

Daxin Materials Corporation and Subsidiaries

Consolidated Financial Statements

**With Independent Auditors' Report
For the Years Ended December 31, 2021 and 2020**

Address: No.15, Keyuan 1st Rd., Central Taiwan Science Park,
Taichung City 40763, Taiwan, R.O.C.
Telephone: (04)2460-8889

The independent auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' report and consolidated financial statements, the Chinese version shall prevail.

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Representation Letter

The entities that are required to be included in the combined financial statements of Daxin Materials Corporation as of and for the year ended December 31, 2021 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10, "Consolidated Financial Statements", as endorsed by the Financial Supervisory Commission of the Republic of China. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Daxin Materials Corporation and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: Daxin Materials Corporation
Chairman: Cheng-Yih Lin
Date: February 23, 2022



安侯建業聯合會計師事務所

KPMG

新竹市300091新竹科學園區展業一路11號
No. 11, Prosperity Road I, Hsinchu Science Park,
Hsinchu City 300091, Taiwan (R.O.C.)

Telephone 電話 + 886 3 579 9955
Fax 傳真 + 886 3 563 2277
Internet 網址 home.kpmg/tw

Independent Auditors' Report

To the Board of Directors of Daxin Materials Corporation:

Opinion

We have audited the consolidated financial statements of Daxin Materials Corporation and its subsidiaries (“the Group”), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”), Interpretations developed by the International Financial Reporting Interpretations Committee (“IFRIC”) or the former Standing Interpretations Committee (“SIC”) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audit in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and the 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 Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China (“the Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Based on our judgement, the key audit matters that should be disclosed in this audit report are as follows:

1. Revenue

Please refer to note 4(13) “Revenue recognition” for accounting policy and note 6(16) “Revenue from contracts with customers” of the consolidated financial statements for further information.



Description of the key audit matter:

Revenue generation is a key operating activity of a company, and the Company's major portion of revenue is composed of related parties' transactions which might have inherently higher risk of fraud. Moreover, revenue recognition is also dependent on the various sales terms in each individual contract with customers to ensure the performance obligation has been satisfied by transferring control over a product to a customer. Consequently, revenue recognition is one of the key areas our audit focused on.

How the matter was addressed in our audit:

In relation to the key audit matter above, we have performed certain key audit procedures that included understanding and testing the Company's controls surrounding revenue recognition; understanding the Company's revenue types, its sales terms, related sales agreements and other supporting documents, to assess whether revenue recognition policies are applied appropriately; evaluating the trend of revenue; understanding the nature of related parties' transactions; performing the circularization of related-parties transactions; computer-aided testing sales cut off, on a sampling basis, for transactions incurred within a certain period before or after the balance sheet date to evaluate whether the revenue was recorded in proper period; and assessing the adequacy of the Company's disclosures of its revenue recognition policy and other related disclosures.

2. Valuation of inventories

Please refer to note 4(8) "The accounting policies on inventory valuation"; note 5 "Uncertainty of accounting estimations and assumptions for inventory valuation", and note 6(5) "The details of related disclosures".

Description of the key audit matter:

Inventories are measured at the lower of cost and net realizable value at the reporting date. Due to rapid product innovation and keen market competition, the Company's products may no longer meet market demand in short time and lead to the rapid fluctuation in the sales demand, as well as the selling price, which may result in product obsolescence and the cost of inventories to be higher than the net realizable value. Therefore, the valuation of inventories has been identified as one of the key audit matters.

How the matter was addressed in our audit:

In relation to the key audit matter above, we have performed certain key audit procedures that included evaluating whether valuation of inventories was accounted by the nature of inventories (the storage life of chemicals); performing sampling tests to verify the accuracy of inventory aging; understanding and testing the Company's controls surrounding inventories obsolescence management; inspecting the calculation mode of net realizable value; sampling the related tickets and supporting documents; evaluating whether valuation of inventories was accounted by in accordance with the Company's accounting policies, as well as the reasonableness of inventory provision policy; and assessing the adequacy of the Company's disclosures of its inventory valuation policy and other related disclosures.

Other Matter

Daxin Materials Corporation has additionally prepared its parent-company-only financial statements as of and for the years ended December 31, 2021 and 2020, on which we have issued an unmodified opinion.



Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs, IASs, interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance (including the Audit Committee) are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.



5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Chien-Hui Lu and Mei-Yu Tseng.

KPMG

Taipei, Taiwan (Republic of China)
February 23, 2022

Notes to Readers

The accompanying consolidated financial statements are intended only to present the consolidated statement of financial position, financial performance and its cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally accepted and applied in the Republic of China.

The independent auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
DAXIN MATERIALS CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2021 and 2020

(Expressed in Thousands of New Taiwan Dollars)

Assets		December 31, 2021		December 31, 2020		Liabilities and Equity		December 31, 2021		December 31, 2020	
		Amount	%	Amount	%			Amount	%	Amount	%
Current assets:						Current liabilities:					
1100	Cash and cash equivalents (note 6(1))	\$ 214,798	5	283,695	6	2120	Financial liabilities at fair value through profit or loss— current (note 6(2))	\$ -	-	15	-
1110	Financial assets at fair value through profit or loss— current (note 6(2))	1,415	-	1,867	-	2170	Accounts payable	585,416	14	542,580	12
1136	Financial assets measured at amortized cost— current (note 6(3))	941,335	20	952,569	22	2180	Accounts payable to related parties (note 7)	18,127	-	20,249	1
1170	Accounts receivable, net (notes 6(4) and (16))	452,785	10	423,174	10	2201	Payroll and bonus payable	271,643	6	264,063	6
1180	Accounts receivable due from related parties, net (notes 6(4), (16) and 7)	868,821	18	804,805	18	2213	Payable on machinery and equipment	55,708	1	28,168	1
130X	Inventories (note 6(5))	356,227	8	285,653	7	2230	Current tax liabilities	108,884	2	107,527	2
1470	Other current assets	36,417	1	30,298	1	2280	Lease liabilities— current (note 6(11))	8,144	-	8,181	-
	Total current assets	<u>2,871,798</u>	<u>62</u>	<u>2,782,061</u>	<u>64</u>	2322	Long-term borrowings, current portion (note 6(10))	14,216	-	-	-
Non-current assets:						2399	Other current liabilities (note 6(16))	144,893	3	134,604	3
1535	Financial assets measured at amortized cost— non-current (notes 6(3) and 8)	10,350	-	10,350	-			<u>1,207,031</u>	<u>26</u>	<u>1,105,387</u>	<u>25</u>
1600	Property, plant and equipment (note 6(6))	1,574,842	34	1,354,262	31	Non-Current liabilities:					
1755	Right-of-use assets (note 6(7))	180,150	4	189,502	5	2540	Long-term borrowings (note 6(10))	199,284	4	159,200	4
1780	Intangible assets (note 6(8))	2,792	-	3,352	-	2580	Lease liabilities— non-current (note 6(11))	175,892	4	184,036	4
1840	Deferred tax assets (note 6(13))	8,478	-	8,056	-	2645	Guarantee deposits received	132	-	138	-
1920	Guarantee deposits paid	178	-	328	-			<u>375,308</u>	<u>8</u>	<u>343,374</u>	<u>8</u>
1990	Other non-current assets	970	-	1,258	-		Total liabilities	<u>1,582,339</u>	<u>34</u>	<u>1,448,761</u>	<u>33</u>
	Total non-current assets	<u>1,777,760</u>	<u>38</u>	<u>1,567,108</u>	<u>36</u>	Equity attributable to owners of parent (note 6(14)):					
						3110	Ordinary shares	1,027,159	22	1,027,159	24
						3200	Capital surplus	41,814	1	41,814	1
						Retained earnings:					
						3310	Legal reserve	475,597	10	412,467	9
						3320	Special reserve	1,285	-	1,283	-
						3350	Unappropriated retained earnings	1,522,668	33	1,418,970	33
								<u>1,999,550</u>	<u>43</u>	<u>1,832,720</u>	<u>42</u>
						3410	Exchange differences on translation of foreign financial statements	(1,304)	-	(1,285)	-
							Total equity	<u>3,067,219</u>	<u>66</u>	<u>2,900,408</u>	<u>67</u>
Total assets		<u>\$ 4,649,558</u>	<u>100</u>	<u>4,349,169</u>	<u>100</u>	Total liabilities and equity		<u>\$ 4,649,558</u>	<u>100</u>	<u>4,349,169</u>	<u>100</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
DAXIN MATERIALS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2021 and 2020

(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Common Share)

		2021		2020	
		Amount	%	Amount	%
4000	Operating revenue (notes 6(16) and 7)	\$ 4,513,434	100	4,296,103	100
5000	Operating costs (notes 6(5), (8), (11), (12) and 7)	<u>2,902,708</u>	<u>64</u>	<u>2,757,332</u>	<u>64</u>
	Gross profit from operations	<u>1,610,726</u>	<u>36</u>	<u>1,538,771</u>	<u>36</u>
	Operating expenses (notes 6(4), (8), (11), (12) and 7):				
6100	Selling expenses	209,272	5	197,076	5
6200	Administrative expenses	181,749	4	174,444	4
6300	Research and development expenses	439,994	10	421,905	10
6450	Expected credit losses	<u>12,102</u>	<u>-</u>	<u>11,960</u>	<u>-</u>
	Total operating expenses	<u>843,117</u>	<u>19</u>	<u>805,385</u>	<u>19</u>
		<u>767,609</u>	<u>17</u>	<u>733,386</u>	<u>17</u>
	Non-operating income and expenses (notes 6(11), (18) and 7):				
7020	Other gains and losses	3,280	-	(13,233)	-
7100	Interest income	4,702	-	5,542	-
7510	Interest expense	<u>(3,978)</u>	<u>-</u>	<u>(4,213)</u>	<u>-</u>
		<u>4,004</u>	<u>-</u>	<u>(11,904)</u>	<u>-</u>
	Profit from continuing operations before tax	771,613	17	721,482	17
7950	Less: Income tax expense (note 6(13))	<u>91,203</u>	<u>2</u>	<u>90,178</u>	<u>2</u>
	Net income	<u>680,410</u>	<u>15</u>	<u>631,304</u>	<u>15</u>
8300	Other comprehensive income:				
8360	Components of other comprehensive income (loss) that will be reclassified to profit or loss				
8361	Exchange differences on translation of foreign financial statements	<u>(19)</u>	<u>-</u>	<u>(2)</u>	<u>-</u>
	Components of other comprehensive income that will be reclassified to profit or loss	<u>(19)</u>	<u>-</u>	<u>(2)</u>	<u>-</u>
8300	Other comprehensive income	<u>(19)</u>	<u>-</u>	<u>(2)</u>	<u>-</u>
	Total comprehensive income	<u>\$ 680,391</u>	<u>15</u>	<u>631,302</u>	<u>15</u>
	Earnings per share(NT dollars) (note 6(15))				
9750	Basic earnings per share	<u>\$ 6.62</u>		<u>6.15</u>	
9850	Diluted earnings per share	<u>\$ 6.59</u>		<u>6.10</u>	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
DAXIN MATERIALS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity
For the years ended December 31, 2021 and 2020
(Expressed in Thousands of New Taiwan Dollars)

