of the Remuneration Committee members of the 5th term 2. Post-factum appointment of the Audit Committee members of the 1st term 3. Post-factum appointment of the Corporate Governance Committee members of the 1st term Resolution: Passed by the directors present without objection.		None
2023/08/10 (5th meeting)	1. Review of the 2Q2023 financial statements of the Company 2. Renewal of credit line from Mega International Commercial Bank. 3. Credit line from TAIWAN BUSINESS BANK,LTD. 4. Credit line from First Commercial Bank. 5. Renewal of credit line from Mega Bills Finance Co., Ltd. 6. Adjustment of business targets for 2H2023 7. Formulation relevant regulations of the Company. 7.1 Operating standards for finance and business among related parties. 7.2 Employee Substitute Management Regulations. Resolution: Passed by the directors present without objection.	V V V V V	None
2023/11/10 (6th meeting)	1. Proposal to appoint the financial-cum-accounting officer as the acting spokesperson. 2. Review of the 3Q2024 financial statements of the Company 3. Formulation of the "Nomination Committee Charter" and establishment of the Nomination Committee. 4. Adjustment of the organizational structure. 5. Commercial paper guarantee line from International Bills Finance Corporation 6. Credit line from Taichung Commercial Bank. 7. Matters reviewed at the 2nd meeting of the Remuneration Committee in 2023. Resolution: Passed by the directors present without objection.	V V V V V	None
2023/12/22 (7th meeting)	1. Proposal to draw up the 2024 annual internal audit plan. 2. Proposal to set the 2024 business targets. 3. Renewal of credit line from Yuanta Commercial Bank. Resolution: Passed by the directors present without objection.	V V	None



(XII) During the most recent year and the current year up to the date publication of this Annual Report, if the directors or supervisors had different opinions on important resolutions approved by the Board of Directors with records or written statements, the main content of the opinions: All the proposals discussed at the board meetings were passed by all the directors present without objection.

(XIII) During the most recent year and the current year up to the date publication of this Annual Report, a summary of the resignation and dismissal of the Company's Chairperson, President, accounting officer, finance officer, internal audit officer, corporate governance officer, or R&D officer:

The Company's Financial-cum-Accounting Officer Chang, Chen-Ching resigned and received approval on 2023/8/31 due to her personal career planning.

## V. Information on CPA's professional fees

Unit: NT\$ Thousand

Name of CPA firm	Name of CPA	Audit period	Audit fees	Non-audit fees	Total	Remarks
KPMG Taiwan	Hsu, Chen-Lung	2023.1.1~2023.12.31	1060	280	1,340	Non-audit fees are for tax returns.
	Chen, Kuo-Tsung					

(I) If the CPA firm is replaced and the audit fees paid during the year in which the replacement occurs are less than those paid in the prior year, the amount of the decrease in the audit fees and the reason thereof shall be disclosed: None.

(II) When the audit fees paid for the current year are lower than those paid for the prior year by 10% or more, the amount and percentage of the decrease and thereof shall be disclosed: None.

## VI. Replacement of CPAs: Not applicable.

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

# Assessment Form for the Independence and Suitability of CPAs of Hsin-Li Chemical Industrial Corp. for 2023

Assessment date: February 24, 2023

## I. Basic information

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

## II. Contents of evaluation

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

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

## III. Work performance and plans:

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

## IV. Evaluation results:

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

## V. Assessed by the Board of Directors

- Basis:
- (1) A declaration of compliance with the independence requirements of the Norm of Professional Ethics for Certified Public Accountant of the Republic of China issued by KPMG Taiwan.
  - (2) Reference to the AQI audit quality indicators for the most recent year

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

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

Job title	Name	2023		2024 up to March 29, 2024	
		Increase (decrease) in the number of shares held	Increase (decrease) in the number of shares pledged	Increase (decrease) in the number of shares held	Increase (decrease) in the number of shares pledged
Chairperson	He Rui Investment Ltd.	—	—	—	—
	representative: Chang, Yu-Ming	—	—	—	—
Director/Major shareholder	U-Best Innovative Technology Co., Ltd.	—	—	—	—
	representative: Chao, Tien-Tsung	—	—	(12,997)	—
Director	Lin, Ching-Lung (resigned on 2024.02.06)	—	—	—	—
Director	Wu, Yi-Jen(resigned on 2024.02.06)	—	—	—	—
Independent Director	Wu, Chang-Cheng	—	—	—	—
Independent Director	Chen, Chih-Chang(resigned on 2023.02.16)	—	—	—	—
Independent Director	Hsu, Chi-Jeng	—	—	—	—
President	Cheng, Yu-Tang	—	—	—	—
Assistant Vice President	Wu, Min-Tsung	—	—	—	—
Assistant Vice President	Li, Shan-Lung	—	—	(7,924)	—
Financial-cum-Accounting Officer	Chang, Chen-Ching(Resigned on 2023.08.31)	—	—	—	—
Financial-cum-Accounting Officer	Chen, Chien-Hung(Elected on 2023.11.10)	—	—	—	—
Corporate Governance Officer	Sung, Li-Lan	—	—	—	—
Major shareholder	FEEI CHERNG DEVELOP TECHNOLOGY CO., LTD. (elected on 2022.03.22 and discharged on 2024.01.18)	—	—	—	—
Major shareholder	Voyage Investment Limited (elected on 2021.04.21 and discharged on 2022.05.11)	—	—	—	—

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

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

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

As of the date of suspension of stock transfer on March 29, 2024; Unit: shares; %

Name	Shareholding of the individual		Shareholding of spouse or minor children		Total shareholding by nominee arrangement		Information on the relations among the top 10 shareholders if anyone is a related party, a spouse, or a relative within second degree of kinship of another and their names		Remarks
	Number of shares	Shareholding	Number of shares	Shareholding	Number of shares	Shareholding	Name	Relations	
U-Best Innovative Technology Co., Ltd.	10,180,219	13.06%	—	—	—	—	FEEI CHERNG DEVELOP TECHNOLOGY CO., LTD.	Representative The same person	—
representative: Chang, Yu-Ming	—	—	—	—	—	—			—
FEEI CHERNG DEVELOP TECHNOLOGY CO., LTD.	6,740,000	8.65%	—	—	—	—	U-Best Innovative Technology Co., Ltd.	Representative The same person	—
representative: Chang, Yu-Ming	—	—	—	—	—	—			—
Shangyu Construction Co., Ltd.	5,373,650	6.89%	—	—	—	—	Boromi Optronics Corp.	Representative The same person	—
Representative: Chang, Yu-Ming	—	—	—	—	—	—			—
Zhong Qing Technology Co., Ltd.	4,222,000	5.42%	—	—	—	—	Voyage Investment Limited	Representative The same person	—
representative: Chang, Yu-Ming	—	—	—	—	—	—			—
Boromi Optronics Corp.	3,136,000	4.02%	—	—	—	—	Shangyu Construction Co., Ltd.	Representative The same person	—
Representative: Chang, Shuo-Wen	—	—	—	—	—	—			—
Voyage Investment Limited	2,096,000	2.69%	—	—	—	—	Zhong Qing Technology Co., Ltd.	Representative The same person	—
Representative: Chang, Yu-Ming	—	—	—	—	—	—			—
CHEN, ZHE-WEI	1,017,000	1.30%					NA	NA	
LYU, JYUN-RUEI	840,000	1.08%					NA	NA	
LIN, JIA-RONG	737,000	0.95%					NA	NA	
GUO, MEI	580,000	0.74%					NA	NA	

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

## Chapter 4 Fundraising Status

### I. Capital and shares

#### (I) Source of share capital

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

Year/Month	Issue price	Authorized capital		Paid-in capital		Remarks		
		Number of shares (in thousands)	Amount (in NT\$ thousands)	Number of shares (in thousands)	Amount (in NT\$ thousands)	Source of share capital (in NT\$ thousands)	Capital increased by assets other than cash	Others
1992.08	10	80,000	800,000	40,040	400,400	Cash capital increase by NT\$143,000 Capitalization of earnings to increase the capital by NT\$59,400	None	Per Letter (1992)-Tai-Cai-Zeng-(I) No. 00280 dated 1992.02.18
1993.12	10	80,000	800,000	70,070	700,700	Cash capital increase by NT\$220,220 Capitalization of earnings to increase the capital by NT\$80,080	None	Per Letter (1993)-Tai-Cai-Zeng-(I) No. 30074 dated 1993.08.11
1994.11	10	120,000	1,200,000	91,091	910,910	Cash capital increase by NT\$140,140 Capitalization of earnings to increase the capital by NT\$70,070	None	Per Letter (1994)-Tai-Cai-Zeng-(I) No. 32674 dated 1994.08.02
1995.10	10	120,000	1,200,000	99,289	992,891	Capitalization of earnings to increase the capital by NT\$81,981	None	Per Letter (1995)-Tai-Cai-Zeng-(I) No. 38820 dated 1995.07.03
1997.12	10	120,000	1,200,000	111,274	1,112,749	Cash capital increase by NT\$100,000 Capitalization of earnings to increase the capital by NT\$ 19,857	None	Per Letter (1997)-Tai-Cai-Zeng-(I) No. 53108 dated 1997.07.09
1998.08	10	128,000	1,280,000	122,402	1,224,024	Capitalization of earnings to increase the capital by NT\$55,637 Capitalization of capital surplus to increase the capital by NT\$55,637	None	Per Letter (1998)-Tai-Cai-Zeng-(I) No. 58328 dated 1998.07.09
1999.08	10	130,000	1,300,000	129,746	1,297,466	Capitalization of earnings to increase the capital by NT\$12,240 Capitalization of capital surplus to increase the capital by NT\$61,201	None	Per Letter (1999)-Tai-Cai-Zeng-(I) No. 72054 dated 1999.08.03
2000.07	10	135,000	1,350,000	133,639	1,336,390	Capitalization of earnings to increase the capital by NT\$38,923	None	Per Letter (2000)-Tai-Cai-Zeng-(I) No. 57672 dated 2000.07.04
2004.02	10	135,000	1,350,000	128,639	1,286,390	Cancellation of 50,000 treasury shares to apply for capital reduction	None	Per Letter Jing-Shou-Shang No. 09301024220 dated 2004.02.18
2008.08	10	135,000	1,350,000	70,000	700,000	Capital reduction of NT\$586,390	None	Per Letter Jin-Guan-Zheng-I No. 970042678 dated 2008.08.12
2015.08	10	135,000	1,350,000	70,700	707,000	Capitalization of earnings to increase the capital by NT\$7,000	None	Per Letter Jin-Guan-Zheng-Fa No. 1040029989 dated 2015.08.06
2016.09	10	135,000	1,350,000	72,821	728,210	Capitalization of earnings to increase the capital by NT\$21,210	None	Per Letter Jing-Shou-Shang No. 10501228300 dated 2006.08.20
2017.08	10	135,000	1,350,000	20,000	200,000	Capital reduction of NT\$528,210	None	Per Letter Jin-Guan-Zheng-Fa No. 1060027607 dated 2017.08.01 issued by the FSC. No. 1060027607.
2018.09	10	135,000	1,350,000	70,000	700,000	Capitalization of earnings to increase the capital by NT\$500,000	None	Per Letter Jing-Shou-Shang No. 10701120350 dated 2018.09.17
2022.03	10	135,000	1,350,000	67,500	675,000	Cancellation of treasury shares to apply for capital reduction 25,000	None	Per Letter Jing-Shou-Shang No. 11101038340 dated 2022.03.16
2022.07	10	350,000	3,500,000	67,500	675,000	Increase in total capital	None	Per Letter Jing-Shou-Shang No. 11101129790 dated 2022.07.12

## 2. Type of share capital

March 29, 2024 Unit: Shares

Type of share	Authorized capital (NT\$)			Remarks
	Number of shares issued (Note)	Number of shares unissued	Total	
Registered ordinary shares	77,964,761	272,035,239	350,000,000	TPEX listed company's stock

## 3. Information on shelf registration: Not applicable

### (II) Shareholder structure:

March 29, 2024

Shareholder structure Number	Government agency	Financial institution	Other corporation	Individual	Foreign institution and foreigner	Total
Number of people	1	0	72	12,048	10	12,131
Number of shares held	17	0	33,007,159	44,140,280	817,305	77,964,761
Shareholding percentage	0.00%	0.00%	42.34%	56.62%	1.04%	100.00%

