

**Daxin Materials Corporation**  
**Parent-Company-Only Financial Statements**  
**With Independent Auditors' Report**  
**For the Years Ended December 31, 2021 and 2020**

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The independent auditors' report and the accompanying parent-company-only 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 parent-company-only financial statements, the Chinese version shall prevail.

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## Independent Auditors' Report

To the Board of Directors of Daxin Materials Corporation:

### Opinion

We have audited the parent-company-only financial statements of Daxin Materials Corporation(" the Company" ), which comprise the balance sheets as of December 31, 2021 and 2020, the statements of comprehensive income, changes in equity and cash flows for the years then ended and notes to the parent-company-only financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent-company-only financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

### Basis for Opinion

We conducted our 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 Financial Statements section of our report. We are independent of the Company 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 for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the parent-company-only financial statements of the current period. These matters were addressed in the context of our audit of the parent-company-only financial statements as a whole, and in forming our opinion thereon, 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(17) "Revenue from contracts with customers" of the parent-company-only 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(7) "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.

## **Responsibilities of Management and Those Charged with Governance for the Parent-Company-Only Financial Statements**

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

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

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



## **Auditors' Responsibilities for the Audit of the Parent-Company-Only Financial Statements**

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the parent-company-only financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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 parent-company-only financial statements are intended only to present the 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 parent-company-only financial statements are those generally accepted and applied in the Republic of China.

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(English Translation of Parent-Company-Only Financial Statements and Report Originally Issued in Chinese)  
DAXIN MATERIALS CORPORATION

Balance Sheets

December 31, 2021 and 2020

(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2021		December 31, 2020				December 31, 2021		December 31, 2020	
Assets		Amount	%	Amount	%	Liabilities and Equity		Amount	%	Amount	%
<b>Current assets:</b>						<b>Current liabilities:</b>					
1100	Cash and cash equivalents (note 6(1))	\$ 214,655	5	283,533	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 (17))	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), (17) 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	<u>36,417</u>	<u>1</u>	<u>30,298</u>	<u>1</u>	2280	Lease liabilities— current (note 6(12))	8,144	-	8,181	-
	<b>Total current assets</b>	<u>2,871,655</u>	<u>62</u>	<u>2,781,899</u>	<u>64</u>	2322	Long-term borrowings, current portion (note 6(11))	14,216	-	-	-
	<b>Non-current assets:</b>					2399	Other current liabilities (note 6(17))	<u>144,893</u>	<u>3</u>	<u>134,604</u>	<u>3</u>
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>
1550	Investments accounted for using equity method (note 6(6))	143	-	162	-		<b>Non-Current liabilities:</b>				
1600	Property, plant and equipment (note 6(7))	1,574,842	34	1,354,262	31	2540	Long-term borrowings (note 6(11))	199,284	4	159,200	4
1755	Right-of-use assets (note 6(8))	180,150	4	189,502	5	2580	Lease liabilities— non-current (note 6(12))	175,892	4	184,036	4
1780	Intangible assets (note 6(9))	2,792	-	3,352	-	2645	Guarantee deposits received	<u>132</u>	<u>-</u>	<u>138</u>	<u>-</u>
1840	Deferred tax assets (note 6(14))	8,478	-	8,056	-			<u>375,308</u>	<u>8</u>	<u>343,374</u>	<u>8</u>
1920	Guarantee deposits paid	178	-	328	-		<b>Total liabilities</b>	<u>1,582,339</u>	<u>34</u>	<u>1,448,761</u>	<u>33</u>
1990	Other non-current assets	<u>970</u>	<u>-</u>	<u>1,258</u>	<u>-</u>		<b>Equity (notes 6(15)):</b>				
	<b>Total non-current assets</b>	<u>1,777,903</u>	<u>38</u>	<u>1,567,270</u>	<u>36</u>	3110	Ordinary shares	<u>1,027,159</u>	<u>22</u>	<u>1,027,159</u>	<u>24</u>
						3200	Capital surplus	<u>41,814</u>	<u>1</u>	<u>41,814</u>	<u>1</u>
							<b>Retained earnings:</b>				
						3310	Legal reserve	475,597	10	412,467	9
						3320	Special reserve	1,285	-	1,283	-
						3350	Unappropriated retained earnings	<u>1,522,668</u>	<u>33</u>	<u>1,418,970</u>	<u>33</u>
								<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	<u>(1,304)</u>	<u>-</u>	<u>(1,285)</u>	<u>-</u>
							<b>Total equity</b>	<u>3,067,219</u>	<u>66</u>	<u>2,900,408</u>	<u>67</u>
<b>Total assets</b>		<u>\$ 4,649,558</u>	<u>100</u>	<u>4,349,169</u>	<u>100</u>		<b>Total liabilities and equity</b>	<u>\$ 4,649,558</u>	<u>100</u>	<u>4,349,169</u>	<u>100</u>