	Ordinary shares	Capital surplus	Retained earnings			Total retained earnings	Exchange differences on translation of foreign financial statements	Total equity
			Legal reserve	Special reserve	Unappropriated retained earnings			
Balance at January 1, 2020	\$ 1,027,159	41,814	347,425	1,281	1,366,290	1,714,996	(1,283)	2,782,686
Profit	-	-	-	-	631,304	631,304	-	631,304
Other comprehensive income	-	-	-	-	-	-	(2)	(2)
Total comprehensive income	-	-	-	-	631,304	631,304	(2)	631,302
Appropriation and distribution of retained earnings:								
Legal reserve appropriated	-	-	65,042	-	(65,042)	-	-	-
Special reserve appropriated	-	-	-	2	(2)	-	-	-
Cash dividends of ordinary shares	-	-	-	-	(513,580)	(513,580)	-	(513,580)
Balance at December 31, 2020	1,027,159	41,814	412,467	1,283	1,418,970	1,832,720	(1,285)	2,900,408
Profit	-	-	-	-	680,410	680,410	-	680,410
Other comprehensive income	-	-	-	-	-	-	(19)	(19)
Total comprehensive income	-	-	-	-	680,410	680,410	(19)	680,391
Appropriation and distribution of retained earnings:								
Legal reserve appropriated	-	-	63,130	-	(63,130)	-	-	-
Special reserve appropriated	-	-	-	2	(2)	-	-	-
Cash dividends of ordinary shares	-	-	-	-	(513,580)	(513,580)	-	(513,580)
Balance at December 31, 2021	<u>\$ 1,027,159</u>	<u>41,814</u>	<u>475,597</u>	<u>1,285</u>	<u>1,522,668</u>	<u>1,999,550</u>	<u>(1,304)</u>	<u>3,067,219</u>

See accompanying notes to consolidated financial statements.

(English Translation of the Consolidated Financial Statements Originally Issued in Chinese)

Daxin Materials Corporation and subsidiaries

Consolidated Statements of Cash Flows

For the years ended December 31, 2021 and 2020

(Expressed in Thousands of New Taiwan Dollars)

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Income before income tax	\$ 771,613	721,482
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expenses	213,147	219,412
Amortization expenses	2,920	2,664
Expected credit losses	12,102	11,960
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	437	(502)
Interest expense	3,978	4,213
Interest income	(4,702)	(5,542)
Loss (gain) on disposal of property, plant and equipment	261	(159)
Provisions for inventory obsolescence and devaluation loss	9,088	17,066
Others	757	157
Changes in operating assets and liabilities:		
Accounts receivable	(41,713)	36,458
Accounts receivable due from related parties	(64,016)	49,005
Inventories	(79,662)	(16,278)
Other current assets	(6,119)	(4,760)
Financial assets measured at amortized cost – current	3	4,928
Accounts payable	42,836	36,463
Accounts payable to related parties	(2,122)	1,334
Other current liabilities	17,847	(2,271)
Cash inflow generated from operations	<u>876,655</u>	<u>1,075,630</u>
Interest received	4,683	5,550
Interest paid	(3,956)	(4,202)
Income taxes paid	<u>(90,268)</u>	<u>(67,014)</u>
Net cash flows from operating activities	<u>787,114</u>	<u>1,009,964</u>
Cash flows from investing activities:		
Disposal of (Acquisition of) financial assets at amortized cost	11,250	(422,550)
Acquisition of property, plant and equipment	(397,853)	(221,211)
Proceeds from disposal of property, plant and equipment	-	159
Decrease in refundable deposits	150	-
Acquisition of intangible assets	(2,360)	(3,240)
Decrease (increase) in other non-current assets	288	(262)
Net cash flows used in investing activities	<u>(388,525)</u>	<u>(647,104)</u>
Cash flows from financing activities:		
Proceeds from short-term borrowings	230,000	665,000
Repayments of short-term borrowings	(230,000)	(715,000)
Proceeds from long-term borrowings	54,300	159,200
Decrease in guarantee deposits received	(6)	(45)
Payment of lease liabilities	(8,181)	(8,060)
Cash dividends paid	<u>(513,580)</u>	<u>(513,580)</u>
Net cash flows used in financing activities	<u>(467,467)</u>	<u>(412,485)</u>
Effect of exchange rate changes on cash and cash equivalents	(19)	(2)
Net decrease in cash and cash equivalents	<u>(68,897)</u>	<u>(49,627)</u>
Cash and cash equivalents at beginning of period	<u>283,695</u>	<u>333,322</u>
Cash and cash equivalents at end of period	<u>\$ 214,798</u>	<u>283,695</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
DAXIN MATERIALS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2021 and 2020
(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

1. Company history

Daxin Materials Corporation (“the Company”) was incorporated in accordance with the Company Act of the Republic of China in July 12, 2006. The address of its registered office and principle place of business is No.15, Keyuan 1st Rd., Central Taiwan Science Park, Taichung City, Taiwan, R.O.C. The Company’s common shares were listed and traded on the Taipei Exchange (TPEX) since May 12, 2011; officially listed on Taiwan Stock Exchange (TWSE) since July 16, 2011, and delisted from the TPEX at the same date.

The Company and its subsidiaries (together referred to as the “Group”), mainly engage in the research, development, production, and sale of LCD display and semiconductor related fine chemicals.

2. Approval date and procedures of the consolidated financial statements:

These consolidated financial statements were approved and authorized for issue by the Board of Directors on February 23, 2022.

3. New standards, amendments and interpretations adopted:

- (1) The impact of the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. which have already been adopted.

The Group has initially adopted the following new amendments, which do not have a significant impact on its consolidated financial statements, from January 1, 2021:

- Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”
- Amendments to IFRS 9, IAS39, IFRS7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform—Phase 2”

The Group has initially adopted the (following) new amendments, which do not have a significant impact on its consolidated financial statements, from April 1, 2021:

- Amendments to IFRS 16 “Covid-19-Related Rent Concessions beyond June 30, 2021”

- (2) The impact of IFRS issued by the FSC but not yet effective

The Group assesses that the adoption of the following new amendments, effective for annual period beginning on January 1, 2022, would not have a significant impact on its consolidated financial statements:

- Amendments to IAS 16 “Property, Plant and Equipment—Proceeds before Intended Use”
- Amendments to IAS 37 “Onerous Contracts—Cost of Fulfilling a Contract”
- Annual Improvements to IFRS Standards 2018–2020

DAXIN MATERIALS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- Amendments to IFRS 3 “Reference to the Conceptual Framework”
- (3) The impact of IFRS issued by IASB but not yet endorsed by the FSC

The Group does not expect the following new and amended standards, which have yet to be endorsed by the FSC, to have a significant impact on its consolidated 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 “ Insurance Contracts”
- Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”
- Amendments to IAS 1 “Disclosure of Accounting Policies”
- Amendments to IAS 8 “Definition of Accounting Estimates”
- Amendments to IAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction”

4. Summary of significant accounting policies:

The significant accounting policies presented in the consolidated financial statements are summarized below. Except for those specifically indicated, the following accounting policies were applied consistently throughout the periods presented in the consolidated financial statements.

(1) Statement of compliance

The consolidated 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), International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed and issued into effect by the Financial Supervisory Commission, R.O.C (hereinafter referred to as the “IFRSs endorsed by the FSC”).

(2) Basis of preparation

A. Basis of measurement

Except for financial assets at fair value through profit or loss are measured at fair value, the consolidated financial statements have been prepared on a historical cost basis.

B. Functional and presentation currency

The functional currency of each Group entity is determined based on the primary economic environment in which the entity operates. The consolidated financial statements are presented in New Taiwan dollars (NTD), which is the Company’s functional currency. All financial information presented in NTD has been rounded to the nearest thousand, unless otherwise noted.

DAXIN MATERIALS CORPORATION AND SUBSIDIARIES
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(3) Basis of consolidation

A. Principles of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and subsidiaries.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Total profit and loss in a subsidiary is attributed to the shareholders of the Company and the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

Intra group balances and transactions, and any unrealized income and expenses arising from intra group transactions are eliminated in preparing the consolidated financial statements.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

B. List of subsidiaries in the consolidated financial statements:

<u>Name of Investor</u>	<u>Name of subsidiary</u>	<u>Business</u>	<u>Percentage of Ownership</u>	
			<u>December 31, 2021</u>	<u>December 31, 2020</u>
Daxin	LS Materials Corporation (LS) (Note 1)	R&D, Manufacturing and sales company of fine chemicals	100 %	100 %
Daxin	Frontier Materials (Samoa) Corporation (FMSA)	Investing and shareholding	(Note 2)	(Note 2)

Note 1: The business suspension process was completed on November 17, 2016.

Note 2: The registration process was completed on August 9, 2017. As of December 31, 2021, the capital was not injected.

C. Subsidiaries excluded from the consolidated financial statements: None.

(4) Foreign currencies

A. Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at the exchange rates at the dates of the transactions. At the end of each subsequent reporting period, monetary items denominated in foreign currencies are translated into the functional currencies using the exchange rate at that date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated into the functional currencies using the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Exchange differences are generally recognized in profit or loss.

DAXIN MATERIALS CORPORATION AND SUBSIDIARIES
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B. Foreign operations

The assets and liabilities of foreign operations are translated into NTD at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into NTD at the average rate. Exchange differences are recognized in other comprehensive income.