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

### (III) Equity dispersion:

Date: March 29, 2024

Shareholding range	Number of shareholders	Number of shares held	Shareholding %
1 to 999	5,579	403,368	0.52%
1,000 to 5,000	5,188	10,476,739	13.44%
5,001 to 10,000	657	5,274,331	6.77%
10,001 to 15,000	210	2,686,928	3.45%
15,001 to 20,000	153	2,867,636	3.68%
20,001 to 30,000	110	2,776,380	3.56%
30,001 to 40,000	71	2,519,478	3.23%
40,001 to 50,000	46	2,166,843	2.78%
50,001 to 100,000	64	4,563,760	5.85%
100,001 to 200,000	25	3,181,020	4.08%
200,001 to 400,000	13	3,779,168	4.85%
400,001 to 600,000	6	2,927,241	3.76%
600,001 to 800,000	1	737,000	0.94%
800,001 to 1,000,000	1	840,000	1.07%
1,000,001 to 999,999,999	7	32,764,869	42.02%
Total	12,131	77,964,761	100.00%

(IV) List of major shareholders:

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

Date: March 29, 2024

Name of major shareholder	Shares	Number of shares held	Shareholding percentage
U-Best Innovative Technology Co., Ltd.		10,180,219	13.06%
FEEI CHERNG DEVELOP TECHNOLOGY CO., LTD.		6,740,000	8.65%
Shangyu Construction Co., Ltd.		5,373,650	6.89%
Zhong Qing Technology Co., Ltd.		4,222,000	5.42%
Boromi Optronics Corp.		3,136,000	4.02%
Voyage Investment Limited		2,096,000	2.69%
Chen, Che-Wei		1,017,000	1.30%
Lu, Chun-Jui		840,000	1.08%
Lin, Chia-Jung		737,000	0.95%
Kuo, Mei		580,237	0.74%

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

Unit: NT\$, shares

Item		Year	2022	2023	2024 up to March 31, 2024
Market price per share	Highest		31.50	22.45	20.45
	Lowest		14.60	15.00	61.10
	Average		26.23	19.40	41.70
Net asset value per share	Before distribution		12.28	14.12	-
	After distribution		12.28	(Note 8)	-
Earnings per share	Weighted average number of shares (in thousands)		67,500	67,500	-
	Earnings per share (before retrospective adjustment)		-	-	-
	Earnings per share (after retrospective adjustment)		-	-	-
Dividend per share	Cash dividend		-	(Note 8)	-
	Stock dividend	Stock dividend from earnings	-	(Note 8)	-
		Stock dividend from capital surplus	-	(Note 8)	-
	Cumulative unpaid dividends		-	(Note 8)	-
Return on investment	Price to earnings ratio		-	10.55	-
	Price to dividend ratio		-	(Note 8)	-
	Cash dividend yield		-	(Note 8)	-

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

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

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

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

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

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

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

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

Note 8: It will be finalized by the resolution of the shareholders' meeting.

(VI) The Company's dividend policy and implementation

1. Dividend policy:

- (1) Article 28-1 of the Articles of Incorporation was amended by the resolution of the general shareholders' meeting on June 24, 2015:  
Regarding the Company's dividend policy, the Company shall consider its current and future investment environment, capital needs, domestic and international competition situation, capital budgets, and other factors, as well as shareholders' equity and its long-term financial plan and allocates shareholders' dividends from the distributable earnings, of which cash dividends may not be less than 10% of the total dividends to be paid out.
- (2) Article 28 of the Articles of Incorporation was amended by the resolution of the general shareholders' meeting on June 30, 2022:
- (3) Where the Company makes a profit for a fiscal year, the profit shall be first used for paying the taxes in accordance with the laws and regulations, offsetting a cumulative deficit, setting aside 10% of the remaining profit as a legal reserve unless it has reached the total amount of the Company's paid-in capital, setting aside an amount for or reversing a special reserve in accordance with the laws and regulations. Then, any remaining profit, together with any undistributed retained earnings at the beginning of the period, shall be adopted by the Company's Board of Directors as the basis for making a distribution proposal, which shall then be submitted to the shareholders' meeting for a resolution before distribution. In order to motivate employees and the management team, after a cumulative deficit is deducted from the Company's profit for the year, the Company shall provide not lower than 2%–5% of the balance, if any, for employee profit-sharing remuneration and no higher than 5% for directors' profit-sharing remuneration. Employee profit-sharing remuneration shall be paid out in stock or cash with the consent of more than half of the directors present at a board meeting attended by at least two-thirds of all directors and reported to the shareholders' meeting.

2. The dividends proposed to be distributed at the shareholders' meeting:

Regarding the Company's 2023 earnings distribution proposal resolved by the Board of Directors on February 27, 2024, a cash dividend of NT\$1.36 per share will be distributed to shareholders, totaling NT\$91,800 thousand. This is still pending the ratification by the 2024 general shareholders' meeting.

3. Major changes in the dividend policy expected: None.

(VII) The influence of the stock dividend proposed at the shareholders' meeting on the Company's operating performance and earnings per share: Not applicable.

(VIII) Profit-sharing remuneration for employees, directors, and supervisors:

1. The percentage of the profit for or scope of employee profit-sharing remuneration and directors' and supervisors' profit-sharing remuneration as stated in the Company's Articles of Incorporation.  
Pursuant to Article 28 of the Company's Articles of Incorporation, the Company's annual earnings, if any, shall be used to pay taxes as per law and offset losses; then, 10% of the balance shall be provided as a legal reserve, 2%–5% as employee profit-sharing remuneration, and no greater than 5% as director profit-sharing remuneration.  
Employee profit-sharing remuneration shall be paid out in stock or cash with the consent of more than half of the directors present at a board meeting attended by at least two-thirds of all directors and reported to the shareholders' meeting.
2. Basis for estimation of employee profit-sharing remuneration and directors' and supervisors' profit-sharing remuneration in this period, basis for the calculation of the number of shares for stock dividends to employees, and accounting treatment if the amount paid out is different from the estimated amount:  
The employee profit-sharing remuneration and directors' profit-sharing remuneration was appropriately estimated in accordance with applicable laws and regulations and the Articles of Incorporation and based on our past experience. Where there is a difference between the actual amount paid out and the estimated amount, it will be treated as a change in accounting estimates, and the difference will be recognized in profit or loss in the following year.
3. Information on the proposed distribution of employee dividends approved by the Board of Directors (2024.2.27):
  - (1) Amount of employee profit-sharing remuneration and directors' and supervisors' profit-sharing remuneration paid out in cash or stock. Where there is a difference with the estimated amount for the year, in which the expenses are recognized, the amount of difference, reason, and accounting



treatment shall be disclosed:

The distribution of employee profit-sharing remuneration and directors' profit-sharing remuneration for 2023 passed by the resolution of the Board of Directors on March 27, 2024 is as follows:

The employee profit-sharing remuneration in cash was in the amount of NT\$2,151 thousands, while the directors' profit-sharing remuneration in cash was NT\$2,151 thousands.

The amount of employee profit-sharing remuneration and directors' profit-sharing remuneration passed by the resolution of the Board of Directors is the same as that of employee profit-sharing remuneration and directors' profit-sharing remuneration recognized in expenses for 2023.

- (2) Employee profit-sharing remuneration paid out in stock as a percentage of the total net income after tax for the period/total employee profit-sharing remuneration:

The Company did not pay out employee profit-sharing remuneration in stock for the period, so it is not applicable.

4. Where there is a difference the employee profit-sharing remuneration and directors' and supervisors' profit-sharing remuneration for the prior year (including the number of shares distributed, amount, and stock price), the amount of the difference, reason, and accounting treatment shall also be specified.

No profit-sharing remuneration for employees and directors was paid for 2022 in accordance with the regulations due to accumulated losses, and there was no difference from the recognized expense amount.

(IX) Repurchase of the Company's shares: None.

## II. Issuance of corporate bonds:

(I) As of the publication date of this Annual Report, the corporate bonds issued by the Company are as follows:

Type of corporate bonds	The first domestic unsecured convertible corporate bonds
Date of issuance (offering)	May 27, 2022
Denomination	NT\$100,000
Place of issuance and trading	R.O.C.
Issue price	Issued at the face value
Total amount	NT\$300 million
Interest rate	Coupon rate: 0%
Duration	3 years; maturity date: 2025/5/27
Guarantee institution	Not applicable
Trustee	Trust Department, Hua Nan Commercial Bank
Underwriting institution	Taichung Bank Securities Co., Ltd.
Certifying attorney	Attorney Chiu, Shih- Fang, Dekai Law Firm
Certifying CPA	PwC Taiwan CPAs Feng, Min-Chuan and Hsu, Yung-Chien
Repayment method	Except that the holders of the convertible corporate bonds converted the bonds into the Company's ordinary shares in accordance with Article 10 of the Regulations, those redeemed early by the Company in accordance with Article 18 of the Regulations, or those repurchased by the Company from the OTC markets for cancellation, the Company will repay the convertible corporate bonds at 101.5075% of the face value of the bonds in cash in a lump sum when they mature.

Outstanding principal		NT\$23,100,000
Redemption or early repayment clause		See the Issuance and Conversion Regulations
Restrictive covenants		See the Issuance and Conversion Regulations
Rating agency, date of rating, and rating of corporate bonds		Not applicable
Other rights attached	Amount of those converted into ordinary shares as of the publication date of this Annual Report	NT\$276,900,000
	The Issuance and Conversion Regulations	See the Issuance and Conversion Regulations
Possible dilution of equity and impact on the existing shareholders' equity due to the regulations on the issuance, conversion, swap, or subscription, and terms of issuance		See the Issuance and Conversion Regulations for the issuance of the first domestic unsecured convertible corporate bonds.
Custodian of exchanged assets		None

(II) Information on convertible corporate bonds

NT\$ thousand

Type of corporate bonds		The first domestic unsecured convertible corporate bonds
Item	Year	May 27, 2022
Market price of convertible corporate bonds	Highest	227.00
	Lowest	100.80
	Average	160.62
Conversion price		26.46 (Note 1)
Date of issuance (offering) and conversion price prevailing at the time of issuance		Date: May 27, 2022 Conversion price upon issuance: NT\$27.93
Method of fulfilling conversion obligations		Fulfilling the conversion obligations by issuing new shares

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

(III) Information on swap of corporate bonds: No such situation.

(IV) Shelf registration of the issuance of corporate bonds: Number of corporate bonds transferred (exchanged) accepted: 2,769. (as of 2024/3/28)

(V) Information on corporate bonds with equity warrants: No such situation.

III. Issuance of preference shares: None.

- IV. Issuance of overseas depository receipts: None.
- V. Issuance of employee stock warrants and restricted stock awards: None.
- VI. Issuance of new shares in connection with mergers or acquisitions or with acquisitions of shares of other companies: None.
- VII. Implementation of funds utilization plan:

(I) Plan contents

Unit: NT\$ thousand

Project	Scheduled completion date	Total funds required	Scheduled fund application progress				
			2022			2023	
			Q2	Q3	Q4	Q1	Q4
Repayment of bank borrowings	2022.06.30	200,000	200,000	-	-	-	
Establishment of a solar power system	2023.03.31	100,000	21,000	47,000	1,300	21,000	9,700
Total		300,000	221,000	47,000	1,300	21,000	9,700

(II) Execution and benefit

As of the end of 2023, the construction of solar photovoltaic equipment had been completed and operating. The estimated expenditure was \$100 million, and the actual expenditure was \$96,993 thousand, with 100 % of the execution progress. Since the construction of the solar photovoltaic system was fully paid, the remaining funds were used as operating capital. Total revenue from electricity generation as of the end of 2023 was \$11,524 thousand, which was not materially different from the original estimated benefit.

## Chapter 5 Overview of Operations

### I. Business activities

#### (I) Business scope

##### 1. Main businesses engaged by the Company:

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

##### 2. Sales proportion:

##### (1) Proportion of sales by product

Unit: NT\$ thousand

Type of product	Sales for 2023	Business proportion
PU synthetic leather	122,762	76 %
PVC soft leather	8,167	5 %
Others	30,795	19 %
Total	161,724	100 %

##### (2) Proportion of sales by region:

Unit: NT\$ thousand

Region/Year	2023	%
Domestic sales	155,699	96%
Export	6,025	4%
Asia	161,724	4%

##### (3) Current products (services) of the Company

Category	Main products and functions
PVC Division	<p>Our main product is PVC plastic leather; the functions and items are as follows:</p> <ol style="list-style-type: none"> <li>1. Soft leather: After it is processed by special machinery, its soft texture is like genuine leather.</li> <li>2. Semi-PU: We adopted special paper grains from multiple countries to produce products that feel like genuine leather.</li> <li>3. Upper series: We adopt imitation leather and PU surface treatment, so they are available in various styles.</li> <li>4. Leather bag series: We adopt surface processing and treatment, so they are available in various styles with good quality.</li> <li>5. SILICONE series: Its various grains are like genuine leather and is available in various styles.</li> <li>6. Retro crazy horse leather: It features special surface treatment and retro imitation leather with special styles.</li> <li>7. Miscellaneous series: This series can be used to develop various products based on customers' needs.</li> <li>8. Sofa leather products: Special raw material formulas and surface treatment agents were developed to meet the physical property requirement for use. The leather can be specially processed with paper grains and wheels to express its particularity.</li> <li>9. Public seats, bus cushions, and yacht series: There are strict physical property requirements for such products. It features special surface treatment effects.</li> <li>10. Flame-resistant series: The flame resistant effect is improved with special raw material formula, and it passed the BS-5852 Lv.5 fire-proof standard.</li> </ol>
PU Division	<p>Its main products are dry and wet PU synthetic leather. The functions and items are as follows:</p> <ol style="list-style-type: none"> <li>1. Veneer PU: It focuses on different grains and surface treatment effects, bring various changes to the surface.</li> <li>2. High-solid smooth-finished leather: It features low solvent content and high wear resistance, with oil wax gloss.</li> <li>3. Solvent-free foamed PU: It is developed for shoe materials and is soft with a certain degree of elasticity and solvent-free.</li> <li>4. Dry PU: It features lightness, softness, and elasticity.</li> <li>5. Dry waterproof and breathable membrane: It features waterproof, breathability, and warm-keeping.</li> <li>6. TPU product: There can be a variety of surface grains and colors, as well as 3D paper grains, making it better than the general visual experience.</li> <li>7. Conductive PU leather: It can be used to develop gloves for the touch screens of smart phones.</li> </ol>

Category	Main products and functions
	8. PU waterproof strip: It can be widely used in the waterproof function of ready-made garments, shoe materials, and other various products. 9. High-solid PU products: It was developed for home decorations, miscellaneous items, and PU films and features high wear resistance and elasticity. 10. Transfer and lamination: It is applied to ready-made garment materials and other miscellaneous items and features 10K waterproof and breathability. 11. Reusable products: Stereoscopic fabric texture variation, applied to shoe materials and packaging materials, etc..