See accompanying notes to parent-company-only financial statements.

(English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese)

**DAXIN MATERIALS CORPORATION**

**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)**

		<b>2021</b>		<b>2020</b>	
		<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
4000	<b>Operating revenue</b> (notes 6(17) and 7)	\$ 4,513,434	100	4,296,103	100
5000	<b>Operating costs</b> (notes 6(5), (9), (12), (13) and 7)	<u>2,902,708</u>	<u>64</u>	<u>2,757,332</u>	<u>64</u>
	<b>Gross profit from operations</b>	<u>1,610,726</u>	<u>36</u>	<u>1,538,771</u>	<u>36</u>
	<b>Operating expenses</b> (notes 6(4), (9), (12), (13) 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>
	<b>Total operating expenses</b>	<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>
	<b>Non-operating income and expenses</b> (notes 6(12), (19) 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>
	<b>Profit from continuing operations before tax</b>	771,613	17	721,482	17
7950	<b>Less: Income tax expense</b> (note 6(14))	<u>91,203</u>	<u>2</u>	<u>90,178</u>	<u>2</u>
	<b>Net income</b>	<u>680,410</u>	<u>15</u>	<u>631,304</u>	<u>15</u>
8300	<b>Other comprehensive income:</b>				
8360	<b>Components of other comprehensive income (loss) that will be reclassified to profit or loss</b>				
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	<b>Other comprehensive income</b>	<u>(19)</u>	<u>-</u>	<u>(2)</u>	<u>-</u>
	<b>Total comprehensive income</b>	<u>\$ 680,391</u>	<u>15</u>	<u>631,302</u>	<u>15</u>
	<b>Earnings per share</b> (NT dollars) (note 6(16))				
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 parent-company-only financial statements.

(English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese)

**DAXIN MATERIALS CORPORATION**

**Statements of Changes in Equity**

**For the years ended December 31, 2021 and 2020**

**(Expressed in Thousands of New Taiwan Dollars)**

			Retained earnings				Exchange differences on translation of foreign financial statements	Total equity
	Ordinary shares	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total retained earnings		
<b>Balance at January 1, 2020</b>	\$ 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)
<b>Balance at December 31, 2020</b>	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)
<b>Balance at December 31, 2021</b>	<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 parent-company-only financial statements.



(English Translation of the Parent-Company-Only Financial Statements Originally Issued in Chinese)

**DAXIN MATERIALS CORPORATION**

**Statements of Cash Flows**

**For the years ended December 31, 2021 and 2020**

**(Expressed in Thousands of New Taiwan Dollars)**

	<b>2021</b>	<b>2020</b>
<b>Cash flows from operating activities:</b>		
Income before income tax	\$ 771,613	721,482
<b>Adjustments:</b>		
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
<b>Changes in operating assets and liabilities:</b>		
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	876,655	1,075,630
Interest received	4,683	5,550
Interest paid	(3,956)	(4,202)
Income taxes paid	(90,268)	(67,014)
<b>Net cash flows from operating activities</b>	<b>787,114</b>	<b>1,009,964</b>
<b>Cash flows from investing activities:</b>		
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)
<b>Net cash flows used in investing activities</b>	<b>(388,525)</b>	<b>(647,104)</b>
<b>Cash flows from financing activities:</b>		
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	(513,580)	(513,580)
<b>Net cash flows used in financing activities</b>	<b>(467,467)</b>	<b>(412,485)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(68,878)</b>	<b>(49,625)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>283,533</b>	<b>333,158</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 214,655</b>	<b>283,533</b>

See accompanying notes to parent-company-only financial statements.