When a foreign operation is disposed of such that control, significant influence, or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, exchange differences arising from such a monetary item that are considered to form part of the net investment in the foreign operation are recognized in other comprehensive income.

(5) Classification of current and non-current assets and liabilities

An asset is classified as current under one of the following criteria, and all other assets are classified as non current:

- A. It is expected to be realized, or intends to be sold or consumed, in the normal operating cycle;
- B. It is held primarily for the purpose of trading;
- C. It is expected to be realized within twelve months after the reporting date;
- D. Cash or a cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

A liability is classified as current under one of the following criteria, and all other liabilities are classified as non current:

- A. It is expected to settle in its normal operating cycle;
- B. It is held primarily for the purpose of trading;
- C. It is due to be settled within twelve months after the reporting date;
- D. The Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

DAXIN MATERIALS CORPORATION AND SUBSIDIARIES
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(6) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Time deposits which meet the above definition and are held for the purpose of meeting short term cash commitments rather than for investment or other purposes should be recognized as cash equivalents.

(7) Financial instruments

Trade receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument. For an item not at fair value through profit or loss (FVTPL), the financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus transaction costs that are directly attributable to its acquisition or issuance. A trade receivable without a significant financing component is initially measured at the transaction price.

A. Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date or settlement date basis.

On initial recognition, a financial asset is classified as measured at amortized cost and FVTPL. Financial assets shall not be reclassified subsequently to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

(a) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows;
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the outstanding principal.

These assets are subsequently measured at amortized cost, which is the amount at which the financial asset is measured at initial recognition, plus/minus, the cumulative amortization using the effective interest method, adjusted for any loss allowance. Interest income, foreign exchange gains and losses, as well as impairment, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

DAXIN MATERIALS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or fair value through other comprehensive income (FVOCI) described as above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

These assets are subsequently measured at fair value. Net gains and losses therein are recognized in profit or loss.

(c) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses (ECL) on financial assets measured at amortized cost (including cash and cash equivalents, accounts receivable, guarantee deposits and other financial assets).

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following which are measured by 12-month ECL:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for accounts receivable is always measured at an amount equal to lifetime ECL. Lifetime ECL are the ECL that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience and informed credit assessment as well as forward looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 60 days past due.

The Group considers a financial asset to be in default when the financial asset is more than 365 days past due or the debtor is unlikely to pay its credit obligations to the Group in full.

DAXIN MATERIALS CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

ECLs are probability weighted estimate of credit losses over the expected life of financial assets. Credit losses are measured as the present value of all cash shortfalls, i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive. ECL are discounted at the effective interest rate of the financial asset.

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit impaired. A financial asset is “credit impaired” when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. An evidence that a financial asset is credit impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 365 days past due;
- the lender of the borrower, for economic or contractual reasons relating to the borrower’s financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of assets.

The gross carrying amount of a financial asset is written off either partially or in full to the extent that there is no realistic prospect of recovery. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group’s procedures for recovery of amount due.

(d) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognized in its statement of balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

DAXIN MATERIALS CORPORATION AND SUBSIDIARIES
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B. Financial liabilities and equity instruments

(a) Classification of debt or equity

Debt and equity instruments issued by the Group are classified as financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognized as the amount of consideration received, less the direct cost of issuing.

(b) Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and 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 foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

(c) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expired. The Group also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount of a financial liability extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

(d) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of balance sheet when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

C. Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency and interest rate exposures.

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in profit or loss.

DAXIN MATERIALS CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(8) Inventories

Inventories are measured at the lower of cost or net realizable value. The cost of inventories is based on the weighted average cost method and includes expenditure incurred in acquiring the inventories, production or conversion cost, and other costs incurred in bringing them to their present location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on operating capacity.

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

(9) Property, plant and equipment

A. Recognition and measurement

Items of property, plant and equipment are measured at cost, which includes capitalized borrowing costs, less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

B. Subsequent cost

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

C. Depreciation

Depreciation is calculated on 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 lives of each component of an item of property, plant and equipment.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

- (a) Buildings and improvements: 5~25 years
- (b) Machinery and equipment: 5 years
- (c) Research and development equipment: 5 years
- (d) Office and other equipment: 3~5 years

Buildings constitute mainly building, mechanical and electrical power equipment, and air-conditioning system and fire protection engineering, etc. Each such part is depreciated based on its useful life of 25 years, 10 years, and 10 years, correspondingly.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

DAXIN MATERIALS CORPORATION AND SUBSIDIARIES
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(10) Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

A. As a lessee

The Group recognizes a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right of use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term. In addition, the right of use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- (a) Fixed payments, including in substance fixed payments;
- (b) Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- (c) Amounts expected to be payable under a residual value guarantee; and
- (d) Payments for purchase or termination options that are reasonably certain to be exercised.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when:

- (a) There is a change in future lease payments arising from the change in an index or a rate; or
- (b) There is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee; or
- (c) There is a change in the lease term resulting from a change of its assessment on whether it will exercise an option to purchase the underlying asset, or
- (d) There is a change of its assessment on whether it will exercise an extension or termination option; or
- (e) There are any lease modifications.

DAXIN MATERIALS CORPORATION AND SUBSIDIARIES
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When the lease liability is remeasured, other than lease modifications a corresponding adjustment is made to the carrying amount of the right of use asset, or in profit and loss if the carrying amount of the right of use asset has been reduced to zero.

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Group accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right of use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

The Group presents right-of-use assets that do not meet the definition of investment properties, and lease liabilities as a separate line item respectively in the consolidated balance sheets.

The Group has elected not to recognize right of use assets and lease liabilities for short term leases with a term of 12 months or less, mainly including dormitory, office, and transportation equipment, and leases of low value assets, including other equipment. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(11) Intangible assets

A. Recognition and measurement

Expenditure on research activities is recognized in profit or loss as incurred.

Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to, and has sufficient resources to, complete development and to use or sell the asset. Otherwise, it is recognized in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost, less accumulated amortization and any accumulated impairment losses.

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

B. Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates.

C. Amortization

Amortization is calculated and recognized in profit or loss on a straight-line basis over 1 to 5 years for computer software packages.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

DAXIN MATERIALS CORPORATION AND SUBSIDIARIES
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(12) Impairment of non financial assets

At each reporting date, the Group reviews the carrying amounts of its non financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units ("CGUs").

The recoverable amount of an asset or a cash generating unit ("CGU") is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or a CGU.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then, to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized for the assets in prior years.

(13) Revenue recognition

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer. The Group recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer. The accounting policies for the Group's main types of revenue are explained below.

A. Sale of goods

The Group engages mainly in the research, development, production, design, and sales of LCD display related fine chemicals. The Group recognizes revenue when control of the products has been transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

A receivable is recognized when the goods are delivered, as this is the point in time that the Group has a right to an amount of consideration that is unconditional.

DAXIN MATERIALS CORPORATION AND SUBSIDIARIES
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B. Government grants

The Group will comply with the conditions associated with the grant, and a government grant that becomes receivable as compensation for expenses already incurred is recognized in profit and loss on a systematic basis in the periods in which the expenses are recognized.

C. Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

(14) Employee Benefits

A. Defined contribution plans

Obligations for contributions to defined contribution pension plans are expensed during the year in which employees render services.

B. Short term employee benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed during the period in which employees render services.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to make such payments as a result of past service provided by the employee and the obligation can be estimated reliably.

(15) Income tax

Income taxes comprise current taxes and deferred taxes. Except for items related to business combinations, or items recognized directly in equity or other comprehensive income, all current and deferred taxes are recognized in profit or loss.

The Group has determined that interest and penalties related to income taxes, including uncertain tax treatment, do not meet the definition of income taxes, and therefore accounted for them under IAS37.

Current taxes comprise the expected tax payables or receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payables or receivables are the best estimate of the tax amount expected to be paid or received and it is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflect uncertainty related to income taxes, if any.

DAXIN MATERIALS CORPORATION AND SUBSIDIARIES
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Deferred tax assets and liabilities are offset if the following criteria are met:

- A. the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and
- B. the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - (a) the same taxable entity; or
 - (b) different taxable entities which intend to settle current tax assets and liabilities on a net basis, or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax assets are recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realized; such reductions are reversed when the probability of future taxable profits improves.

(16) Earnings per share

The Group discloses the Company's basic and diluted earnings per share attributable to ordinary shareholders of the Company. Basic earnings per share is calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding. Diluted earnings per share is calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares. The Group's potential diluted ordinary share includes employee stock option certificates and employee remuneration that has not been resolved by the board of directors and could to be settled in the form of shares.

(17) Operating segment

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance. Each operating segment consists of standalone financial information.

5. Significant accounting assumptions and judgments, and major sources of estimation uncertainty:

The preparation of the consolidated financial statements in conformity with the Regulations and the IFRSs endorsed by the FSC requires management to make judgments, estimations and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

DAXIN MATERIALS CORPORATION AND SUBSIDIARIES
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The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in the accounting estimates during the period and the impact of those changes in the following period.

The Group determines the lease term as the non-cancellable period of the lease, together with periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option, and periods covered by an option to terminate the lease if the lessee is reasonably not to exercise that option. In assessing whether a lessee is reasonably to exercise the options, the Group considers all relevant facts and circumstances that create an economic incentive for the lessee. The Group reassesses whether it is reasonably certain to exercise an extension option or not to exercise the option upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee. If there is a change in the lease term, the Group recognizes the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Please refer to note 6(11).

Inventories are measured at the lower of cost or net realizable value. The product/ technology renovation may lead to significant changes in the product demand so that existing products may no longer meet market expectations. Therefore, there would be violent fluctuations in the demand and selling price of those products, and result in the risk incurred to the cost of inventories higher than net realizable value. For the uncertainties of assumptions and estimates, please refer to note 6(5) for related significant risk disclosures that will cause a significant adjustment within 12 months.

The Group's accounting policies and disclosures include the fair value measurement for financial, non-financial assets and liabilities. The Group's finance and accounting departments conduct independent verification on fair value by using data sources that are independent, reliable, and representative of exercise prices; also periodically assess valuation models, perform retrospective tests, renew input data together with any other necessary fair value adjustment for the evaluation model in order to ensure the reasonableness of the results of the valuation.