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

Plans for the most recent year	Current progress	The main factors influencing the success of future R&D
High-solid A7000	1. Softness 2. Development of high-solid foams 3. Continuous development of functional products 4. Development of completely solvent-free products with PUR machines. 5. Development of applications for the furniture market	1. Solvent-free to protect the environment 2. High physical properties 3. Continuous development of raw materials for new functional products. 4. New paper grains, color water, and patterns.
Full lamination rainbow film	1. The promotion of samples is gradually becoming effective. 2. The formula and process conditions are adjusted to the needs of each fabric. 3. We have received orders to produce some of the products	1. The stability of the raw material production process should be controlled 2. The width during machine processing should be controlled 3. It can be applied to the surface layer with high physical properties.
Continuous development of TPU sports shoe materials	1. Low DMF products 2. Chameleon laser product development. 3. Fusion cut product development. 4. New grain development. 5. New colors of crushed leather	1. The physical property of TPU has reached the requirements 2. Dye-colored water, effect, and grain variability 3. Addition of recycled materials
Development of reusable color-changing products	1. Special thermoplastic thickener 2. New colors of crushed leather 3. Three-dimensional fabric grains 4. Heat press embossing machine to show the fabric grains 5. Low DMF 6. Development of packaging materials markets.	1. The repeated flexing at room temperature should reach 100,000 times 2. It is wear resistant, and the stripping quality meets the requirements 3. A variety of fabric grains 4. Development of pearly-luster and chameleon colors. 5. Distinct effects by different printing grains 6. Development of crack color-changing effect
Sealing strips	1. Product launched in small to medium volume production. 2. Search for suitable PET film.	1. The product meets the market demand. 2. Flatness and elasticity. 3. Multi-functions, combined processing.
Development of silicone/rubber products	1. Search for special materials. 2. It should be anti-slip. 3. Flame resistant.	1. The product meets the market demand. 2. Multi-functional. 3. Development for furniture and automotive markets.
High opacity PU films for curtains	1. Eco-friendly materials are used instead. 2. High opacity is for lightproof feature.	1. The product meets the market demand. 2. Sufficient opacity makes it suitable for curtains.
Development of wear-resistant rainbow films and breathable rainbow films	1. The promotion of samples is gradually becoming effective. 2. Various characteristics added to enhance its diversity. 3. We have received orders to produce some of the products	1. The product meets the market demand. 2. The product diversity should be enhanced to increase its popularity in the market. 3. The stability of the raw material production process should be controlled. 4. The width during machine processing should be controlled.
PMMA decorative materials and automobile/scooter trims	1. It is weather resistant without being delaminated in the environmental test. 2. It is scratch-resistant and hydrolysis-resistant. 3. We continue to develop functional products and are promoting the samples.	1. It should be able to be processed with excellent plasticity. 2. A variety of grains and dye-colored water. 3. It should be able to be widely applied in the market and by a wide customer base.
PVC products	1. Eco-friendly recycled material PVB. 2. Development of functional products. 3. Applied to packaging materials, furniture market.	1. It should be able to be processed with excellent plasticity. 2. A variety of grains and dye-colored water. 3. Eco-friendly recycled material.
DMF-free PU film	1. Developed in reflection of market demand. 2. In line with the environmentally friendly concepts in response to the issue of reducing	1. In pursue of market issue. 2. Existing physical properties also taken into account.

Plans for the most recent year	Current progress	The main factors influencing the success of future R&D
	DMF.	
PP film process products	<ol style="list-style-type: none"> <li>1. Developed in reflection of market demand.</li> <li>2. In line with the environmental protection concepts in response to the issue of banning fluorinated materials</li> </ol>	<ol style="list-style-type: none"> <li>1. In pursue of market issue.</li> <li>2. The objective of the environmental issue has been achieved in terms of replacement of existing materials.</li> <li>3. Comparable to existing physical properties.</li> </ol>

(II) Industry overview:

1. Status and development of the industry

(1) PVC plastic leather:

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

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

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

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

Main PVC products:

- (A) Sofa leather products: Used in the processing of various sofa products. Its values, beauty, and styles will increase when genuine leather is adopted. It is a fashionable and practical. It can be processed to have different paper grains, embossed patterns, and dye-colored water, including luminous colors, pearlescent, and glitter; it can be available with layered color effects or with different thicknesses. It can be processed through different surface treatments to increase the diversity, changeability, and applicability. The physical and chemical properties of the products should be in compliance with the U.S. and EU regulations to increase their market competitiveness and safety functions. We improved the acid and alkali resistance, grease resistance, high wear resistance, and alcohol resistance of the surface so that they can be widely used for special functional requirements.
- (B) Automotive interior products: Used in vehicle interior materials and should be beautiful and durable after being processed. The products can also undergo various printing treatments and grain processing to increase the diversity and changeability. The products need to meet various physical and chemical property requirements. The Company has been certified by the domestic Automotive Research & Testing Center (ARTC), to ensure beautiful appearance, applicability, and safety.
- (C) Soft leather products: Used in bicycle seat cushions, leather bags, medical devices, massage chairs, strollers, slippers, book covers, jewelry boxes, decorative panels, anti-slip gloves, headset covers, and ready-made garments. The product can be made with different paper grains and embossed, so that the products are available in a variety of grains and layers of surface patterns. It can also undergo printing processing and be processed with dye-colored water to imitate the sense of genuine leather, thereby meeting different customers' needs. In addition to meeting customers' requirements for physical and chemical properties, it can be treated or processed in different ways to replace the increasingly scarce genuine leather.

(2) PU synthetic leather:

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

The Company's PU factory was established in 1994, mainly producing environmental PU materials.

At present, its main production equipment includes two wet coating machines, one dry coating machines, and two breathable PU film coating machines.

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

Main PU products:

- (A) TPU products: Used in the processing of sports shoes. At present, TPU products are developed and produced for NIKE, ADIDAS, ASCIS, MIZUNO, UA, NB, etc., with hot-melt adhesives. We processed sports shoes through no-sew processing produced by NO-SEW, which are lightweight, beautiful, and diverse with the sports and leisure functions. TPU products can be processed to have different paper grains and dye-colored water, including luminous colors, pearlescent, and glitter, with translucent and opaque effects and different thicknesses. TPU products can be processed through different surface treatments to increase the diversity and changeability
- (B) PU breathable film: It features water pressure resistance and high breathability and is suitable for the processing of waterproof and breathable casual clothing. It is soft, easy to be processed, and high-temperature resistant.  
The film can undergo printing treatment to have various patterns printed on it, creating diverse styles and options suitable for different seasons.

The thickness of the film is thin and lightweight, meeting the requirements of modern fashion for thinness and lightweight.

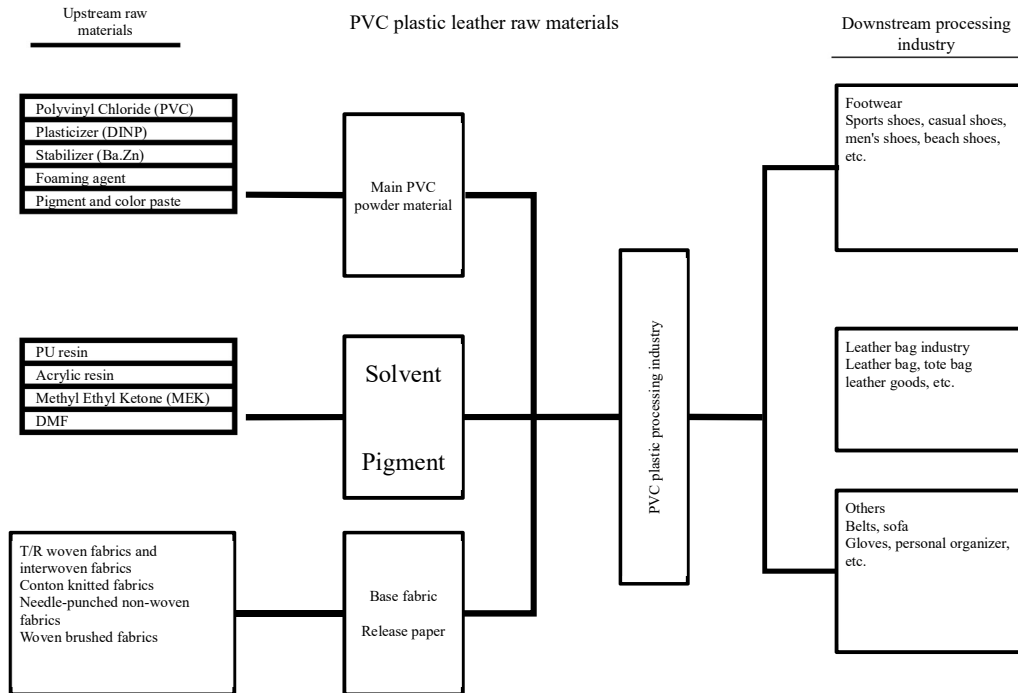
The film can go with PTFE lamination products, with an emphasis on high water pressure resistance, washing resistance, high breathability, to increase its added value.

The film is available in transparent and white colors and there are other colored films; they can also be developed with different grains and thicknesses.

- (C) PU synthetic leather: We can produce wet PU with different paper grains or embossed patterns depending on customers' needs; can undergo various treatments or processing to replace the increasingly scarce genuine leather; it can be applied to shoe materials, fitness equipment, ready-made garments, leather bags, gloves, headsets, etc.
  - (a) PU veneer products:
    - Embossed products: Products can be embossed with different grains, leading to different textures on the surface.
    - Printing treatment: It allows the product to be leathery and diverse.
  - (b) Dry PU is lightweight and elastic and can undergo surface treatment.
  - (c) Crazy horse leather features oil wax, rich velvet feeling, with the sense of genuine leather and retro.
  - (d) Anti-slip leather features anti-slip effect and is used in ski gloves and other anti-skid processing purposes, and can be conductive. It can be used to develop gloves that can use touch products, such as smartphones.
- (D) New PUR equipment purchased can be used to develop and replace the crude oil adhesive layer to reduce the solvent content of products. With a solvent-free layer, products can be completely solvent-free.