(English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese)

**DAXIN MATERIALS CORPORATION**

**Notes to the 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 mainly engage in the research, development, production, and sale of LCD display and semiconductor related fine chemicals.

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

These parent-company-only 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 Company has initially adopted the following new amendments, which do not have a significant impact on its parent-company-only 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 Company has initially adopted the following new amendments, which do not have a significant impact on its parent-only-company 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 Company 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 parent-company-only 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”

## **DAXIN MATERIALS CORPORATION**

### **Notes to the Financial Statements**

- Annual Improvements to IFRS Standards 2018–2020
- 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 Company 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 parent-company-only 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 parent-company-only financial statements are summarized below. Except for those specifically indicated, the following accounting policies were applied consistently throughout the periods presented in the parent-company-only financial statements.

(1) Statement of compliance

The parent-company-only financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

(2) Basis of preparation

A. Basis of measurement

Expect for financial assets at fair value through profit or loss are measured at fair value, the parent-company-only financial statements have been prepared on a historical cost basis.

B. Functional and presentation currency

The functional currency of each Company entity is determined based on the primary economic environment in which the entity operates. The parent-company-only 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**  
**Notes to the Financial Statements**

(3) Foreign currencies

A. Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Company 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.

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 Company 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 Company 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.

(4) 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.

## **DAXIN MATERIALS CORPORATION**

### **Notes to the Financial Statements**

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 Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

#### **(5) 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.

#### **(6) 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 Company 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 Company 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.



## **DAXIN MATERIALS CORPORATION**

### **Notes to the Financial Statements**

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.

(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 Company 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 Company 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 Company 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 Company 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 Company 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 Company's historical experience and informed credit assessment as well as forward looking information.

## **DAXIN MATERIALS CORPORATION**

### **Notes to the Financial Statements**

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

The Company 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 Company in full.

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 Company in accordance with the contract and the cash flows that the Company expects to receive. ECL are discounted at the effective interest rate of the financial asset.

At each reporting date, the Company 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 Company 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 Company 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 Company’s procedures for recovery of amount due.

**DAXIN MATERIALS CORPORATION**  
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(d) Derecognition of financial assets

The Company 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 Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company 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.

B. Financial liabilities and equity instruments

(a) Classification of debt or equity

Debt and equity instruments issued by the Company 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 Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expired. The Company 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.

**DAXIN MATERIALS CORPORATION**  
**Notes to the Financial Statements**

(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 Company 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 Company holds derivative financial instruments to hedge risk of 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.

(7) 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.

(8) Investments in subsidiaries

The Company's subsidiaries are accounted for using the equity method when preparing their parent-company-only financial statements. Under the equity method, profit, other comprehensive income and equity in the parent-company-only financial statements are equivalent to those of the profit, other comprehensive income and equity which are contributed to the owners of the parent in the consolidated financial statements.

The changes in the parent's interest in its subsidiaries that do not result in a loss of control are accounted as equity transactions.

(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.

**DAXIN MATERIALS CORPORATION**  
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**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 Company.

**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.

**(10) Leases**

At inception of a contract, the Company 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 Company 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.



## **DAXIN MATERIALS CORPORATION**

### **Notes to the Financial Statements**

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 Company's incremental borrowing rate. Generally, the Company 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 Company'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.

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 Company 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 Company 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 Company 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 Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

**DAXIN MATERIALS CORPORATION**  
**Notes to the Financial Statements**

(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 Company 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 Company 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.

(12) Impairment of non financial assets

At each reporting date, the Company 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.