The Group strives to use the observable market inputs when measuring assets and liabilities. The hierarchy of the fair value categorized by the valuation techniques used is as follows:

Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

For any transfer within the fair value hierarchy, the Group recognizes the transfer on the reporting date. For the assumption used in fair value measurement, please refer to note 6(19) of the financial instruments.

DAXIN MATERIALS CORPORATION AND SUBSIDIARIES
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6. Explanation of significant accounts:

(1) Cash and cash equivalents

	December 31, 2021	December 31, 2020
Cash on hand, demand deposits	\$ 184,798	133,695
Time deposits	30,000	150,000
	\$ 214,798	283,695

Please refer to Note 6(19) for the disclosure of currency risk and sensitivity analysis of the financial instruments of the Group.

(2) Financial Assets and Liabilities at Fair Value through Profit or Loss (“FVTPL”)

	December 31, 2021	December 31, 2020
Financial assets mandatorily measured at fair value through profit or loss:		
Forward exchange contracts	\$ 1,415	1,867
Financial liabilities mandatorily measured at fair value through profit or loss:		
Forward exchange contracts	\$ -	15

The Group uses derivative instruments to hedge certain currency risk arising from the Group’s operating activities. The Group held the following derivative instruments, which were not qualified for hedging accounting and accounted them as financial assets mandatorily measured at fair value through profit or loss and held for trading financial liabilities.

As of December 31, 2021 and 2020, the Group’s outstanding foreign currency forward contracts were as follows:

	December 31, 2021			
	Contract amount (in thousands)	Currency	Maturity date	Book value
Derivative financial assets:				
Forward exchange contracts sold	\$ 10,088	USD to NTD	January 2022~ March 2022	\$ 1,415

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December 31, 2020				
	Contract amount (in thousands)	Currency	Maturity date	Book value
Derivative financial assets:				
Forward exchange contracts sold	\$ 5,680	USD to NTD	January 2021~ April 2021	\$ <u><u>1,867</u></u>
Derivative financial liabilities:				
Forward exchange contracts sold	\$ 2,050	USD to NTD	January 2021~ April 2021	\$ <u><u>(15)</u></u>

(3) Financial assets measured at amortized cost – current and non current

	December 31, 2021	December 31, 2020
Time Deposits	\$ 951,500	962,750
Others	185	169
Less: Loss allowance	-	-
	<u><u>\$ 951,685</u></u>	<u><u>962,919</u></u>
Current	<u><u>\$ 941,335</u></u>	<u><u>952,569</u></u>
Non current	<u><u>\$ 10,350</u></u>	<u><u>10,350</u></u>

The Group has assessed that these financial assets are held to maturity to collect contractual cash flows, which consist solely of payments of principal and interest on the principal amount outstanding. Therefore, these investments were classified as financial assets measured at amortized cost.

- A. As of December 31, 2021 and 2020, time deposits held by the Group with annual interest rates ranging from 0.080% to 0.795% and 0.190% to 1.045%, respectively; and will be matured during Jan 2, 2022~ Dec 1, 2022 and Jan 30, 2021~ Nov 30, 2021.
- B. For the disclosure of credit risk, please refer to note 6(19).
- C. For details of the aforementioned financial assets as performance guarantee, please refer to note 8.

(4) Accounts receivable, net (including related parties)

	December 31, 2021	December 31, 2020
Accounts receivable (including related parties) - measured at amortized cost	\$ 1,352,713	1,247,298
Less: Allowance for doubtful accounts	<u>(31,107)</u>	<u>(19,319)</u>
	<u><u>\$ 1,321,606</u></u>	<u><u>1,227,979</u></u>

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The Group applied the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables. To measure the expected credit losses, accounts receivable has been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward looking information. Analysis of expected credit losses (excluding some specific customers) was as follows:

	December 31, 2021		
	Gross amount of accounts receivable	Weighted average loss rate	Credit loss allowance
Current	\$ 1,348,994	0%~5%	30,999
1 to 30 days past due	2,658	0%~5%	1
31 to 60 days past due	954	0%~5%	-
More than 365 days past due	<u>107</u>	100%	<u>107</u>
	<u>\$ 1,352,713</u>		<u>31,107</u>
	December 31, 2020		
	Gross amount of accounts receivable	Weighted average loss rate	Credit loss allowance
Current	\$ 1,233,129	0%~5%	18,877
1 to 30 days past due	13,117	0%~5%	123
31 to 60 days past due	631	0%~5%	-
91 to 180 days past due	<u>107</u>	5%~100%	<u>5</u>
	<u>\$ 1,246,984</u>		<u>19,005</u>

Analysis of expected credit losses for specific customers was as follows:

	December 31, 2020		
	Gross amount of accounts receivable	Weighted average loss rate	Credit loss allowance
More than 365 days past due	<u>\$ 314</u>	100%	<u>314</u>

The movement of the credit loss allowance for accounts receivable (including related parties) was as follows:

	2021	2020
Balance on January 1	\$ 19,319	7,797
Expected credit loss recognized	12,102	11,960
Amounts written off	<u>(314)</u>	<u>(438)</u>
Balance on December 31	<u>\$ 31,107</u>	<u>19,319</u>

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Except for those that have been individually identified for impairment losses, the Group has accrued the impairment losses according to credit ratings, the historical default rate and forward-looking information.

Allowance for doubtful accounts is used to record the bad debt losses. However, if the Group is convinced that the relevant receivable may not be recoverable, the allowance for doubtful accounts and financial assets shall be offset directly when it believes that it cannot be recovered.

As of December 31, 2021 and 2020, the Group's accounts receivable was not pledged as collateral.

(5) Inventories

	December 31, 2021	December 31, 2020
Raw materials and supplies	\$ 192,631	130,659
Work in progress and semi-finished products	71,072	62,275
Finished goods and merchandise	92,524	92,719
	\$ 356,227	285,653

The net of provisions for inventories written down to the net realizable value, which were included in cost of sales, amounted to \$9,088 thousand and \$17,066 thousand for the years ended December 31, 2021 and 2020, respectively.

For the years ended December 31, 2021 and 2020, the amounts recognized as cost of sales in relation to unallocated fixed production overheads were \$0 thousand and \$26,000 thousand, respectively.

The amounts recognized as cost of sales in relation to loss on physical inventory were \$32 thousand and \$109 thousand respectively for the years ended December 31, 2021 and 2020.

As at December 31, 2021 and 2020, none of the Group's inventories was pledged as collateral.

(6) Property, plant and equipment

The movement of cost and depreciation of the property, plant and equipment of the Group was as follows:

	Buildings	Machinery and equipment	R&D equipment	Office and other equipment	Construction in progress and equipment awaiting inspection	Total
Cost:						
Balance at January 1, 2021	\$ 1,674,179	645,009	225,845	124,209	91,123	2,760,365
Additions	14,853	58,921	39,493	5,616	306,510	425,393
Disposals	(353)	(5,895)	-	(220)	-	(6,468)
Reclassification and transfer	314	3,770	1,564	572	(6,977)	(757)
Balance at December 31, 2021	\$ 1,688,993	701,805	266,902	130,177	390,656	3,178,533

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	Buildings	Machinery and equipment	R&D equipment	Office and other equipment	Construction in progress and equipment awaiting inspection	Total
Balance at January 1, 2020	\$ 1,568,281	554,083	221,823	111,731	105,962	2,561,880
Additions	35,279	72,867	8,203	13,099	84,557	214,005
Disposals	-	(7,285)	(5,008)	(3,070)	-	(15,363)
Reclassification and transfer	70,619	25,344	827	2,449	(99,396)	(157)
Balance at December 31, 2020	<u>\$ 1,674,179</u>	<u>645,009</u>	<u>225,845</u>	<u>124,209</u>	<u>91,123</u>	<u>2,760,365</u>
Accumulated depreciation:						
Balance at January 1, 2021	\$ 695,410	429,228	191,793	89,672	-	1,406,103
Depreciation for the year	104,703	72,350	13,893	12,849	-	203,795
Disposals	(92)	(5,895)	-	(220)	-	(6,207)
Balance at December 31, 2021	<u>\$ 800,021</u>	<u>495,683</u>	<u>205,686</u>	<u>102,301</u>	<u>-</u>	<u>1,603,691</u>
Balance at January 1, 2020	\$ 578,685	368,201	183,730	80,790	-	1,211,406
Depreciation for the year	116,725	68,312	13,071	11,952	-	210,060
Disposals	-	(7,285)	(5,008)	(3,070)	-	(15,363)
Balance at December 31, 2020	<u>\$ 695,410</u>	<u>429,228</u>	<u>191,793</u>	<u>89,672</u>	<u>-</u>	<u>1,406,103</u>
Carrying amounts:						
Balance at December 31, 2021	<u>\$ 888,972</u>	<u>206,122</u>	<u>61,216</u>	<u>27,876</u>	<u>390,656</u>	<u>1,574,842</u>
Balance at January 1, 2020	<u>\$ 989,596</u>	<u>185,882</u>	<u>38,093</u>	<u>30,941</u>	<u>105,962</u>	<u>1,350,474</u>
Balance at December 31, 2020	<u>\$ 978,769</u>	<u>215,781</u>	<u>34,052</u>	<u>34,537</u>	<u>91,123</u>	<u>1,354,262</u>

A. Collateral

The property, plant and equipment of the Group had not been pledged as collateral as of December 31, 2021 and 2020.

B. Construction in progress and equipment awaiting inspection

The Group has carried out equipment augmentation in headquarters and Chungkang branch, and new plant construction projects in Chungkang branch. The incurred but not yet paid amount of construction still in progress and equipment awaiting inspection amounted to \$340,190 thousand and \$77,135 thousand, respectively, as of December 31, 2021 and 2020.