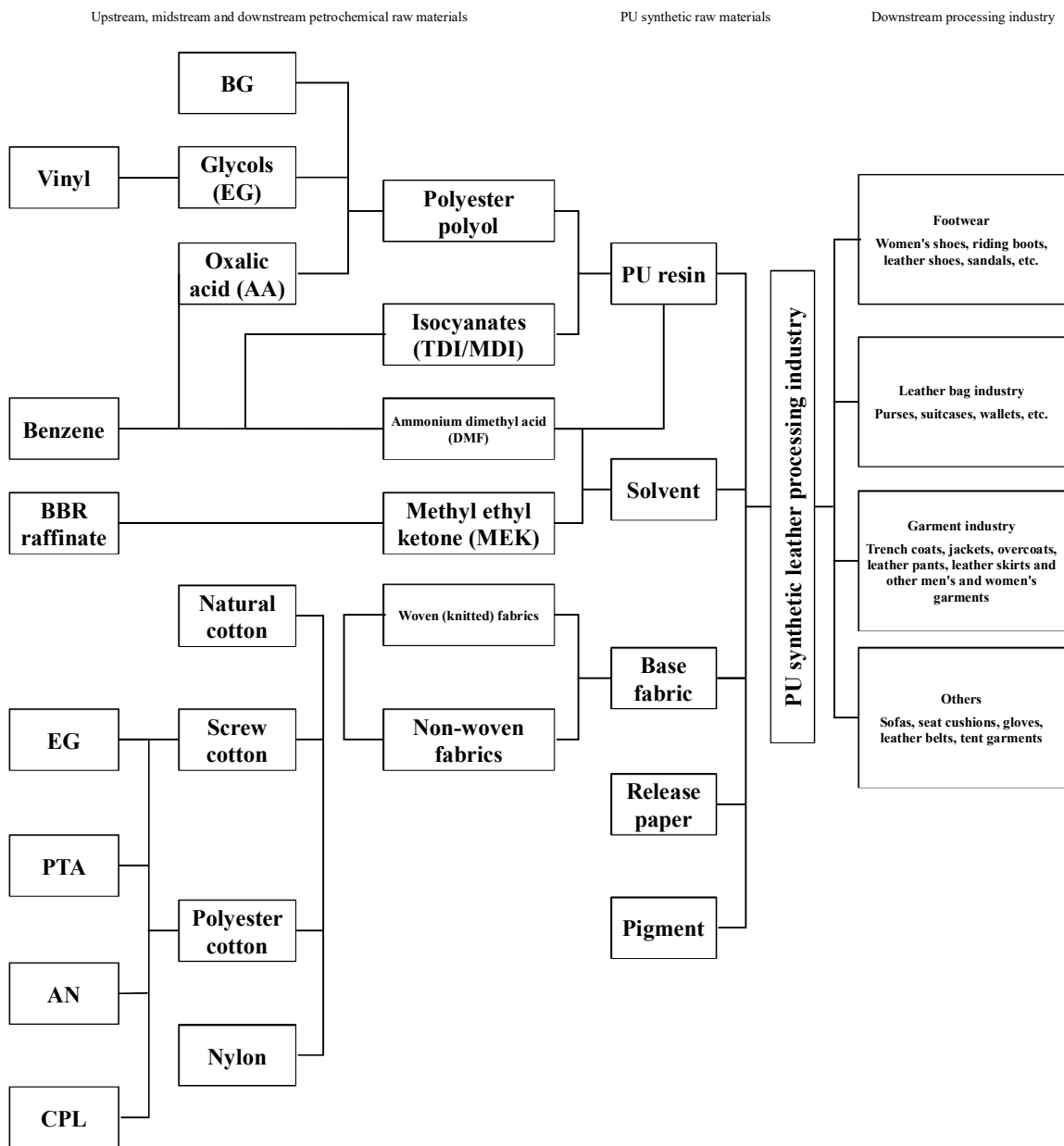
## 2. The relations between the up-, mid-, and downstream industries:

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





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



3. Various development trends and competition of products:

(1) Development trend of products:

PVC soft leather:

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

PU synthetic leather:

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

(2) Situation of market competition:

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

(III) Technology and R&D:

(1) Technological capabilities and overview of R&D

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

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

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

Unit: Person

Item \ Year	2022		2023		2024 up to March 31, 2024	
	Number of people	%	Number of people	%	Number of people	%
Master's degree or above	1	33.33	1	33.33	1	33.33
University	1	33.33	1	33.33	1	33.33
Junior college or below	1	33.34	1	33.33	1	33.34
Total	3	100.00	3	100.00	3	100.00

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

Unit: NT\$ thousand

Item \ Year	2022	2023
R&D expenses	5,345	3,166
Operating revenue, net	325,363	161,724
R&D expenses as a percentage of operating revenue, net	2%	2.0%

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

Year	Specific R&D achievements
2022	<ol style="list-style-type: none"> <li>1. Developed high-solid, single-film LOGO products.</li> <li>2. Developed ADDIDAS RECYCLE products.</li> <li>3. Developed single-sided PU layer for garments.</li> <li>4. Developed customized low permeability films.</li> </ol>
2023	<ol style="list-style-type: none"> <li>1. Developed PP film process composite products</li> <li>2. Developed customized low permeability films.</li> <li>3. Developed sealing strip products</li> <li>4. Developed fusion cut TPU for shoes</li> </ol>

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

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

(1) Short- and medium-term plans:

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

(2) Long-term business development plan

- A. Enhance development capabilities and mass production capacity and shorten delivery time
- B. Talent development
- C. Dispose and make good use of idle assets
- D. Develop waterproof and breathable PU films
- E. Develop automotive materials
- F. Develop yacht materials
- G. Develop multiple versions of overprint sofa leather products
- H. Develop breathable sofa leather products
- I. Develop high-solid solvent-free products
- J. Develop cut-resistant PU leather
- K. Development of reusable products
- L. Develop office desk and chairs and outdoor dining chairs

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

### 1. Market analysis

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

Unit: NT\$ thousand

Region \ Year		2022		2023	
		Sales	%	Sales	%
Domestic sales	Taiwan	311,765	96	155,699	96
Export	China (including Hong Kong)	1,694	1	-	-
	Japan	11,815	3	5,008	3
	Others	89	-	1,017	1
Subtotal of export		13,598	4	6,025	4
Total		325,363	100.00	161,724	100.00

#### (2) Market share

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

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

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

- ① Facing the casual style trend in recent years, we have developed waterproof and breathable ready-made full-lamination products. Its lightweight, thinness, shortness, and functionality are the future trends. With well-known brands taking the lead in the casual-style products, our products will be more widely used.
- ② Our TPU environmental materials can be applied to high-frequency, no-sew processing and can be used in sports shoes and leisure sports products. This product will help to increase our revenue and profits.
- ③ In recent years, we have developed products well received by the market, such as furniture decoration materials, massage chairs, car seat covers, and medical devices. In the future, we aim to expand into the overseas furniture markets and develop automotive leather.

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

##### ① Favorable factors

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

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

##### B. Product application areas are expanded with new needs arising

With the R&D of new materials, the scope of applications will be further expanded. For example, new synthetic leather, high-end artificial synthetic leather on the basis of microfiber, can be applied to high-end sports shoes and furniture items, to create new needs. To pursue lightweight automobiles and eco-friendly manufacturing processes, plastic materials for automotive components are developing rapidly in the future and can even be applied to medical devices, such as PVC leather gloves and toys, further expanding the scope of plastic processed products. The Company has laid a foundation for R&D for many years with complete product lines, and we have integrated customers' needs and our customized R&D capabilities, as we have long maintained the Company's product competitiveness and are able to diversify the risk of changes in the market demand.

##### C. Market growth in the post-pandemic era

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

- D. We have established a good reputation through long-term development of the local market. We have been developing the local market for a long time and in the industry for more than 50 years. Our production technology, R&D capabilities, and distribution channels have been well-developed with a good reputation.
- ② Unfavorable factors and countermeasures
- A. The global environmental awareness is increasing, and countries have stipulated more stringent environmental regulations.  
With the increasing global environmental awareness, the relevant environmental protection regulations in the plastics industry are becoming more stringent, and it will raise the Company's operating costs and effect product promotion.  
Countermeasures:  
We have pollution prevention and control equipment in place and require that all product processes should be in compliance with the environmental laws and regulations, while improving the processes, adopting non-toxic solvents or reducing the use of solvents, reducing waste, and continuing to develop eco-friendly composite PU leather.
- B. It is estimated that the international oil prices will witness an upward trend, putting pressure on the plastic leather industry with increased cost of purchases  
In 2021, international oil prices continued to rise due to multiple factors, including global economic recovery, low inventories, and insufficient production capacity from 2020. The outbreak of the Russo-Ukrainian War in February 2022 has sent the fluctuating energy prices to continue to soar. As the international oil price is estimated to continue to rise, driving the prices of chemical materials to rise, it is necessary to pay close attention to the unfavorable factors of rising raw material prices, and the plastic leather companies still need to face the challenge of increasing purchasing costs.  
Countermeasures:  
In addition to strictly controlling costs, we will maintain stable supply with suppliers and adjust selling prices in a timely manner.
- C. Neighboring countries expand their production capacity and the market competition is fierce, reducing the profit margins  
Neighboring countries, such as South Korea, mainland China, and Southeast Asian countries, have continued to expand their production capacity and improved their technologies in recent years, posing a threat of low-price competition to Taiwan's companies.  
Countermeasures:  
In addition to maintaining the production and sales of our existing products, we are committed to differentiating our products of to avoid low-price competition. We will provide a variety of material solutions in alignment with customers' needs, develop long-term partnerships with customers, and enhance our R&D and sales of high value-added products to avoid low-price competition. In addition, we will keep abreast of customers' procurement trends and invest in the establishment of overseas factories in a timely manner.

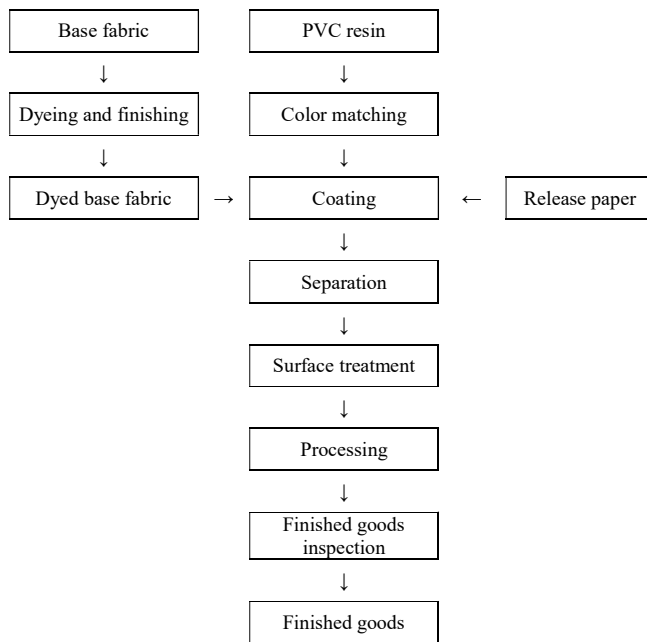
## 2. Important functions and production processes of main products

### (1) Important applications of main products

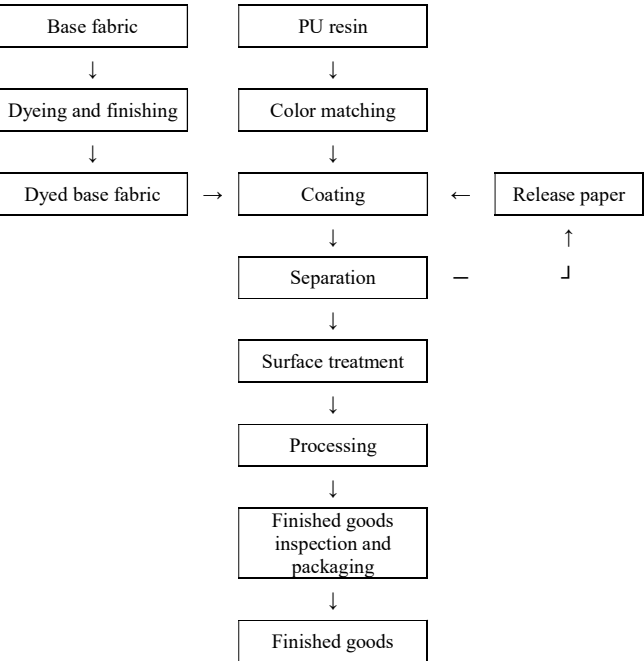
Main products	Important functions
PVC plastic leather	Raw materials for leather bags, shoes, toys, gloves, chair cushions, sofa, decorative panels, bus seats and car interior materials, and car leather.
PU synthetic leather	Raw materials for ready-made garments, leather bags, footwear, camera covers,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

## 2. Production process:

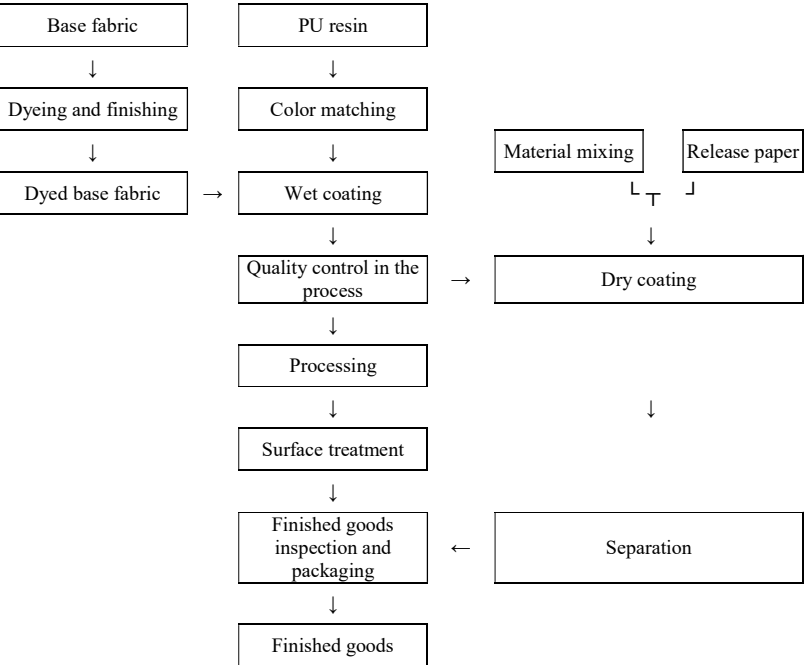
### (1) Manufacturing process of PVC soft leather