## **DAXIN MATERIALS CORPORATION**

### **Notes to the Financial Statements**

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 Company expects to be entitled in exchange for transferring goods or services to a customer. The Company 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 Company's main types of revenue are explained below.

##### **A. Sale of goods**

The Company engages mainly in the research, development, production, design, and sales of LCD display related fine chemicals. The Company 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 Company 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 Company has a right to an amount of consideration that is unconditional.

##### **B. Government grants**

The Company 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 Company 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 Company 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.

## **DAXIN MATERIALS CORPORATION**

### **Notes to the Financial Statements**

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company 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 Company 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.

Deferred tax assets and liabilities are offset if the following criteria are met:

- A. the Company 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.

## **DAXIN MATERIALS CORPORATION**

### **Notes to the Financial Statements**

#### **(16) Earnings per share**

The Company 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 Company'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**

The Company has disclosed operating segment information in consolidated financial statements. Hence, this information is not required to be disclosed in these parent-company-only financial statements.

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

The preparation of the parent-company-only financial statements in conformity with the Regulations 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.

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 Company 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 Company considers all relevant facts and circumstances that create an economic incentive for the lessee. The Company 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 Company recognizes the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Please refer to note 6(12).

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.



## DAXIN MATERIALS CORPORATION

### Notes to the Financial Statements

The Company's accounting policies and disclosures include the fair value measurement for financial, non-financial assets and liabilities. The Company'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 Company 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 Company recognizes the transfer on the reporting date. For the assumption used in fair value measurement, please refer to note 6(20) of the financial instruments.

#### 6. Explanation of significant accounts:

##### (1) Cash and cash equivalents

	December 31, 2021	December 31, 2020
Cash on hand, demand deposits	\$ 184,655	133,533
Time deposits	30,000	150,000
	<u>\$ 214,655</u>	<u>283,533</u>

Please refer to Note 6(20) for the disclosure of currency risk and sensitivity analysis of the financial instruments of the Company.

##### (2) Financial Assets and Liabilities at Fair Value through Profit or Loss ("FVTPL")

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

## DAXIN MATERIALS CORPORATION

### Notes to the Financial Statements

The Company uses derivative instruments to hedge certain currency risk arising from the Company's operating activities. The Company 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 Company's outstanding foreign currency forward contracts were as follows:

<b>December 31, 2021</b>				
	<b>Contract amount (in thousands)</b>	<b>Currency</b>	<b>Maturity date</b>	<b>Book value</b>
<b>Derivative financial assets:</b>				
Forward exchange contracts sold	\$ 10,088	USD to NTD	January 2022~ March 2022	\$ <u><u>1,415</u></u>
<b>December 31, 2020</b>				
	<b>Contract amount (in thousands)</b>	<b>Currency</b>	<b>Maturity date</b>	<b>Book value</b>
<b>Derivative financial assets:</b>				
Forward exchange contracts sold	\$ 5,680	USD to NTD	January 2021~ April 2021	\$ <u><u>1,867</u></u>
<b>Derivative financial liabilities:</b>				
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

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

The Company 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 Company 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.

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B. For the disclosure of credit risk, please refer to note 6(20).

C. For details of the aforementioned financial assets as performance guarantee, please refer to note 8.

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

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

The Company 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 have 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:

<b>December 31, 2021</b>			
	<b>Gross amount of accounts receivable</b>	<b>Weighted average loss rate</b>	<b>Credit loss allowance</b>
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	107	100%	107
	<b><u>\$ 1,352,713</u></b>		<b><u>31,107</u></b>

  

<b>December 31, 2020</b>			
	<b>Gross amount of accounts receivable</b>	<b>Weighted average loss rate</b>	<b>Credit loss allowance</b>
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	107	5%~100%	5
	<b><u>\$ 1,246,984</u></b>		<b><u>19,005</u></b>

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

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

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

	<u>2021</u>	<u>2020</u>
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><u>\$ 31,107</u></u>	<u><u>19,319</u></u>

Except for those that have been individually identified for impairment losses, the Company 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 Company 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 Company's accounts receivable was not pledged as collateral.