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(7) Right of use assets

The Group leases land, machinery and equipment. The carrying amounts on right of use assets were presented below:

	<u>Land</u>	<u>Machinery and equipment</u>	<u>Total</u>
Cost:			
Balance at December 31, 2021 (as the balance at January 1 2021)	\$ <u>207,493</u>	<u>780</u>	<u>208,273</u>
Balance at January 1, 2020	\$ 209,044	780	209,824
Adjustments to lease liabilities	<u>(1,551)</u>	-	<u>(1,551)</u>
Balance at December 31, 2020	\$ <u>207,493</u>	<u>780</u>	<u>208,273</u>
Accumulated depreciation:			
Balance at January 1, 2021	\$ 18,303	468	18,771
Depreciation for the year	<u>9,118</u>	<u>234</u>	<u>9,352</u>
Balance at December 31, 2021	\$ <u>27,421</u>	<u>702</u>	<u>28,123</u>
Balance at January 1, 2020	\$ 9,185	234	9,419
Depreciation for the year	<u>9,118</u>	<u>234</u>	<u>9,352</u>
Balance at December 31, 2020	\$ <u>18,303</u>	<u>468</u>	<u>18,771</u>
Carrying amount:			
Balance at December 31, 2021	\$ <u>180,072</u>	<u>78</u>	<u>180,150</u>
Balance at January 1, 2020	\$ <u>199,859</u>	<u>546</u>	<u>200,405</u>
Balance at December 31, 2020	\$ <u>189,190</u>	<u>312</u>	<u>189,502</u>

(8) Intangible assets

The cost and amortization of the intangible assets of the Group were as follows:

	<u>Computer software</u>
Cost:	
Balance at January 1, 2021	\$ 20,919
Additions	<u>2,360</u>
Balance at December 31, 2021	\$ <u>23,279</u>
Balance at January 1, 2020	17,679
Additions	<u>3,240</u>
Balance at December 31, 2020	\$ <u>20,919</u>

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	Computer software
Amortization:	
Balance at January 1, 2021	17,567
Amortization for the year	2,920
Balance at December 31, 2021	\$ 20,487
Balance at January 1, 2020	14,903
Amortization for the year	2,664
Balance at December 31, 2020	\$ 17,567
Carrying amounts:	
Balance at December 31, 2021	\$ 2,792
Balance at January 1, 2020	\$ 2,776
Balance at December 31, 2020	\$ 3,352

A. Amortization expenses of intangibles assets

For the years ended December 31, 2021 and 2020, the amortization expenses of intangibles assets recognized in the statements of consolidated comprehensive income as the following items:

	2021	2020
Cost of sales	\$ 239	228
Operating expenses	\$ 2,681	2,436

B. Collateral

The intangible assets mentioned above were not pledged as collateral as of December 31, 2021 and 2020.

(9) Short-term borrowings

The details of short-term borrowings were as follows:

	December 31, 2021	December 31, 2020
Unused credit lines	\$ 608,820	553,960

For the years ended December 31, 2021 and 2020, please refer to note 6(22) for information of drawdown and repayment of short-term borrowings, and note 6(18) for information of interest expenses.

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(10) Long-term borrowings

The details of long-term borrowings were as follows:

	December 31, 2021	December 31, 2020
Unsecured borrowings	\$ 213,500	159,200
Less: current portion	<u>(14,216)</u>	<u>-</u>
Total	<u>\$ 199,284</u>	<u>159,200</u>
Unused credit lines	<u>\$ 826,500</u>	<u>880,800</u>
Range of interest rates at the year end	<u>0.5%</u>	<u>0.5%</u>

For the years ended December 31, 2021 and 2020, please refer to note 6(22) for information of drawdown and repayment of long-term borrowings, and note 6(18) for information of interest expenses.

(11) Lease liabilities

The carrying amounts of lease liabilities of the Group were as follows:

	December 31, 2021	December 31, 2020
Current	<u>\$ 8,144</u>	<u>8,181</u>
Non-current	<u>\$ 175,892</u>	<u>184,036</u>

For the years ended December 31, 2021 and 2020, the Group repaid \$8,181 thousand and \$8,060 thousand for the principal of lease liabilities.

The amounts recognized in profit or loss were as follows:

	2021	2020
Interest on lease liabilities	<u>\$ 2,827</u>	<u>2,949</u>
Expenses relating to short term leases	<u>\$ 3,573</u>	<u>3,933</u>
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	<u>\$ 266</u>	<u>296</u>

The amounts recognized in the statement of cash flows were as follows:

	2021	2020
Total cash outflows for leases	<u>\$ 14,778</u>	<u>15,300</u>

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A. Land leases

The Group leases lands for its facility and office space. The leases of office space typically run for a period of 10 and 13 years with an option to renew the lease for an additional period after the end of the contract term.

Rent payments of land leases that are based on changes in officially announced land prices and the public facilities construction costs reinvested periodically in each park will be adjusted after being assessed.

B. Other leases

The Group leases the machinery and equipment with lease terms of 5 years.

In addition, the Group has elected not to recognize the right-of-use assets and lease liabilities for its dormitories, offices and carrier vehicles with the lease term of 1 to 2 years, which qualifies as short-term leases and leases of low-value asset.

(12) Employee benefits – Defined contribution plans

The Group contributes at the rate of 6% of each employee's monthly wages to the labor pension personal account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Group's contribution to the Bureau of Labor Insurance requires no additional legal or constructive obligations thereafter.

The Group's pension costs incurred from contributions to the defined contribution plan were \$17,278 thousand and \$16,385 thousand for the years ended December 31, 2021 and 2020, respectively.

(13) Income tax

A. Income tax expense

The components of income tax expenses in 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Current tax expense		
Current period	\$ 97,029	91,481
Adjustment to prior period	<u>(5,404)</u>	<u>686</u>
	<u>91,625</u>	<u>92,167</u>
Deferred tax benefit		
Origination and reversal of temporary differences	<u>(422)</u>	<u>(1,989)</u>
Income tax expense	<u>\$ 91,203</u>	<u>90,178</u>

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Reconciliations of income tax and income before income tax are as follows:

	<u>2021</u>	<u>2020</u>
Income before income tax	\$ 771,613	721,482
Income tax using the Company's domestic tax rate	154,323	144,297
Tax effect of permanent differences	1,264	1,249
Net of tax-exempt income	(18,664)	(22,870)
Investment tax credits	(41,517)	(39,500)
Additional tax on undistributed earnings, net	2,730	3,590
Others	(6,933)	3,412
Income tax expense	<u>\$ 91,203</u>	<u>90,178</u>

B. Deferred tax assets and liabilities

(a) The deferred tax assets have not been recognized in respect of the following items:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Investment tax credits	\$ 15,734	14,297

The Group did not recognize the deferred tax assets arising from investment tax credit, which is awaiting to be examined and approved, in relation to "Regulations Governing the Application of Tax Credits for Corporate or Limited Partnership R&D Expenditures" for the years ended December 31, 2021 and 2020.

(b) Recognized deferred tax assets and liabilities

Deferred tax assets:

	<u>January 1, 2020</u>	<u>Recognized in profit or loss</u>	<u>December 31, 2020</u>	<u>Recognized in profit or loss</u>	<u>December 31, 2021</u>
Allowance for doubtful accounts	\$ -	(1,369)	1,369	(2,147)	3,516
Allowance for inventory valuation	2,284	1,101	1,183	(356)	1,539
Compensation for unused leave	1,988	(275)	2,263	(145)	2,408
Unrealized exchange losses	1,795	1,096	699	381	318
Deferred revenue	-	(2,542)	2,542	1,845	697
	<u>\$ 6,067</u>	<u>(1,989)</u>	<u>8,056</u>	<u>(422)</u>	<u>8,478</u>

C. Assessment of tax filings

The Company's income tax returns for the years through 2019 have been examined and approved by the R.O.C. income tax authorities.

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(14) Capital and other equity

As of December 31, 2021 and 2020, the authorized common stock of the Company amounted to \$1,500,000 thousand, which was divided into 150,000 thousand shares, with a par value of \$10 per share, of which \$100,000 thousand was reserved for employee stock options. The issued and outstanding shares of common stock both amounted to \$102,716 thousand.

A. Capital surplus

The balances of capital surplus were as follows:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Additional paid in capital	\$ 29,826	29,826
Employee stock options	10,666	10,666
Compensation cost arising from seasoned equity offering reserved for employees' purchase	<u>1,322</u>	<u>1,322</u>
	<u><u>\$ 41,814</u></u>	<u><u>41,814</u></u>

Pursuant to the Company Act, any realized capital surplus is initially used to cover accumulated deficit, and the balance, if any, could be transferred to common stock as stock dividends or distributed by cash based on the original shareholding ratio. Realized capital surplus includes the premium derived from the issuance of share of stock in excess of par value and donations received by the Company. In accordance with the "Regulations Governing the Offering and Issuance of Securities by Securities Issuers", distribution of stock dividends from capital surplus in any one year shall not exceed 10% of paid-in capital. Capital surplus derived from the issuance of share of stock in excess of par value could not be capitalized until the fiscal year after the competent authority for company registrations approves registration of the capital increase or whatever other matter generated that portion of capital reserve.

B. Retained earnings

The Company's Articles of Incorporation stipulate that at least 10% of annual net income, after payment of income taxes and offsetting accumulated deficits, shall be set aside until such retention equals the amount of paid-in capital. In addition, a special reserve in accordance with applicable laws and regulations or upon a request for the Company's operations shall also be set aside or reversed. The remaining current-year earnings together with unappropriated earnings from preceding years can be distributed as dividends to stockholders pursuant to the resolutions of the Board of Directors.

The Company's dividend policy is to pay dividends from surplus considering factors such as current and future investment environment, cash requirements, domestic and overseas competitive conditions and capital budget requirements, while taking into account shareholders' interest in the meantime, maintenance of balanced dividend and the Company's long-term financial plan. The cash portion of the dividend, which may be in the form of cash and stock, shall not be less than 10% of the total dividend distributed during the year.

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(a) Legal reserve

Pursuant to the Company Act, if the Company has no accumulated deficit it may, pursuant to a resolution approved by the stockholders, distribute its legal reserve by issuing new shares or distributing cash for the portion of legal reserve which exceeds 25% of the paid-in capital.

(b) Special reserve

In accordance with Rule No. 1010012865 issued by the FSC on April 6, 2012, a special reserve equal to the total amount of items that are accounted for as deductions from stockholders' equity shall be set aside from current and prior-year unappropriated earnings. This special reserve shall revert to retained earnings and be made available for distribution when the items that are accounted for as deduction from stockholders' equity are reversed in subsequent periods.