(2) Manufacturing process of dry PU synthetic leather



(3) Manufacturing process of wet PU synthetic leather



## (III) Supply of main raw materials

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

## (IV) Suppliers (Customers) accounting for at least 10% of purchases (sales) in the most recent two years

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

Unit: NT\$ thousand

Item	2022				2023				1Q2024			
	Name	Amount	Percentage (%)	Relations with the issuer	Name	Amount	Percentage (%)	Relations with the issuer	Name	Amount	Percentage (%)	Relations with the issuer
1	Supplier A	31,665	19	None	Supplier A	13,553	16	Parent company of the Company	Supplier A	6,510	22	Parent company of the Company
2	Supplier B	21,497	13	None	Supplier B	11,616	15	None	Supplier B	3,318	11	None
3												
4	Others (less than 10%)	116,280	68	None	Others (less than 10%)	56,209	69	None	Others (less than 10%)	19,585	67	None
	Net purchase amount	169,442	100		Net purchase amount	81,378	100			29,413	100	

Reason for increase/decrease:

Our main raw materials are resin, solvent, plastic powder, release paper, and pigments. The main suppliers' production capacity, quality, and stability are in good condition. The main change in the purchase amount is due to the year's orders received and our production and sales strategy. Suppliers A and B each accounted for at least 10% of our net purchase amount in the most recent two years. Company A, the parent company of the Company, has been mainly selling to the Company resin raw materials since 1992. The reason for the increase in purchases for the period was driven by the Company's objective to diversify the sources of raw materials, so as to increase bargaining power with suppliers and to save costs of raw materials.

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

Unit: NT\$ thousand

Item	2022				2023				1Q2024			
	Name	Amount	Percentage (%)	Relations with the issuer	Name	Amount	Percentage (%)	Relations with the issuer	Name	Amount	Percentage (%)	Relations with the issuer
1	Client A	112,875	35	None	Customer A	58,454	36	None	Customer A	21,351	41	None
2	Customer B				Customer B				Customer B	5,660	11	None
3	Others (less than 10%)	212,487	65	None	Others (less than 10%)	103,159	64	None	Others (less than 10%)	25,396	48	None
	Net sales	325,362	100		Net sales	161,724	100		Net sales	52,407	100	



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

Unit: NT\$ thousands; thousand yards

Production volume and value Product	Year	2022			2023		
		Production capacity	Production volume	Production value	Production capacity	Production volume	Production value
PVC soft leather		500	358	62,587	-	15	2,438
PU synthetic leather		10,000	8,178	178,408	10,000	4,698	130,139
Total		10,500	8,536	240,995	10,000	4,713	132,577

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

Unit: NT\$ thousands; thousand yards

Sale volume/value Main products	Year	2022				2023			
		Domestic sales		Export		Domestic sales		Export	
		Volume	Value	Volume	Value	Volume	Value	Volume	Value
PVC soft leather		297	39,545	67	11,815	56	8,167	0	0
PU synthetic leather		8,149	214,234	71	1,783	4,202	121,744	35	1,018
Others			57,986				25,788		5,007
Total		8,446	311,765	138	13,598	4,258	155,699	35	6,025

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

Year		2022	2023	March 20, 2024
Number of employees	Direct labor	33	19	19
	Indirect labor	18	24	23
	Total	51	43	42
Average age		48.02	49.58	49.32
Average years of service		8.01	8.87	8.18
Distribution of education attainment	Master's degree or above	3.92%	4.65%	4.76%
	University	15.69%	18.60%	19.05%
	Junior college or below	80.39%	76.75%	76.19%

IV. Information on environmental protection expenditure:

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

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

Name of permit	Permit No.	Permit period
Simple permit document for wastewater (sewage) discharged to surface water bodies	Per Letter Nan-Shi-Fu-Huan-Shui No. 01629-07	August 4, 2023 to August 3, 2028
(Wet) PU leather manufacturing procedure (M01) (220002)	Per Letter Nan-Shi-Huan-Kong-Cao-Zheng No. D0592-01	November 23, 2021–September 3, 2024
(Dry) PU leather manufacturing procedure (M02)(220002)	Per Letter Nan-Shi-Huan-Kong-Cao-Zheng No. D0966-00	October 20, 2022–October 19, 2027
Heating medium heating procedure (M05) (000002)	Per Letter Nan-Shi-Huan-Kong-Cao-Zheng No. D0798-00	May 18, 2023 to May 17, 2028

- Pollution prevention and control fees payable: We paid a total of NT\$604 thousands for air pollution prevention and control and a total of NT\$210 thousands for soil and groundwater pollution remediation fees during 2023.

(3) Personnel in the unit dedicated to environmental protection should be appointed.

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

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

December 31, 2023/Unit: NTS

Equipment	Number	Date of acquisition	Investment cost	Unreduced balance	Functions and estimated benefits
DOP recycling equipment	1 unit	1995.11.30	6,402,000	106,354	The air pollution from the plasticizers is condensed into waste oil for subsequent treatment.
Wastewater treatment equipment	1 unit	1991.12.31	9,374,295	0	The sewage produced by factories is treated to the standard for discharge.
Exhaust gas treatment equipment	1 unit	2017.5.22	3,095,000	785,274	The exhaust gas produced by factories is treated to the standard for emissions.

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

## V. Labor-management relations:

- The Company's various employee benefit measures, continuing education, training, pension system, and implementation thereof, as well as labor-management agreements and various employee rights protection measures
  - Employee welfare measures:
    - In accordance with the Employee Welfare Fund Act, all employees of the Company join the "Employee Welfare Committee", which meets regularly to discuss issues related to employee welfares.
    - The Committee is responsible for handling various employee benefits and contributes the welfare funds depending on the Company's monthly revenue, employee salaries, and the sales of scrap.
    - The Employee Welfare Committee handles the matters, including employee travel, monthly birthday gifts, gifts upon three major holidays, an employee military service subsidy, funeral and wedding allowances, a childbirth subsidy, teambuilding activities, and group insurance.
      - Information on the activities during 2023:
        - Three-day trip to Penghu, June 11 - June 13, 2023
        - Mid-Autumn barbecue, September 16, 2023
        - Family day trip for employees, November 5, 2023.
  - Continuing education, training, and implementation
 

The Company provides employees with a suitable and effective learning environment, and the training personnel proactively assist new employees in solving problems, so that employees can feel the joy of learning and are willing to take the initiative to learn and achieve their performance improvement goals. Based on the job requirements of employees and the overall environment of the Company, we provide a wide range of external training courses to strengthen employees' professional skills and encourage them to continue learning in order to achieve good learning results.

● On-the-job training for employees during 2023

Training date	Course title	Lecturer	Number of participants	Lecture hours
2021/12/28	Protection from Induction Hazards	Hsieh, Chin-Te	88	1.5
2022/06/29	Hazard Identification and Control of Roll Clamps	Huang, Tsai-Chih	77	1.5
2022/12/29	Case Study on Fire and Explosion Disaster and Discussion of Preventive Practices	Huang, Tsai-Chih	70	1.5
2023/04/18	Achievements in Self-defense Fire-fighting Group Training	Tsai, Yueh-Hsun	44	4
2023/06/21	Regulations Related to Fixed Crane Regulations, Disaster Cases and Accident Prevention	Huang, Tsai-Chih	64	1.5
2023/10/23	Achievements in Self-defense Fire-fighting Group Training	Tsai, Yueh-Hsun	44	4
2023/12/05	Hazardous Chemicals Classification and Label Identification, Disaster Cases and Accident Prevention	Hsieh, Chin-Te	63	1.5
2023/12/11	Comprehensive Exercise on Toxic Chemical Disasters	Chan, Chin-Ju	44	1.5
2023/12/11	Exercise on Air Pollution Emergency	Chan, Chin-Ju	44	1.5
2023/12/14	Promotional Education on the Ethical Management Best Practice Principles and Prevention of Unethical Behavior	Cheng, Yu-Tang	11	1
2023/12/15	Promotional Education on the Ethical Management Best Practice Principles and Prevention of Unethical Behavior	Cheng, Yu-Tang	30	1

(3) Employee retirement system and implementation

- ① We have established a Supervisory Committee of Labor Retirement Reserve in accordance with the old scheme of the pension system for employees who chose the old scheme under the Labor Standards Act and make a monthly contribution, equal to 15% of employees' total monthly salary and wages, to the retirement reserve account with Bank of Taiwan in the name of the committee. The pensions shall be made from the account, and the Company shall make up for any insufficiency. Retirement criteria shall be subject to the Labor Standards Act. 2 employees retired in 2023.
- ② For employees who chose the new scheme of the pension system under the Labor Pension Act, we make a monthly contribution, equal to 6% of employees' monthly salary and wages, to employees' individual pension accounts with the Bureau of Labor Insurance.

(4) Labor-management agreements

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

(5) Protection measures for various employee rights

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

(6) Work environment and employee personal safety protection measures

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

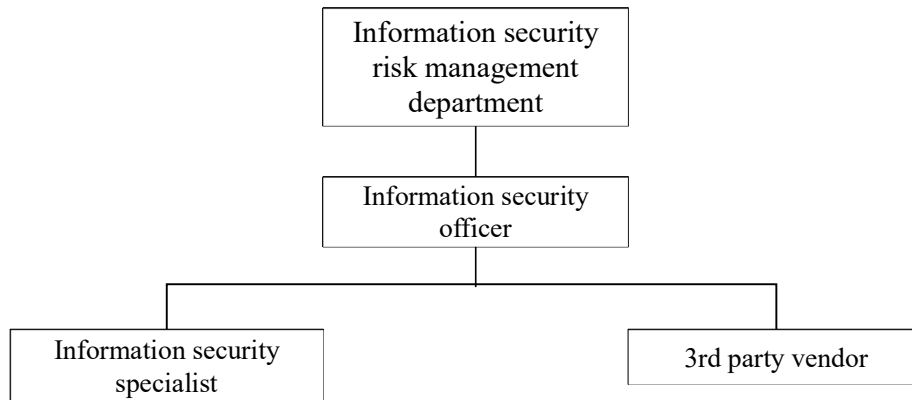
- ① Management at all levels should pay close attention to their employees' safety and health and guide them where appropriate.
- ② Safety and health administrators at all levels should pay attention to whether there is any unsafe situation at any time and rectify and report unsafe practices at any time.
- ③ We should regularly pay attention to and maintain all safety and health facilities in the plants to maintain their effectiveness. If any unusual situation is discovered, we should respond or adopt other necessary measures immediately.
- ④ The Company regularly organize health examination for employees in accordance with laws and regulations and should bear all the costs.

- ⑤ The Management Section is responsible for notifying, announcing, or keeping meeting records of occupational safety awareness-raising events, exercises, and training, and keeping the implementation documents.
  - ⑥ Safety rules for management:
    - A. Management should be responsible for preventing accidents and clearly understand the safe operating procedures for the work they supervise.
    - B. When any dangerous situation may put personnel or equipment in danger, management should be responsible for immediate improvement. If an improvement cannot be made, they should immediately report to their supervisors.
    - C. Without any management's prior consent, personnel are not allowed to carry out any repair or adjustment operations in departments other than theirs.
    - D. The management in charge of production equipment should check the pressure of pipelines and equipment in person before the repair personnel begin their repair work or make sure that the liquid that should be drained has been completely drained or that the equipment that should avoid collision is temporarily protected when necessary.
  - ⑦ General safety rules
    - A. The safety and health equipment in place shall not be dismantled or rendered ineffective without permission. When safety and health equipment is found to be dismantled or rendered ineffective, workers should report to their supervisor immediately.
    - B. Workers should be familiar with their plans and safety requirements for the work they do to prevent hazards.
    - C. In dangerous work areas or places, workers should pay attention to all danger signs set up and follow accordingly.
  - ⑧ Each employee should duly follow the various operating safety rules set by the Company. Various operating principles include fire, electrical safety, material transport and storage, machinery safety, hand tools, protective equipment, forklift operation, boiler operation, lift standard operation, and hanging operation best practice principles; organic solvent use guidelines, work rules for operations with special chemical substances, as well as general health, ventilation and exhaust, lighting rules, and first aid rules.
  - ⑨ We formulated outsourced operations management regulations to clearly set out the regulations and fire control measures for contractors carrying out work in our plants.
2. Please specify the losses suffered due to labor disputes in the most recent two years and the current year up to the publication date of this Annual Report, the estimated potential amount at present and in the future, and countermeasures. If the amount cannot be reasonably estimated, please specify the fact that it cannot be reasonably estimated
- (1) The Company did not suffer financial losses due to labor disputes in the most recent two years and the current year up to the publication date of this Annual Report.
  - (2) We abide by the Labor Standards Act and the applicable laws and regulations, and the Company and workers have formed positive interactive relations, so it is predicted that there will be no such losses in the future.