(5) Inventories

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

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 Company's inventories was pledged as collateral.

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(6) Investments accounted for using equity method

A summary of the Company's financial information for investments accounted for using the equity method at the reporting date is as follows:

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Subsidiary	<b>\$ <u>143</u></b>	<b><u>162</u></b>

A. Subsidiaries

Please refer to the consolidated financial statements for the years ended December 31, 2021 and 2020.

B. Guarantee

The Company did not pledge any investments accounted for using the equity method as collateral.

(7) Property, plant and equipment

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

	<b><u>Buildings</u></b>	<b><u>Machinery and equipment</u></b>	<b><u>R&amp;D equipment</u></b>	<b><u>Office and other equipment</u></b>	<b><u>Construction in progress and equipment awaiting inspection</u></b>	<b><u>Total</u></b>
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	<b>\$ <u>1,688,993</u></b>	<b><u>701,805</u></b>	<b><u>266,902</u></b>	<b><u>130,177</u></b>	<b><u>390,656</u></b>	<b><u>3,178,533</u></b>
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	<b>\$ <u>1,674,179</u></b>	<b><u>645,009</u></b>	<b><u>225,845</u></b>	<b><u>124,209</u></b>	<b><u>91,123</u></b>	<b><u>2,760,365</u></b>

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	<b>Buildings</b>	<b>Machinery and equipment</b>	<b>R&amp;D equipment</b>	<b>Office and other equipment</b>	<b>Construction in progress and equipment awaiting inspection</b>	<b>Total</b>
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 Company had not been pledged as collateral as of December 31, 2021 and 2020.

**B. Construction in progress and equipment awaiting inspection**

The Company 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.

**(8) Right of use assets**

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

	<b>Land</b>	<b>Machinery and equipment</b>	<b>Total</b>
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	(1,551)	-	(1,551)
Balance at December 31, 2020	<u>\$ 207,493</u>	<u>780</u>	<u>208,273</u>

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	<b>Land</b>	<b>Machinery and equipment</b>	<b>Total</b>
Accumulated depreciation:			
Balance at January 1, 2021	\$ 18,303	468	18,771
Depreciation for the year	9,118	234	9,352
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	9,118	234	9,352
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>

(9) Intangible assets

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

	<b>Computer software</b>
Cost:	
Balance at January 1, 2021	\$ 20,919
Additions	2,360
Balance at December 31, 2021	<u>\$ 23,279</u>
Balance at January 1, 2020	17,679
Additions	3,240
Balance at December 31, 2020	<u>\$ 20,919</u>
Amortization:	
Balance at January 1, 2021	17,567
Amortization for the year	2,920
Balance at December 31, 2021	<u>\$ 20,487</u>
Balance at January 1, 2020	14,903
Amortization for the year	2,664
Balance at December 31, 2020	<u>\$ 17,567</u>
Carrying amounts:	
Balance at December 31, 2021	<u>\$ 2,792</u>
Balance at January 1, 2020	<u>\$ 2,776</u>
Balance at December 31, 2020	<u>\$ 3,352</u>

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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 comprehensive income as the following items:

	<b>2021</b>	<b>2020</b>
Cost of sales	\$ <u>239</u>	<u>228</u>
Operating expenses	\$ <u>2,681</u>	<u>2,436</u>

B. Collateral

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

(10) Short-term borrowings

The details of short-term borrowings were as follows:

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Unused credit lines	\$ <u>608,820</u>	<u>553,960</u>

For the years ended December 31, 2021 and 2020, please refer to note 6(23) for information of drawdown and repayment of short-term borrowings, and note 6(19) for information of interest expenses.

(11) Long-term borrowings

The details of long-term borrowings were as follows:

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Unsecured borrowings	\$ 213,500	159,200
Less: current portion	(14,216)	-
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(23) for information of drawdown and repayment of long-term borrowings, and note 6(19) for information of interest expenses.