C. Earnings distribution

The resolution of earnings distribution for 2020 had been approved by shareholders through electronic voting on June 14, 2021. Details of earnings distribution for 2020 and 2019 as resolved by general shareholders' meeting on July 20, 2021 and June 19, 2020, respectively, were as follow:

	2020	2019
Dividends distributed to ordinary shareholders:		
Cash (dividends per share were both \$5)	\$ 513,580	513,580

The aforementioned appropriation of earnings for 2020 and 2019 was consistent with the amount recognized in the financial statements. The aforementioned information is available on the Market Observation Post System website of the TWSE. The appropriation of earnings for 2021, \$5.3 per share in cash, proposed by the Board of Directors on February 23, 2022 is to be present for approval in the annual shareholders' meeting. The information relevant to the aforementioned appropriation of earnings will be available on the Market Observation Post System website after the resolution.

D. Other equity — exchange differences on translation of foreign financial statements

	2021	2020
Balance at January 1	\$ (1,285)	(1,283)
Net change	(19)	(2)
Balance at December 31	\$ (1,304)	(1,285)

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(15) Earnings per Share

	<u>2021</u>	<u>2020</u>
Basic earnings per share		
Net income attributable to the shareholders of the Company	\$ <u>680,410</u>	<u>631,304</u>
Weighted average number of ordinary shares outstanding (in thousands of shares)	<u>102,716</u>	<u>102,716</u>
Basic earnings per share (dollar)	\$ <u>6.62</u>	<u>6.15</u>
Diluted earnings per share:		
Net income attributable to the shareholders of the Company	\$ <u>680,410</u>	<u>631,304</u>
Weighted average number of ordinary shares outstanding (in thousands of shares)	102,716	102,716
Dilutive potential ordinary shares employee remuneration in stock (in thousands of shares)	<u>514</u>	<u>850</u>
Weighted average number of ordinary shares outstanding (in thousands of shares)(diluted)	<u>103,230</u>	<u>103,566</u>
Diluted earnings per share (dollar)	\$ <u>6.59</u>	<u>6.10</u>

(16) Revenue from contracts with customers

A. Details of revenues

	<u>2021</u>	<u>2020</u>
Primary geographical markets:		
Taiwan	\$ 2,728,399	2,655,020
China	1,701,695	1,559,136
Japan	80,413	74,067
Other areas	<u>2,927</u>	<u>7,880</u>
	\$ <u>4,513,434</u>	<u>4,296,103</u>
Major product categories		
Display materials	\$ 4,309,094	4,115,789
Semiconductor materials and key raw materials	<u>204,340</u>	<u>180,314</u>
	\$ <u>4,513,434</u>	<u>4,296,103</u>

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B. Contract balances

	<u>December 31, 2021</u>	<u>December 31, 2020</u>	<u>January 1, 2020</u>
Accounts receivable (including related parties)	\$ 1,352,713	1,247,298	1,333,199
Less: Allowance for doubtful accounts	<u>(31,107)</u>	<u>(19,319)</u>	<u>(7,797)</u>
	<u><u>\$ 1,321,606</u></u>	<u><u>1,227,979</u></u>	<u><u>1,325,402</u></u>

Please refer to note 6(4) for the disclosure of accounts receivable and allowance for doubtful accounts.

	<u>December 31, 2021</u>	<u>December 31, 2020</u>	<u>January 1, 2020</u>
Contract liabilities (recognized in other current liabilities)	<u><u>\$ 12,045</u></u>	<u><u>4,112</u></u>	<u><u>5,458</u></u>

The major change in the balance of contract liabilities is the advance consideration received from customers for the contracts, in which revenue is recognized when products are delivered to customers. The amount of revenue recognized for the years ended December 31, 2021 and 2020, which was included in the contract liability balance at the beginning of the period, was \$4,111 thousand and \$5,456 thousand, respectively.

(17) Remuneration to employees and directors

If the Company has a profit (income before tax, excluding remuneration to employees and Directors) for each fiscal year, the Company shall first reserve a sufficient amount to offset its accumulated losses, and then distribute the remaining in accordance with the ratio as follows:

- A. No less than 3% as employees' remuneration;
- B. No more than 1% as directors' remuneration.

Employees' remuneration may be distributed in the form of shares or cash, and employees qualified to receive the remuneration may include employees of the subsidiaries of the Company meeting certain specific qualifications.

For the years ended December 31, 2021 and 2020, the Company accrued and recognized its employees' remuneration amounting to \$63,075 thousand and \$58,977 thousand and directors' remuneration amounting to \$6,307 thousand and \$5,898 thousand (excluding the fixed directors' remuneration amounting to \$12,000 thousand and \$11,969 thousand), respectively. These amounts were calculated using the Company's net income before tax without the remunerations to employees and directors for each period, multiplied by the percentage which is stated under the Company's Article of Incorporation. These remunerations were expensed under operating costs or expenses for each period. If there are any subsequent adjustments to the actual remuneration amounts after the Board of Directors, the adjustment will be regarded as changes in accounting estimates and will be reflected in profit or loss in the following year. Shares distributed to employees as employees' remuneration are calculated based on the closing price of the Company's shares on the day before the approval by the Board of Directors.

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The amounts as stated in the 2021 and 2020 consolidated financial statements were consistent with those approved in the board of directors' meetings. The relevant information is available on the Market Observation Post System website.

(18) Non-operating income an expenses

A. Interest income

	<u>2021</u>	<u>2020</u>
Interest income on bank deposits	\$ 4,702	5,413
Interest income on government bonds with reverse repurchase agreements and others	-	129
	<u>\$ 4,702</u>	<u>5,542</u>

B. Other gains and losses

	<u>2021</u>	<u>2020</u>
Gains (losses) on disposals of property, plant and equipment, net	\$ (261)	159
Foreign exchange losses	(10,262)	(24,278)
Gains on financial assets (liabilities) measured at fair value through profit or loss	640	6,856
Government grants	12,500	2,682
Others	663	1,348
	<u>\$ 3,280</u>	<u>(13,233)</u>

C. Interest expense

	<u>2021</u>	<u>2020</u>
Interest expense on bank borrowings	\$ 1,151	1,264
Interest expense on lease liabilities	2,827	2,949
	<u>\$ 3,978</u>	<u>4,213</u>

(19) Financial instruments

A. Credit risk

(a) Credit risk exposure

Credit risk is the risk of financial loss to the Group if a counterparty of a financial instrument transaction fails to meet its contractual obligations, and derived primarily from cash and cash equivalents, accounts receivable (including related parties), financial assets measured at amortized cost, and guarantee deposits paid. The maximum exposure to credit risk is equal to the carrying amount of the Group's financial assets.

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(b) Concentration of credit risk

As of December 31, 2021 and 2020, 81% and 80%, respectively, of the Group's accounts receivable (including related parties) were from the top 4 customers. There is no other significant concentration of credit risk from the remaining accounts receivable.

(c) Credit risks of receivables and debt securities

For credit risk exposure of accounts receivable, please refer to note 6(4). For the details of financial assets at amortized cost includes, including time deposits, please refer to note 6(3).

All of these financial assets are considered to have low risk, and thus, the impairment provision recognized during the period was limited to 12 months expected losses. (Please refer to note 4(7) regarding how the Company determines whether the financial instruments are considered to be low credit risk).

B. Liquidity risk

The following, except for short-term borrowings, accounts payable (including related parties), payroll and bonus payable, and payable on machinery and equipment are the contractual maturities of other financial liabilities and the amounts include estimated interest payments but exclude the impact of netting agreements.

	<u>Carrying amount</u>	<u>Contract ual cash flows</u>	<u>Within 6 months</u>	<u>6-12 months</u>	<u>1-2 years</u>	<u>2-5 years or more</u>	<u>Over 5 years</u>
December 31, 2021							
Non derivative financial liabilities							
Current and non- current lease liabilities	\$ 184,036	(212,901)	(5,464)	(5,384)	(21,537)	(32,306)	(148,210)
Long-term borrowings	213,500	(216,090)	(534)	(14,741)	(57,206)	(143,609)	-
Guarantee deposits received	132	(132)	-	-	(132)	-	-
	<u>\$ 397,668</u>	<u>(429,123)</u>	<u>(5,998)</u>	<u>(20,125)</u>	<u>(78,875)</u>	<u>(175,915)</u>	<u>(148,210)</u>

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	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 6 months</u>	<u>6-12 months</u>	<u>1-2 years</u>	<u>2-5 years or more</u>	<u>Over 5 years</u>
December 31, 2020							
Non derivative financial liabilities							
Current and non-current lease liabilities	\$ 192,217	(223,910)	(5,504)	(5,504)	(21,617)	(32,306)	(158,979)
Long-term borrowings	159,200	(161,851)	(398)	(398)	(15,004)	(146,051)	-
Guarantee deposits received	138	(138)	-	-	(138)	-	-
Derivative financial liabilities							
Inflows	-	57,565	57,565	-	-	-	-
Outflows	15	(57,580)	(57,580)	-	-	-	-
	<u>\$ 351,570</u>	<u>(385,914)</u>	<u>(5,917)</u>	<u>(5,902)</u>	<u>(36,759)</u>	<u>(178,357)</u>	<u>(158,979)</u>

The Group does not expect the cash flows included in the maturity analysis to occur significantly earlier or at significantly different amounts.

C. Currency risk

(a) Exposure to foreign currency risk

The Group's significant exposure to foreign currency risk was as follows:

	<u>December 31, 2021</u>			<u>December 31, 2020</u>		
	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>NTD</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>NTD</u>
<u>Financial assets</u>						
<u>Monetary Items</u>						
USD	\$ 18,884	27.66	522,325	14,490	28.48	412,687
JPY	26,250	0.2407	6,318	55,413	0.2757	15,276
<u>Non-monetary Items</u>						
USD	10,088	27.66	Note	5,680	28.48	Note
<u>Financial liabilities</u>						
<u>Monetary Items</u>						
USD	747	27.66	20,655	386	28.48	10,989
JPY	29,918	0.2407	7,201	33,103	0.2757	9,127
<u>Non-monetary Items</u>						
USD	-	-	Note	2,050	28.48	Note

Note: The fair value of forward exchange contracts was measured at the reporting date. For related information, please refer to note 6(2).

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(b) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable, and accounts payables that are denominated in foreign currency. As of December 31, 2021 and 2020, an appreciating (depreciating) of 0.1% of the NTD against the USD and JPY would have increased or decreased the profit from continuing operations before tax by \$501 thousand and \$408 thousand, respectively while all other variables were remained constant. The analysis was performed on the same basis for comparative periods.