## VI. Cyber security management

- (I) Specify the cyber security risk management framework, policy, specific management plans, and resources put in cyber security management.
  - 1. On December 22, 2023, the Company set up the organizational structure for information security management with a dedicated information security officer and a dedicated information security specialist, which was presented to the Board of Directors.
  - 2. Information security risk management framework.

## Organizational structure for information security management



### 3. Cyber security management policy

In order to effectively implement the information security management system to ensure the security of data, systems, equipment and networks, the Company has formulated regulations for computer hardware and software management related to information application, regulations for system host management, and measures for information security related evaluation as guidelines for the implementation, evaluation and audit of information security management work, so as to ensure the sustainable operations of each of the Company's information systems, the integrity, validity, availability, and security of the information belonging to the Company, and to enforce compliance with the laws and regulations relating to cyber security.

### 4. Specific management plans and the resources put in cyber security management

The cyber security policies and specific management plans are described below:

- (1) The cyber security management policy: In order to ensure the information security of the Company, the cyber security audit checklist is used annually to evaluate the information security policy, organizational security, asset classification and control, personnel security, physical and environmental security, communication and operation management, access control, system development and maintenance, management of continuous operations, and compliance with relevant laws and regulations and the audit unit also conducts random re-audit.
- (2) Cyber security management measures:
  - 1) Computer room and electricity: Control access of personnel, environmental monitoring, and regular inspection of the uninterruptible power supply system.
  - 2) Host management: Introduce a virtualized fault-tolerant redundancy framework to avoid the impact of failures, and at the same time, regularly back up data and perform off-site storage, etc., establish clear management specifications, and regularly carry out recovery exercises in accordance with the regulations.
  - 3) Network management: Provide for internal protection mechanism, VPN control and usage notification, backup equipment for each major device to minimize the impact of failures, and lease certified network attack protection, spam filtering and virus filtering protection, and the Chunghwa Telecom Information Security Fleet services to provide double protection.
  - 4) Computer control: Introduce computer asset management system to control the Company's computers in real time, to keep track of computer abnormalities, the legal use of computer software, the activation of mandatory protection software, and the disposal of end-of-life.
  - 5) Account control: All system privileges are subject to application and approval review, personnel transfer and separation privilege inspection, and annual review and verification of personnel privileges.
  - 6) System development: Establish specific operating procedures and regulations for system operation privileges, access management, function changes, and problem solving.
  - 7) Education and promotion: Promote the concept of security immediately after the delivery of the machine, conduct regular training for new employees, and announce high-risk information from time to time to remind employees to enhance the concept of security.
  - 8) Organizational management: Appoint dedicated information management department and personnel, and regular report to the top management on the status of implementation and operations.

## II. Specify the losses incurred due to major cyber security incidents, potential impacts, and

countermeasures in the most recent year and the current year up to the publication date of this Annual Report.

If the amount cannot be reasonably estimated, please specify the fact that it cannot be reasonably estimated

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

## VII. Important contracts

The supply and sales, technical cooperation, engineering, long-term loan, and other important contracts that could affect shareholders' rights and interest that are still valid during 2023 and 2024 up to March 31, 2024 and expired in the most recent year:

Category of contract	Counterparty	Start and end dates	Main contents	Restrictive covenants
Loan contract	Mega International Commercial Bank	2023/08/27 ~2024/08/26	1. Credit line: NT\$220,000 thousand 2. Interest rate: Based on TAIBOR for three or six months, plus 1% 3. Collateral: Plants 1 and 4 in Xuejia	None
Loan contract	TAIWAN BUSINESS BANK, LTD.	2023/08/01 ~2024/08/01	1. Credit line: NT\$90,000 thousand 2. Interest rate: Floating rate for one-year time deposits + 0.26% 3. Collateral: Plant 1 in Xuejia	None
Loan contract	Taichung Commercial Bank	2023/12/19 ~2024/12/19	1. Credit line: NT\$50,000 thousand 2. Interest rate: Time deposit monthly rate index, plus 0.91%	None
Loan contract	Bank of Panhsin	2022/05/30 ~2025/05/30	1. Credit line: NT\$50,000 thousand 2. Interest rate: Time deposit monthly rate + floating rate of 0.81%	None
Loan contract	Yuanta Commercial Bank	2023/08/27 2024/08/26~	1. Credit line: NT\$30,000 thousand 2. Interest rate: Time deposit rate index + floating rate of 0.43%	None
Loan contract	First Commercial Bank	2023/07/10 ~2024/07/09	1. Credit line: NT\$65,000 thousand 2. Interest rate: Floating rate for three-month time deposits + 0.79% for a loan with duration of less than three months; Floating rate for one-year time deposits + 0.6% for a loan with duration of more than three months. 3. Total drawn amount from the credit line shall not exceed \$50,000 thousand.	None
Loan contract	CTBC Bank	2023/01/13 ~2025/01/13	1. Credit line: NT\$49,500 thousand 2. Interest rate: TAIBOR(1M)+1.74%	None

## Chapter 6 Overview of Financial Information

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

#### (I) Condensed balance sheet and statements of comprehensive income

##### (1) Condensed balance sheet - consolidated: Not applicable

##### (2) Condensed balance sheet - standalone (individual)

Unit: NT\$ thousand

Item	Year	Financial data for the most recent five years				
		2023	2022	2021	2020	2019
Current assets		406,543	347,404	280,015	526,432	566,349
Property, plant and equipment		637,095	651,073	531,523	549,021	547,615
Intangible assets			-	-	-	-
Other assets		505,670	443,466	447,924	105,302	110,873
Total assets		1,549,308	1,441,943	1,259,462	1,180,755	1,224,837
Current liabilities	Before distribution	512,256	257,586	270,716	250,868	176,894
	After distribution	Not distributed yet	257,586	344,966	271,868	260,894
Non-current liabilities		83,713	355,104	41,398	50,691	54,831
Total liabilities	Before distribution	595,969	612,690	312,114	301,559	231,725
	After distribution	Not distributed yet	612,690	386,364	322,559	315,725
Equity attributable to owners of parent company		953,339	829,253	947,348	879,196	993,112
Share capital		675,000	675,000	700,000	700,000	700,000
Capital surplus		9,252	9,252	-	-	-
Retained earnings	Before distribution	269,042	144,956	297,227	179,196	293,112
	After distribution	Not distributed yet	144,956	222,977	158,196	209,112
Other equity		45	45	-	-	-
Treasury stock		-	-	(49,879)	-	-
Non-controlling interests		-	-	-	-	-
Total equity	Before distribution	1,549,308	829,253	947,348	879,196	993,112
	After distribution	Not distributed yet	829,253	873,098	879,196	993,112

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

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

Note 3: The above figures after distribution are based on the resolution of the shareholders' meeting in the following year.

##### (3) Condensed statement of comprehensive income - consolidated: Not applicable

## (4) Condensed statement of comprehensive income - standalone (individual)

Unit: NT\$ thousand

Item \ Year	Financial data for the most recent five years (Note 1)				
	2023	2022	2021	2020	2019
Operating revenue	161,724	325,363	365,000	332,962	422,923
Gross profit	9,119	61,708	61,736	47,885	60,034
Operating income	(30,121)	17,250	18,589	9,497	11,092
Non-operating income and expenses	154,815	(55,204)	121,647	36,220	106,128
Net income before tax	124,694	(37,954)	140,236	(26,723)	117,220
Net income from continuing operations for the period	123,459	(41,198)	136,765	(26,723)	117,220
Loss on discontinued operations			-	-	-
Net income (loss) for the period	123,459	(41,198)	136,765	(28,429)	114,194
Other comprehensive income for the period (net of tax)	627	1,106	2,266	(1,487)	3,738
Total comprehensive income for the period	124,086	(40,092)	139,031	(29,916)	117,932
Net income attributable to owners of parent company	124,086	(40,092)	139,031	(29,916)	117,932
Net income attributable to non-controlling interests				-	-
Total comprehensive income attributable to owners of parent company	124,086	(40,092)	139,031	(29,916)	117,932
Total comprehensive income attributable to non-controlling interests				-	-
Earnings per share	1.83	(0.61)	1.96	(0.41)	1.63

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

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

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

Year	Name of the attesting CPA	Audit opinion
2019	Wu, Han-Chi and Hsu, Sheng-Chung	Unqualified opinion
2020	Hsu, Sheng-Chung and Hsu, Yung-Chien	Unqualified opinion
2021	Feng, Min-Chuan and Hsu, Yung-Chien	Unqualified opinion
2022	Hsu, Chen-Lung and Chen, Kuo-Tsung	Unqualified opinion (Note 1)
2023	Hsu, Chen-Lung and Chen, Kuo-Tsung	Unqualified opinion

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



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

(I) Financial analysis - consolidated: Not applicable

(II) Financial analysis - standalone (individual)

Analysis item \ Year (Note 1)		Financial analysis for the most recent five years				
		2023	2022	2021	2020	2019
Financial structure (%)	Debt ratio	38.47	42.49	24.78	25.54	18.92
	Ratio of long-term capital to property, plant and equipment	162.78	181.91	186.02	169.37	191.36
Solvency (%)	Current ratio	79.36	134.87	103.43	209.84	320.16
	Quick ratio	73.31	116.93	81.34	180.64	284.32
	Interest coverage multiplier	12.55	(5.61)	66.81	(13.66)	93.52
Operating performance	Accounts receivable turnover (times)	4.44	6.41	6.83	5.97	6.76
	Average collection period (days)	82	57	53	61	54
	Inventory turnover (times)	4.41	5.46	4.80	4.30	5.17
	Accounts payable turnover (times)	9.98	12.91	11.93	10.85	10.25
	Average days in sales	82.77	67	76	85	71
	Property, plant and equipment turnover (times)	0.25	0.55	0.68	0.61	0.77
	Total assets turnover (times)	0.11	0.24	0.30	0.28	0.36
Profitability	Return on assets (%)	8.83	(2.71)	11.35	(2.24)	9.67
	Return on equity (%)	13.85	(4.64)	14.98	(3.04)	11.70
	As a percentage of paid-in capital (%)	Operating income	(4.46)	2.56	2.66	1.36
		Net income before tax	18.47	(5.62)	20.03	(3.82)
	Profit margin (%)	76.34	(12.66)	37.47	(8.54)	27
	Earnings per share (NT\$)	1.83	(0.61)	1.96	(0.41)	1.63
Cash flow	Cash flow ratio (%)	6.75	24.05	26.90	13.40	18.79
	Cash flow adequacy ratio (%)	51.62	(4.69)	(7.20)	(11.40)	(11.90)
	Cash reinvestment ratio (%)	3.10	(0.98)	5.04	(3.89)	(3.64)
Leverage	Operating leverage	(0.06)	2.84	2.81	4.06	4.46
	Financial leverage	2.74	1.50	1.13	1.23	1.12
Reasons for changes in financial ratios during the most recent two years (unless increase or decrease is less than 20%)						
<ol style="list-style-type: none"> <li>1. Decrease in current ratio and quick ratio: Due to bonds payable reclassified to puttable bonds with maturity of less than one year</li> <li>2. Increase in interest coverage multiplier: Mainly due to increase in earnings in 2023.</li> <li>3. Decrease in accounts receivable turnover, increase in collection days, decrease in fixed assets turnover and total assets turnover: Mainly due to the decrease in net sales.</li> <li>4. Increase in return on assets, return on stockholders' equity, net income before tax, and net profit margin: Mainly due to increase in profit in 2023.</li> <li>5. Decrease in operating income and paid-in capital ratio: Mainly due to decrease in operating income in 2023.</li> <li>6. Decrease in cash flow ratio: Mainly due to decrease in net cash inflows from operating activities in 2023.</li> </ol>						

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

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

1. Financial structure:

- (1) Debt to assets ratio = Total liabilities/Total assets.
- (2) Ratio of long-term capital to property, plant and equipment = (Total equity + Non-current liabilities)/Net property, plant, and equipment.

2. Solvency:

- (1) Current ratio = Current assets/Current liabilities.
- (2) Quick ratio = (Current assets - Inventory - Prepaid expenses)/Current liabilities.
- (3) Interest coverage multiplier = Net income before tax and interest /Interest expenses in this period.