(c) Foreign exchange gain (loss) on monetary items

The Group's foreign exchange gain (loss) arising from translation to the functional currency, including realized and unrealized portions, was as follows:

	2021		2020	
	Foreign exchange gain (loss)	Average exchange rate	Foreign exchange gain (loss)	Average exchange rate
NTD	\$ (10,262)	-	(24,278)	-

D. Interest rate analysis

The following sensitivity analysis is based on the exposure to interest rates. Regarding liabilities with variable interest rates, the analysis is based on the assumption that the amount of liabilities outstanding at the reporting date was outstanding throughout the year.

If the interest rate had increased or decreased by 0.1%, the Group's profit from continuing operations before tax would have both increased or decreased by \$0 thousand, for the years ended December 31, 2021 and 2020, assuming all other variable factors remain constant.

E. Fair value of financial instruments

(a) Fair value hierarchy

The carrying amount and fair value of the Group's financial assets and liabilities, including the information on fair value hierarchy were as follows; however, except as described in the following paragraphs, for financial instruments not measured at fair value whose carrying amount reasonably approximate the fair value, and lease liabilities, disclosure of fair value information is not required.

	December 31, 2021				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets					
Financial assets measured at fair value through profit or loss — current — derivative financial assets	\$ 1,415	-	1,415	-	1,415

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		December 31, 2021				
		Carrying amount	Fair value			Total
			Level 1	Level 2	Level 3	
Financial assets measured at amortized cost						
Cash and cash equivalents	\$	214,798	-	-	-	-
Financial assets measured at amortized cost – current		941,335	-	-	-	-
Accounts receivable (including related parties)		1,321,606	-	-	-	-
Financial assets measured at amortized cost – non-current		10,350	-	-	-	-
Guarantee deposits paid		178	-	-	-	-
		<u>\$ 2,488,267</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities						
Financial liabilities measured at amortized cost						
Accounts payable (including related parties)	\$	603,543	-	-	-	-
Payroll and bonus payable		271,643	-	-	-	-
Payable on machinery and equipment		55,708	-	-	-	-
Long-term borrowings (including current portion)		213,500	-	-	-	-
Lease liabilities – current and non-current		184,036	-	-	-	-
Guarantee deposits received		132	-	-	-	-
		<u>\$ 1,328,562</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
		December 31, 2020				
		Carrying amount	Fair value			Total
			Level 1	Level 2	Level 3	
Financial assets						
Financial assets measured at fair value through profit or loss – current – derivative financial assets						
	\$	<u>1,867</u>	<u>-</u>	<u>1,867</u>	<u>-</u>	<u>1,867</u>
Financial assets measured at cost						
Cash and cash equivalents	\$	283,695	-	-	-	-
Financial assets measured at amortized cost – current		952,569	-	-	-	-
Accounts receivable (including related parties)		1,227,979	-	-	-	-
Financial assets measured at amortized cost – non-current		10,350	-	-	-	-
Guarantee deposits paid		328	-	-	-	-
		<u>\$ 2,474,921</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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	December 31, 2020				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial liabilities					
Financial liabilities measured at fair value through profit or loss					
— current — derivative					
financial liabilities	\$ <u>15</u>	-	15	-	15
Financial liabilities measured at amortized cost					
Accounts payable (including related parties)	\$ 562,829	-	-	-	-
Payroll and bonus payable	264,063	-	-	-	-
Payable on machinery and equipment	28,168	-	-	-	-
Long-term borrowings	159,200	-	-	-	-
Lease liabilities — current and non-current	192,217	-	-	-	-
Guarantee deposits received	138	-	-	-	-
	<u>\$ 1,206,615</u>	-	-	-	-

(b) Valuation technique for financial instruments not measured at fair value

The Group estimates its financial instruments not measured at fair value using the following methods and assumptions:

Fair value measurement for financial assets and financial liabilities measured at amortized cost will be based on the latest quoted price and concluded price if the quotation provided by market makers or concluded price is available in active markets. When market value is unavailable, the fair value of financial assets and financial liabilities is evaluated based on the discounted cash flow of the financial liabilities.

(c) Valuation technique for fair value of financial instruments measured at fair value — derivative financial instruments

Forward exchange contracts will be generally evaluated based on forward strike rate.

As of December 31, 2021 and 2020, there was no transfer at fair value level.

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(20) Financial risk management

A. Overview

The Group has exposures to the following risks from its financial instruments:

- (a) Credit risk
- (b) Liquidity risk
- (c) Market risk

In order to reduce and manage related financial risks, the Group is committed to analyzing, identifying and assessing the potential adverse effects of those financial risk factors on the Group's financial performance, and then proposing and implementing corresponding countermeasures to avoid unfavorable factors caused by financial risks.

The following likewise discusses the Group's objectives, policies and processes for measuring and managing the aforementioned risks. For more disclosures about the quantitative effects of these risk exposures, please refer to the respective notes in the accompanying consolidated financial statements.

B. Structure of risk management

The Group's major financial activities are reviewed by the Board of Directors and the audit committee in accordance with relevant regulations and internal control systems. During the execution of the financial projects, the Group must strictly abide by the related financial operation procedures in relation to the overall financial risk management and the division of authority and responsibility. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

C. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from operating activities, financial assets measured at amortized cost, and cash and cash equivalents. Operation-related credit risk and financial credit risk are managed separately.

(a) Operation-related credit risk

The Group has established a credit policy under which each new customer is analyzed individually to maintain the quality of accounts receivable.

The risk assessment for each customer takes into account a number of factors that may affect the customer's solvency, including the customer's financial status, credit rating agencies and the Group's credit ratings, historical payment records, and current economic situations. If necessary, the Group will make use of credit enhancement instruments, such as payment in advance and credit insurance, to reduce the credit risk from particular customers.

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(b) Financial credit risk

The credit risk exposure in the bank deposits and other financial instruments are measured and monitored by the Group's finance department. As the Group deals with banks and financial institutions, and corporate organization with good credit standing which are graded above par level, the Group believes that does not have performance capability issues and no significant credit risk.

D. Liquidity risk

Liquidity risk is the risk that the Group has no sufficient cash and other financial assets to meet its obligations associated with matured financial liabilities. There is no liquidity risk of being unable to raise capital to settle contract obligations since the Group has sufficient capital and working capital to fulfill contract obligations. Please refer to note 6(19).

E. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, which will affect the Group's income or the value of its holdings of financial instruments. Please refer to note 6(19). The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

(a) Currency risk

The Group is exposed to currency risk on sales and purchases that are denominated in currencies other than the functional currencies of the Group's entities. These transactions are denominated in NTD, USD, and JPY.

In respect of net positions of accounts receivable denominated in foreign currencies, the Group undertakes forward exchange contacts appropriately. If necessary, the Group can rollover forward exchange contacts when contracts are mature.

(b) Interest rate risk

Please refer to note 6(19).

(21) Capital management

The Group's capital management is to ensure it has necessary and reasonable financial resources to support the future development, and takes the decent debt ratio into account temporarily so that investors, creditors and the market can rest assured. The management may achieve the purpose of maintaining or adjusting the Group's capital structure by adjusting dividends paid to shareholders, returning capital to shareholders, and issuing new shares. The debt ratio as of December 31, 2021 and 2020 were 34% and 33%, respectively. There were no changes in the Group's approach to capital management during the year ended December 31, 2021.

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(22) Investing and financing activities not affecting current cash flow

The Group's investing and financing activities which did not affect the current cash flow for the years ended December 31, 2021 and 2020 were as follows:

	<u>Short-term borrowings</u>	<u>Long-term borrowings (including current portion)</u>	<u>Lease liabilities (current and non- current)</u>	<u>Guarantee deposits received</u>	<u>Liabilities arising from financing activities</u>
January 1, 2021	\$ -	159,200	192,217	138	351,555
Cash flow					
Proceeds from borrowings	230,000	54,300	-	-	284,300
Repayments of borrowings	(230,000)	-	-	-	(230,000)
Payment of lease liabilities	-	-	(8,181)	-	(8,181)
Interest paid	-	-	(2,827)	-	Note
Guarantee deposits refunded	-	-	-	(6)	(6)
Non-cash changes					
Interest expenses	-	-	2,827	-	Note
December 31, 2021	<u>\$ -</u>	<u>213,500</u>	<u>184,036</u>	<u>132</u>	<u>397,668</u>
	<u>Short-term borrowings</u>	<u>Long-term borrowings</u>	<u>Lease liabilities (current and non- current)</u>	<u>Guarantee deposits received</u>	<u>Liabilities arising from financing activities</u>
January 1, 2020	\$ 50,000	-	201,828	183	252,011
Cash flow					
Proceeds from borrowings	665,000	159,200	-	-	824,200
Repayments of borrowings	(715,000)	-	-	-	(715,000)
Payment of lease liabilities	-	-	(8,060)	-	(8,060)
Interest paid	-	-	(2,949)	-	Note
Adjustment of right of use asset	-	-	(1,551)	-	(1,551)
Guarantee deposits refunded	-	-	-	(45)	(45)
Non-cash changes					
Interest expenses	-	-	2,949	-	Note
December 31, 2020	<u>\$ -</u>	<u>159,200</u>	<u>192,217</u>	<u>138</u>	<u>351,555</u>

Note : It was categorized as operating activities

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7. Related-party transactions:

(1) Names and relationships of related parties

The followings are entities that have had transactions with the Group during the periods covered in the consolidated financial statements:

<u>Names of related parties</u>	<u>Relationship with the Group</u>
Eternal Materials Co., Ltd. (“Eternal”)	The entity with significant influence over the Group
AU Optronics Corp. (“AUTW”)	The entity with significant influence over the Group
AUO Crystal Corp. (“ACTW”)	AUTW’s Subsidiary
AU Optronics (Suzhou) Corp., Ltd. (“AUSZ”)	AUTW’s Subsidiary
AU Optronics (Xiamen) Corp. (“AUXM”)	AUTW’s Subsidiary
AU Optronics (Kunshan) Co., Ltd. (“AUKS”)	AUTW’s Subsidiary
AUO Crystal (Malaysia) Sdn Bhd (“ACMK”)	AUTW’s Subsidiary
Board members, general manager, and vice presidents	The management of the Group

(2) Compensation to key management personnel

Key management personnel compensation comprised of:

	<u>2021</u>	<u>2020</u>
Short-term employee benefits	\$ 85,090	87,040
Post-employment benefits	243	324
	<u>\$ 85,333</u>	<u>87,364</u>

(3) Significant transactions with related parties

A. Sales

The amounts of significant sales transactions and the outstanding balance of accounts receivable between the Group and related parties were as follows:

	<u>Operating revenue</u>		<u>Accounts receivable due from related parties</u>	
	<u>2021</u>	<u>2020</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
The entity with significant influence over the Group – ACTW	\$ 2,318,125	2,307,659	853,177	797,622
The entity with significant influence over the Group – Others	54	15	-	-
Other related parties	39,281	21,983	15,644	7,183
	<u>\$ 2,357,460</u>	<u>2,329,657</u>	<u>868,821</u>	<u>804,805</u>

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As of December 31, 2021 and 2020, the credit terms for related parties were both 60 to 120 days from the end of the month while those for third parties were collected in advance to 120 days from the end of the month. The selling price for sales to the related parties was determined by market and adjusted according to the sales volume and product specification. The Group did not implement collateral requirements for receivables from related parties, and did not reserve the bad debt allowance for related parties' receivables after appraisal.