3. Operating performance:

- (1) Accounts receivable turnover (including accounts receivable and notes receivable from operating activities) = Net sales/Balance of average accounts receivable in each period (including accounts receivable and notes receivable from operating activities).
- (2) Average collection days = 365/Accounts receivable turnover.
- (3) Inventory turnover = Cost of sales/Average inventory.
- (4) Accounts payable (including accounts payable and notes payable from operating activities) = Cost of sales/Balance of average accounts payable in each period (including accounts payable and notes payable from operating activities).
- (5) Average days in sales = 365/Inventory turnover.
- (6) Property, plant and equipment turnover = Net sales/Average net property, plant, and equipment.
- (7) Total asset turnover = Net sales/Average total assets.

4. Profitability:

- (1) Return on assets = [Profit or loss after tax + Interest expenses  $\times$  (1 - Tax rate)]/Average total assets.
- (2) Return on equity = Profit or loss after tax/Average total equity.
- (3) Net profit margin = Profit or loss after tax/Net sales.
- (4) Earnings per share = (Income or loss attributable to owners of parent company - Preference shares dividends)/Weighted average number of shares issued.

5. Cash flow:

- (1) Cash flow ratio = Net cash flows from operating activities/Current liabilities.
- (2) Net cash flow adequacy ratio = Net cash flow from operating activities for the most recent five years/(Capital expenditures + Inventory increment + Cash dividends) for the most recent five years.
- (3) Cash reinvestment ratio = (Net cash flow from operating activities - Cash dividends)/(Gross property, plant and equipment + Long-term investment + Other non-current assets + Working capital).

6. Leverage:

- (1) Operating leverage = (Net operating revenue - Variable operating costs and expenses)/Operating income.
- (2) Financial leverage = Operating income/(Operating income - Interest expenses).

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

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



The Board of Directors prepared the 2023 Business Report, parent-company only financial statements, and the earnings distribution proposal, among which the parent-company only financial statements were audited by Hsu, Chen-Lung and Chen, Kuo-Tsung, CPAs at KPMG in Taiwan, by whom an independent auditors' report with an unqualified opinion was issued. We have reviewed the above business report, financial statements, and earnings distribution proposal without identifying any inconsistency, so we have issued a review report as above in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act. Please proceed to review it.

To

The 2024 Annual General Shareholders' Meeting of Hsin-Li Chemical Industrial Corp.

Hsu, Chi-Jeng, Convener of the Audit Committee

February 27, 2024

- IV. Standalone Financial Statements and Independent Auditors' Report for the most recent year: See Appendix 1.
- V. Impact of any difficulty with financial solvency of the Company and its affiliate on the Company's financial position in the most recent year and the current year up to the publication date of this Annual Report: None.

## **Chapter 7 Review and analysis of financial position and financial performance and risk management**

### I. Review and analysis of financial position and operations

#### (I) Financial position

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

#### Financial position analysis

Unit: NT\$ thousand

Item \ Year	2022	2023	Increase (decrease) in amount	Increase (decrease) (%)
Current assets	347,404	406,543	59,139	17.02
Property, plant and equipment	651,073	637,095	(13,978)	(2.15)
Other assets	443,466	505,670	62,204	14.03
<b>Total assets</b>	<b>1,441,943</b>	<b>1,549,308</b>	<b>107,365</b>	<b>7.45</b>
Current liabilities	257,586	512,256	254,670	98.87
Non-current liabilities	355,104	83,713	(271,391)	(76.43)
<b>Total liabilities</b>	<b>612,690</b>	<b>595,969</b>	<b>(16,721)</b>	<b>(2.73)</b>
Share capital	675,000	675,000	—	—
Capital surplus	9,252	9,252	—	—
Retained earnings	144,956	269,072	124,116	85.62
Other equity	45	45	—	—
Non-controlling interests	—	—	—	—
<b>Total shareholders' equity</b>	<b>829,253</b>	<b>953,339</b>	<b>124,086</b>	<b>14.96</b>
The main reasons for the material changes and the impact thereof and the future response plan: (only for the increase/decrease by 20% or more and the increase/decrease reaches NT\$10 million or more in amount)				
1. Increase in current liabilities and decrease in non-current liabilities: Due to bonds payable reclassified from non-current liabilities to current liabilities.				
2. Increase in retained earnings: Due to increase in net income for the period.				

(II) Financial performance

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

1. Comparative analysis of operating performance

Unit: NT\$ thousand

Item \ Year	2022	2023	Increase (decrease) in amount	Increase (decrease) (%)
Operating revenue, net	325,363	161,724	(163,639)	(50.29)
Operating costs	263,655	152,605	(111,050)	(42.12)
Gross profit	61,708	9,119	(52,589)	(85.22)
Operating expenses	44,458	39,240	(5,218)	(11.74)
Operating income	17,250	(30,121)	(47,371)	(274.61)
Non-operating income and expenses	(55,204)	154,815	210,019	380.44
Net profit (loss) before tax	(37,954)	124,694	162,648	428.54
Income tax expenses	3,244	1,235	(2,009)	(61.93)
Net income (loss) for the period	(41,198)	123,459	164,657	399.67
The main reasons for the material changes and the impact thereof and the future response plan: (only for the increase/decrease by 20% or more and the increase/decrease reaches NT\$10 million or more in amount)				
1. Decrease in revenue, costs and gross profit: 2023 was affected by the Ukraine-Russia war, high inflation and destocking, which led to a global downturn. Due to the unfavorable general environment, major sportswear companies such as Adidas, Nike, and NB suffered from shrinking consumption in their apparel categories, resulting in weak demands and declining revenue.				
2. Increase in non-operating income:				
(1) Increase in revenue from electricity sales of "solar power generation system" in 2023, amounting to \$9,529 thousand.				
(2) Net (gain) loss on financial assets (liabilities) at fair value through profit or loss in 2023, amounting to \$142,857 thousand.				
3. Increase in net income before tax: Mainly due to increase in non-operating income.				

2. Estimated sales volume and the basis for estimation

Decrease in revenue was approximately 50% on average in 2023 compared to the same period last year, mainly due to the impact of international economic environment factors such as inflation, Russia-Ukraine war, and destocking by customers, resulting in weaker orders.

As to the outlook for 2024, inventories of spring/summer and fall/winter apparel have become normalized, and orders from brand leaders and distributors have resumed their previous patterns (with the proportion of short-term orders gradually recovering and order visibility increasing), Taiwan apparel makers' revenue momentum is expected to benefit from inventory replenishment and demands gaining traction, while the momentum of fall/winter demands in 2024 will still remain to be seen depending on whether or not the U.S. economy will have the soft-landing as expected.

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

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

(III) Cash flow

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

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

Unit: NT\$ thousand

Item \ Year	2022	2023	Increase/Decrease in amount	Increase/Decrease (%)
Net cash inflow from operating activities	61,949	34,595	(27,354)	(44.16)
Net cash inflow (outflow) from investing activities	(205,803)	(101,085)	(104,718)	(50.88)
Net cash inflow (outflow) from financing activities	209,794	8,521	(201,273)	(95.94)
Analysis of the movement in the cash flow in the most recent year:				
1. Operating activities: Decrease in cash inflows from operations due to decline in revenue in 2023.				
2. Investing activities: Cash outflows from investing activities in 2022 mainly due to the purchase of real estate and equipment and the construction of solar power generation system, while for 2023, due to disposal of financial assets at fair value through profit or loss.				
3. Financing activities: It is mainly due to the issuance of unsecured convertible corporate bonds in 2022, resulting in an increase in net cash inflow.				

2. Improvement plan for insufficient liquidity

Item \ Year	December 31, 2022	December 31, 2023	Increase (decrease) (%)
Cash flow ratio (%)	24.05	6.75	(71.93)
Cash flow adequacy ratio (%)	(4.68)	51.62	(1202.99)
Cash reinvestment ratio (%)	(0.98)	3.10	(416.33)
The reasons for the increase/decrease (%) (only for the increase/decrease by 20% or more):			
Cash flow ratio, cash flow adequate ratio and cash reinvestment ratio: Mainly due to decrease in net cash flows from operating activities.			

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

3. Analysis of liquidity for the coming year

Unit: NT\$ thousand

Cash balance at the beginning of the period (1)	Annual net cash inflow (outflow) from operating activities (2)	Annual other cash inflows (outflows) (3)	Cash flow surplus (deficit) amount (1)+(2)+(3)	Remedial measures for cash flow deficit	
				Investment plan	Financial management plan
31,447	45,000	10,000	86,447	-	-
1. Analysis of the movement in the cash flow in the coming year:					
(1) Operating activities: The net outflow from operating activities for the entire year is expected due to an increase in raw material prices and inflation and reduced consumer markets.					
(2) Other activities: Investing activities, such as purchase of office buildings and securities, are planned.					
2. Remedial measures for projected cash deficits and liquidity analysis: Not applicable					

- (IV) Impact of major capital expenditures on finance and business during the most recent year
- (1) The Company invested in the “solar photovoltaic power generation system” in 2022 with a total investment amount of \$91,460 thousand, formally commencing the Company’s renewable energy generation operations on December 9, 2022 and the system was completed upon acceptance inspection in 2023.
  - (2) In 2023, the total revenue from electricity generation was \$11,524 thousand, the amount of electricity generated was 2,677 kWh, and the amount of carbon reduction was 1,325 metric tonnes.
- (V) Policy on investment in other businesses for the most recent year, the main reasons for profit or loss, improvement plan, and investment plan for the following year
- (1) Policy on investment in other businesses  
The Company's investment in other businesses is mainly to meet business needs. We manage investees as per the investment cycle in the internal control system and the Procedures for Asset Acquisition and Disposal.
  - (2) The main reasons for profit or loss on investees and improvement plan for the most recent year: None
- (VI) Other important matters: None.

## VI. Risk analysis and assessment for the most recent year and the current year up to the publication date of this Annual Report:

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

Unit: NT\$ thousand

Item	2022	2023
Net revenue	325,363	161,724
Interest expenses	(5,746)	(10,800)
Interest expenses/Net revenue	(1.77)%	(6.68)%
Net foreign exchange gains (losses)	952	988
Foreign exchange gains (losses)/Net revenue	0.29%	0.61%

- (2) The impact of interest rate, exchange rate changes, and inflation on the Company's profit or loss and future countermeasures
  - (A) Impact of interest rate fluctuations on the Company's profit or loss and future countermeasures:  
The exposure of the Company’s financial assets and financial liabilities to interest rate risk is described in liquidity risk management.  
The sensitivity analysis below is based on the exposure of derivative and non-derivative instruments to the interest rate risk at the reporting date. The method of analysis of liabilities at floating rates is to assume that the amount of liabilities outstanding at the reporting date is outstanding throughout the year. One percent increase or decrease in interest rates is the sensitivity rate used in reporting the interest rate risk to the Company’s key management team and represents the management's assessment of the reasonable range of potential changes in interest rates.  
If the interest rate 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\$1783 thousand for 2022, mainly due to the Company's borrowings at floating interest rates.
  - (B) Impact of exchange rate fluctuations on the Company's profit or loss and future countermeasures:  
The exchange rate risk of the Company's monetary items mainly comes from the foreign exchange gains or losses on cash and cash equivalents, accounts receivable and other receivables, denominated in foreign currencies. 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.  
We mainly sell products to the domestic market, so exchange rate fluctuations have little impact

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

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

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

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

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

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

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



Development of silicone/rubber products	1. Search for special materials 2. It should be anti-slip 3. Flame resistant	NT\$2 million	1. The product meets the market demand. 2. It should be multi-functional. 3. Solvent-free products 4. Development for furniture and automotive markets.
High opacity PU films for curtains	1. Eco-friendly materials are used instead. 2. High opacity is for lightproof feature.	NT\$1.5 million	1. The product meets the market demand. 2. Sufficient opacity makes it suitable for curtains.
PMMA decorative materials and automobile/scooter trims	1. It is weather resistant without being delaminated in the environmental test. 2. It is scratch-resistant and hydrolysis-resistant. 3. We continue to develop functional products and are promoting the samples.	NT\$2 million	1. It should be able to be processed with excellent plasticity. 2. A variety of grains and dye-colored water. 3. It should be able to be widely applied in the market and by a wide customer base.
PVB products	1. Eco-friendly recycled material PVB. 2. Development of functional products 3. Applied to packaging materials, furniture market.	NT\$5 million	1. It should be able to be processed with excellent plasticity. 2. A variety of grains and dye-colored water. 3. Eco-friendly recycled material
DMF-free PU film	1. Developed in reflection of market demand 2. In line with the environmentally friendly concepts in response to the issue of reducing DMF	NT\$2 million	1. In pursue of market issue 2. Existing physical properties also taken into account
PP film process products	1. Developed in reflection of market demand 2. In line with the environmental protection concepts in response to the issue of banning fluorinated materials	NT\$2 million	1. In pursue of market issue 2. The objective of the environmental issue has been achieved in terms of replacement of existing materials. 3. Comparable to existing physical properties.