B. Purchase and process outsourcing

The amounts of purchases and process outsourcing, and the outstanding balance of accounts payable to related parties were as follows:

	<u>Purchase and process outsourcing</u>		<u>Accounts payable to related parties</u>	
	<u>2021</u>	<u>2020</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
The entity with significant influence over the Group	\$ <u>75,389</u>	<u>76,341</u>	<u>18,127</u>	<u>20,151</u>

As of December 31, 2021 and 2020, the payment terms to third parties were both 90 days from the end of the month while those to related parties were prepayment to 120 days from the end of the month. The Group did not procure products with the same specification from third parties, so that purchase price between related parties and third parties cannot be compared. The products outsourced to related parties were different from products outsourced to third parties, so the payment terms and purchase prices can't be benchmarked.

C. Transactions of property, plant and equipment

The disposals of property, plant and equipment to related parties were summarized as follows:

	<u>Proceeds from disposal</u>		<u>Accounts receivable due from related parties</u>	
	<u>2021</u>	<u>2020</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Other related parties	\$ <u>-</u>	<u>159</u>	<u>-</u>	<u>-</u>

For the years ended December 31, 2021 and 2020, the gain on disposal of property, plant and equipment amounted to \$0 thousand and \$159 thousand, respectively.

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D. Service rendering

The amounts of service rendering, such as inspection fees and administrative expenses, and the outstanding balance of other payable due to related parties were as follows:

	<u>Amount</u>		<u>Accounts payable to related parties</u>	
	<u>2021</u>	<u>2020</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
The entity with significant influence over the Group	\$ 1,381	752	-	98
Other related parties	<u>50</u>	<u>4</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,431</u>	<u>756</u>	<u>-</u>	<u>98</u>

8. Pledged assets:

The carrying values of pledged assets were as follows:

<u>Asset name</u>	<u>Pledge or Mortgage underlying subject</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Time deposits (recognized in financial assets measured at amortized cost – non-current)	Guarantee for the lease contract with the Central Taiwan Science Park Bureau	\$ 6,200	6,200
Time deposits (recognized in financial assets measured at amortized cost – non-current)	Guarantee for the investment with the Chungkang Export Processing Zone Bureau	<u>4,150</u>	<u>4,150</u>
		<u>\$ 10,350</u>	<u>10,350</u>

9. Commitments and contingencies:

The significant commitments and contingencies of the Group as of December 31, 2021 and 2020, except for note 6(11), were as follows:

- (1) As of December 31, 2021 and 2020, a guarantee letter for import tariffs and VAT which the Group requested a bank to issue to the Taipei Customs Administration amounting to \$4,000 thousand and \$3,000 thousand, respectively.
- (2) As of December 31, 2021 and 2020, the significant outstanding commitments for construction and purchase of property, plant and equipment amounted to \$142,963 thousand and \$356,097 thousand, respectively.

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- (3) As of December 31, 2021 and 2020, the total amount of promissory notes deposited by the Group at the bank for acquiring borrowings limit and credit line of forward exchange trading was \$1,724,768 thousand and \$1,707,872 thousand, respectively.
- (4) As of December 31, 2021, a promissory note and a guarantee letter issued by a bank to Taiwan Small & Medium Enterprise Counselling Foundation as a guarantee of government subsidies for the research and development project amounted \$30,876 thousand and \$12,500 thousand, respectively.

10. Losses due to major disasters: None

11. Subsequent events: None

12. Other:

A summary of current-period employee benefits, depreciation, and amortization, by function, is as follows:

By item	By function	2021			2020		
		Cost of Sale	Operating Expense	Total	Cost of Sale	Operating Expense	Total
Employee benefits							
Salary		147,031	471,271	618,302	137,176	445,655	582,831
Labor and health insurance		12,616	24,649	37,265	10,768	21,824	32,592
Pension		6,005	11,273	17,278	5,550	10,835	16,385
Others		6,363	12,699	19,062	6,951	15,709	22,660
Depreciation		158,250	54,897	213,147	161,865	57,547	219,412
Amortization		239	2,681	2,920	228	2,436	2,664

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13. Other disclosures:

(1) Information on significant transactions:

The following is the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Group:

A. Loans to other parties: None.

B. Guarantees and endorsements for other parties: None.

C. Securities held as of December 31, 2021 (excluding investment in subsidiaries, associates and joint ventures): None.

D. Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.

E. Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock:

Name of company	Name of property	Transaction date	Transaction amount	Status of payment	Counter-party	Relationship with the Company	If the counter-party is a related party, disclose the previous transfer information				References for determining price	Purpose of acquisition and current condition	Others
							Owner	Relationship with the Company	Date of transfer	Amount			
The Company	New construction of Chungkang site	Feb. 27, 2020	215,871 (before tax)	194,284 (before tax)	Lee Ming Construction Corporation	Non related party	None	None	None	-	Bidding	Operation	None

F. Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.

G. Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase /Sale	Amount	% of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	% of total notes/accounts receivable (payable)	
The Company	AUTW	The company who evaluated the Company by the equity method	(Sales)	2,318,125	51 %	120 days from the end of the month	Note 7	Note 7	853,177	65%	

H. Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

Name of company	Counter-party	Nature of relationship	Ending balance	Turnover rate	Overdue		Amounts received in subsequent period	Allowance for bad debts
					Amount	Action taken		
The Company	AUTW	The company who evaluated the Company by the equity method	853,177	2.81	32	Collected	206,670	-

Note: The status of receivables collection in subsequent period was as of January 25, 2022.

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I. Trading in derivative instruments: Please refer to notes 6(2).

J. Business relationships and significant intercompany transactions: None.

(2) Information on investees (excluding information on investment in Mainland China):

The following is the information on investees for the years ended December 31, 2021:

(Unit: NTD (JPY) thousand/share)

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2021			Highest % of ownership	Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2021	December 31, 2020	Shares (thousands)	% of ownership	Carrying value				
The Company	LS	Japan	R&D, Manufacturing and sales company of fine chemicals	5,617 (JPY15,000)	5,617 (JPY15,000)	1,500	100.00 %	143	- %	-	-	Note (1)
The Company	FMSA	Samoa	Investing and shareholding	-	-	-	- %	-	- %	-	-	Note (2)

Note (1): The relevant transactions and ending balance were eliminated in the consolidated financial statements.

Note (2): The registration process was completed on August 9, 2017. As of December 31, 2021, the capital was not injected.

(3) Information on investment in Mainland China:

A. The names of investees in Mainland China, the main businesses and products, and other information: None.

B. Limitation on investment in Mainland China: None.

C. Significant transactions: None.

(4) Major shareholders:

Shareholder's Name	Shareholding	Shares	Percentage
Eternal Materials Co., Ltd.		23,423,812	22.80 %
Konly Venture Corp.		19,113,730	18.61 %
Fubon Life Insurance Co. Ltd.		7,528,000	7.33 %
Ronly Venture Corp.		6,312,075	6.15 %

Note : (1) The information on major shareholders, which is provided by the Taiwan Depository & Clearing Corporation, summarized the shareholders who held over 5% of the total nonphysical ordinary shares and preference shares (including treasury shares) on the last business date of each quarter. The actual registered non-physical shares may be different from the capital shares disclosed in the consolidated financial statements due to the use of different calculation basis.

(2) In the case of the above information, if a shareholder delivers shares to the trust, the shares will be individually disclosed by the trustee who opened the trust account. As for shareholders' declarations of insider's equity holdings exceeding 10% in accordance with the Securities and Exchange Act, their shareholding include their own shareholding, plus the shares delivered to the trust, and the right to use the trust property. For further information on relevant insider shares, please refer to the Market Observation Post System website.

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Notes to the Consolidated Financial Statements

14. Segment information:

(1) Operating segments

The segment financial information is found in the consolidated financial statements. For the Group's revenue from external customers and profit from continuing operations before tax, please refer to the consolidated statements of comprehensive income. For assets, please refer to the consolidated balance sheets.

(2) Products information

	<u>2021</u>	<u>2020</u>
Display materials	\$ 4,309,094	4,115,789
Semiconductor materials and key raw materials	<u>204,340</u>	<u>180,314</u>
	<u>\$ 4,513,434</u>	<u>4,296,103</u>

(3) Geographical information

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers, and non current assets are based on the geographical location of the assets.

<u>Geographical information</u>	<u>2021</u>	<u>2020</u>
Revenue from external customers		
Taiwan	\$ 2,728,399	2,655,020
China	1,701,695	1,559,136
Japan	80,413	74,067
Other countries	<u>2,927</u>	<u>7,880</u>
	<u>\$ 4,513,434</u>	<u>4,296,103</u>
Non-current assets		
Taiwan	<u>\$ 1,758,754</u>	<u>1,548,374</u>

(4) Major customers' information

Sales to individual customers representing greater than 10% of net sales of the Group:

	<u>2021</u>	<u>2020</u>
AUTW	<u>\$ 2,318,125</u>	<u>2,307,659</u>