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

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

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

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

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

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

- (IX) Risks of supplier or customer concentration and countermeasures:

The Company's main customers and suppliers, as disclosed in this report, are our long-term partners. Considering our operations and the growth trend of the industry, we will continue to increase the business with existing partners and work with new ones, to further diversify customers and suppliers.

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

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

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

- (XIII) Other important risks and countermeasures: None.

## **Chapter 8 Special Matters**

- I. Relevant information on affiliates: Not applicable.
- II. Private placement of securities in the most recent year and the current year up to the publication date of this Annual Report: None.
- III. Subsidiaries holding or disposing of the Company's shares in the most recent year and the current year up to the publication date of this Annual Report: None.
- IV. Other necessary supplementary information: None.

## **Chapter 9 Event with a Material Impact**

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

# Appendix: Parent Company Only Financial Statements for the Most Recent Fiscal Year

**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**

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## Independent Auditors' Report

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

### Audit opinion

We have audited the accompanying balance sheets of Hsin-Li Chemical Industrial Corp. (the "Company") for the years ended December 31, 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**

		<b>2023.12.31</b>		<b>2022.12.31</b>				<b>2023.12.31</b>		<b>2022.12.31</b>	
		<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>			<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>Assets</b>						<b>Liabilities and Equity</b>					
<b>Current assets:</b>						<b>Current liabilities:</b>					
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
<b>Total current assets</b>		<b>406,543</b>	<b>26</b>	<b>347,404</b>	<b>24</b>	2399	Other current liabilities	2,174	-	2,175	-
<b>Non-current assets:</b>						<b>Total current liabilities</b>		<b>512,256</b>	<b>33</b>	<b>257,586</b>	<b>18</b>
1510	Non-current financial assets at fair value through profit or loss (Note 6(2))	352,833	23	341,191	24	<b>Non-current liabilities:</b>					
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	-
<b>Total non-current assets</b>		<b>1,142,765</b>	<b>74</b>	<b>1,094,539</b>	<b>76</b>	<b>Total non-current liabilities</b>		<b>83,713</b>	<b>5</b>	<b>355,104</b>	<b>25</b>
<b>Total assets</b>		<b>\$ 1,549,308</b>	<b>100</b>	<b>1,441,943</b>	<b>100</b>	<b>Total liabilities</b>		<b>595,969</b>	<b>38</b>	<b>612,690</b>	<b>43</b>
						<b>Equity (Note 6(2), (11) and (17)):</b>					
						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)
								<b>269,042</b>	<b>17</b>	<b>144,956</b>	<b>10</b>
						3400	Other equity	45	-	45	-
						<b>Total equity</b>		<b>953,339</b>	<b>62</b>	<b>829,253</b>	<b>57</b>
						<b>Total liabilities and equity</b>		<b>\$ 1,549,308</b>	<b>100</b>	<b>1,441,943</b>	<b>100</b>

(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**

		<b>2023</b>		<b>2022</b>	
		<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
4000	<b>Operating revenue (Notes 6(19) and 7)</b>	\$ 161,724	100	325,363	100
5000	<b>Operating costs (Notes 6(5), (15), (20), and 7)</b>	152,605	94	263,655	81
5900	<b>Gross profit</b>	9,119	6	61,708	19
	<b>Operating expenses (Notes 6(3), (13), (15), (20) and 7) :</b>				
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)	-
	<b>Total operating expenses</b>	39,240	24	44,458	14
	<b>Net operating profit (loss)</b>	(30,121)	(18)	17,250	5
	<b>Non-operating income and expenses (Note 6(6), (11), (13) and (21)) :</b>				
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)	-
	<b>Total non-operating revenue and expenditure</b>	154,815	95	(55,204)	(18)
7900	<b>Net profit (loss) before tax</b>	124,694	77	(37,954)	(13)
7950	<b>Less: Income tax expenses (Note 6(16))</b>	1,235	1	3,244	1
8200	<b>Net income (loss) for this period</b>	123,459	76	(41,198)	(14)
8300	<b>Other comprehensive income (Note 6(2)(15)(16))</b>				
8310	<b>Items not reclassified to profit or loss</b>				
8311	Remeasurement of defined benefit plans	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	<b>Other comprehensive income for this period (net of tax)</b>	627	-	1,106	-
8500	<b>Total comprehensive income for this period</b>	<b>\$ 124,086</b>	<b>76</b>	<b>(40,092)</b>	<b>(14)</b>
	<b>Earnings per share (Unit: NT\$) (Note 6(18))</b>				
9750	<b>Basic earnings per share</b>	<b>\$ 1.83</b>		<b>(0.61)</b>	
9850	<b>Diluted earnings per share</b>	<b>\$ 1.60</b>		<b>(0.61)</b>	

(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
<b>Cash flow from operating activities:</b>		
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
<b>Cash flow from investing activities:</b>		
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)
<b>Cash flow from financing activities:</b>		
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	<u>\$ 31,447</u>	<u>89,438</u>

(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
<b>Financial assets mandatorily at fair value through profit or loss:</b>		
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>
<b>Financial liabilities mandatorily measured at fair value through profit or loss - Current:</b>		
Embedded derivatives - rights to reverse repurchase/redeem convertible corporate bonds	<u>\$ 1,800</u>	<u>-</u>
<b>Financial liabilities mandatorily at fair value through profit or loss - non-current</b>		
Embedded derivatives - rights to reverse repurchase/redeem convertible corporate bonds	<u>\$ -</u>	<u>3,390</u>

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

	2023.12.31	2022.12.31
<b>Financial assets at fair value through other comprehensive income - non-current:</b>		
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	-	-
	<b>\$ 24,303</b>	<b>48,526</b>

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%	-
	<b>\$ 24,303</b>		<b>-</b>

	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%	-
	<b>\$ 48,526</b>		<b>-</b>

## 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:

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

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

### (IV) Other receivables

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

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

### (V) Inventories

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

The cost of sales is detailed below:

	<b>2023</b>	<b>2022</b>
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><u>\$ 152,605</u></u>	<u><u>263,655</u></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:

	<b>2022</b>
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:

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

	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
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><u>\$ 80,983</u></u>	<u><u>144,363</u></u>	<u><u>225,346</u></u>

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

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

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

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

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:

<b>2023.12.31</b>				
		<b>Interest rate range</b>	<b>Year in which borrowings are due</b>	<b>Amount</b>
	<b>Currency</b>	<b>(%)</b>		
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				<b>\$ 49,024</b>
Unused facilities				<b>\$ -</b>

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

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

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:

	<b>2023.12.31</b>	<b>2022.12.31</b>
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	<b><u>\$ 9,176</u></b>	<b><u>10,127</u></b>

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:

	<b>2023.12.31</b>	<b>2022.12.31</b>
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)	<b><u>\$ (536)</u></b>	<b><u>2,980</u></b>

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:

	<b>2023</b>	<b>2022</b>
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	<b><u>\$ 708</u></b>	<b><u>3,731</u></b>

### (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:

	<b>2023</b>	<b>2022</b>
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	<b><u>\$ 1,244</u></b>	<b><u>751</u></b>

### (4) Expenses recognized in profit or loss

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

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

### (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:

	<b>2023.12.31</b>	<b>2022.12.31</b>
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:

	<b>Effect on defined benefit obligations</b>	
	<b><u>Increase by 0.5%</u></b>	<b><u>Decrease by 0.5%</u></b>
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:

	<b><u>2023</u></b>	<b><u>2022</u></b>
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	<b><u>\$ 1,235</u></b>	<b><u>3,244</u></b>

## 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
<b>Deferred tax assets:</b>						
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)
<b>December 31, 2023</b>	<b>\$ 362</b>	<b>-</b>	<b>172</b>	<b>60</b>	<b>39</b>	<b>633</b>
January 1, 2022	\$ 577	856	209	99	5	1,746
Credit (debit) to profit or loss	(21)	6	(34)	(39)	33	(55)
Debit to other comprehensive income	-	(265)	-	-	-	(265)
<b>December 31, 2022</b>	<b>\$ 556</b>	<b>597</b>	<b>175</b>	<b>60</b>	<b>38</b>	<b>1,426</b>
	Provision for land value increment tax	Tax difference of pension expenses	Others	Total		
<b>Deferred tax liabilities:</b>						
January 1, 2023	\$ 31,448	-	-	31,448		
Debit to profit or loss	-	107	360	467		
<b>December 31, 2023</b>	<b>\$ 31,448</b>	<b>107</b>	<b>360</b>	<b>31,915</b>		
January 1, 2022	\$ 31,448		27	31,475		
Credit to profit or loss	-	-	(27)	(27)		
<b>December 31, 2022</b>	<b>\$ 31,448</b>	<b>-</b>	<b>-</b>	<b>31,448</b>		

### 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:

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

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:

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

### 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:

	<b>2022</b>	
	<b>Number of shares (thousand shares)</b>	<b>Amount</b>
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:

	<b>2023</b>	<b>2022</b>
Net income (loss) attributable to holders of the Company's ordinary equity	<b>\$ 123,459</b>	<b>(41,198)</b>
Weighted average number of ordinary shares outstanding (thousand shares)	<b>67,500</b>	<b>67,509</b>
Basic earnings per share (NTD)	<b>\$ 1.83</b>	<b>(0.61)</b>
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)	<b>\$ 126,295</b>	<b>(41,198)</b>
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)	<b>78,938</b>	<b>67,509</b>
Diluted earnings per share (NTD)	<b>\$ 1.60</b>	<b>(0.61)</b>

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

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

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

	2023	2022	
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>\$ 161,724</u>	<u>325,363</u>	
2. Balance of contracts			
	2023.12.31	2022.12.31	2022.1.1
Notes receivable	\$ 1,934	11,137	10,984
Accounts receivable	22,369	37,389	41,963
Less: Allowance for losses	-	-	(393)
Total	<u>\$ 24,303</u>	<u>48,526</u>	<u>52,554</u>
	2023.12.31	2022.12.31	2022.1.1
Contract liabilities	<u>\$ 700</u>	<u>212</u>	<u>608</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
<b>December 31, 2023</b>							
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	-	-
	<b>\$ 561,180</b>	<b>571,297</b>	<b>170,539</b>	<b>47,842</b>	<b>351,827</b>	<b>1,089</b>	<b>-</b>
<b>December 31, 2022</b>							
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	-
	<b>\$ 574,279</b>	<b>588,756</b>	<b>215,708</b>	<b>39,952</b>	<b>18,905</b>	<b>314,191</b>	<b>-</b>

## 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
<b>Financial assets at fair value through profit or loss</b>					
Financial assets mandatorily at fair value through profit or loss	\$ 650,427	650,427	-	-	650,427
<b>Financial assets at amortized cost</b>					
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				
<b>Financial assets at fair value through other comprehensive income</b>					
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

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

### (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:

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

<b>Name of related party</b>	<b>Relations with the Company</b>
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:

<b>Account title</b>	<b>Category/Name of related party</b>	<b>2023</b>	<b>2022</b>
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:

<b>Category/Name of related party</b>	<b>2023</b>	<b>2022</b>
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:

<b>Account title</b>	<b>Category/Name of related party</b>	<b>2023.12.31</b>
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**

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

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**

<b><u>Item</u></b>	<b><u>Summary</u></b>	<b><u>Amount</u></b>
Cash in bank	Foreign currency time deposits	<b><u>\$ 14,190</u></b>
	(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**

<b><u>Item</u></b>	<b><u>Summary</u></b>	<b><u>Amount</u></b>
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**

<b><u>Item</u></b>	<b><u>Summary</u></b>	<b><u>Amount</u></b>
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)	"	<u>3,330</u>
Total		<u><u>\$ 12,578</u></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>
<b>Other payables:</b>		
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><b>Item</b></u>	<u><b>Summary</b></u>	<u><b>Amount</b></u>
Performance bond	Security deposit	\$ 1,330
Performance bond	Purchase deposit	1,005
Performance bond	Security deposit for natural gas	<u>240</u>
		<u><b>\$ 2,575</b></u>

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

<u><b>Item</b></u>	<u><b>Number</b></u>	<u><b>Unit</b></u>	<u><b>Amount</b></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><b>\$ 161,724</b></u>

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

<b><u>Item</u></b>	<b><u>Amount</u></b>
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	<b><u>\$ 152,605</u></b>

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

<u><b>Item</b></u>	<u><b>Summary</b></u>	<u><b>Amount</b></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><u><b>\$ 7,187</b></u></u>

**Statement of Management Fees**

<u><b>Item</b></u>	<u><b>Summary</b></u>	<u><b>Amount</b></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><u><b>\$ 28,887</b></u></u>

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

<b><u>Item</u></b>	<b><u>Summary</u></b>	<b><u>Amount</u></b>
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.

Hsin-Li Chemical Industrial Corp.



Chairman: Chang, Yu-Ming