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(12) Lease liabilities

The carrying amounts of lease liabilities of the Company 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 Company 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>

A. Land leases

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

In addition, the Company 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.

(13) Employee benefits – Defined contribution plans

The Company 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 Company's contribution to the Bureau of Labor Insurance requires no additional legal or constructive obligations thereafter.

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The Company'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.

(14) 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	(5,404)	686
	<u>91,625</u>	<u>92,167</u>
Deferred tax benefit:		
Origination and reversal of temporary differences	(422)	(1,989)
Income tax expense	<u><u>\$ 91,203</u></u>	<u><u>90,178</u></u>

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><u>\$ 91,203</u></u>	<u><u>90,178</u></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,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
Investment tax credits	<u><u>\$ 15,734</u></u>	<u><u>14,297</u></u>

The Company 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.

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(b) Recognized deferred tax assets and liabilities

Deferred tax assets:

	January 1, 2020	Recognized in profit or loss	December 31, 2020	Recognized in profit or loss	December 31, 2021
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.

(15) 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:

	December 31, 2021	December 31, 2020
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>\$ 41,814</u>	<u>41,814</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.

## DAXIN MATERIALS CORPORATION

### Notes to the Financial Statements

#### 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.

##### (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:

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

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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 statement

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

(16) 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)	514	850
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>

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(17) 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><b>\$ 4,513,434</b></u>	<u><b>4,296,103</b></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><b>\$ 4,513,434</b></u>	<u><b>4,296,103</b></u>

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><b>\$ 1,321,606</b></u>	<u><b>1,227,979</b></u>	<u><b>1,325,402</b></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><b>\$ 12,045</b></u>	<u><b>4,112</b></u>	<u><b>5,458</b></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.

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### Notes to the Financial Statements

(18) Remuneration to employees and directors

The Company's Articles of Incorporation require that profits (income before tax, excluding remuneration to employees and directors) shall be used to offset against any deficit first, and then the remainder, if any, should be distributed as follows:

- A. No less than 3% as employee remuneration;
- B. No more than 1% as director's remuneration.

Employees who are entitled to receive the aforementioned employee remuneration, in share or cash, include the employees of subsidiaries of the Company who meet certain specific requirements.

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.

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.

(19) Non-operating income and 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	<u>-</u>	<u>129</u>
	<u><u>\$ 4,702</u></u>	<u><u>5,542</u></u>

**DAXIN MATERIALS CORPORATION**  
**Notes to the Financial Statements**

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>

(20) Financial instruments

A. Credit risk

(a) Credit risk exposure

Credit risk is the risk of financial loss to the Company 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 Company's financial assets.

(b) Concentration of credit risk

As of December 31, 2021 and 2020, 81% and 80%, respectively, of the Company'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(6) regarding how the Company determines whether the financial instruments are considered to be low credit risk).



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**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>
<b>December 31, 2021</b>							
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>
<b>December 31, 2020</b>							
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 Company does not expect the cash flows included in the maturity analysis to occur significantly earlier or at significantly different amounts.

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C. Currency risk

(a) Exposure to foreign currency risk

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

	December 31, 2021			December 31, 2020		
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
<u>Financial assets</u>						
<u>Monetary Items</u>						
USD	\$ 18,884	27.66	522,325	14,490	28.48	412,687
JPY	25,656	0.2407	6,175	54,819	0.2757	15,114
<u>Non-monetary Items</u>						
USD	10,088	27.66	Note	5,680	28.48	Note
JPY	594	0.2407	143	594	0.2757	162
<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).

(b) Sensitivity analysis

The Company'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 Company'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)	-

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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 Company'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 Company'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			
			Level 1	Level 2	Level 3	Total
Financial assets						
Financial assets measured at fair value through profit or loss—current—derivative financial assets						
	\$	<u>1,415</u>	<u>-</u>	<u>1,415</u>	<u>-</u>	<u>1,415</u>
Financial assets measured at amortized cost						
Cash and cash equivalents	\$	214,655	-	-	-	-
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		<u>178</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	\$	<u>2,488,124</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

**DAXIN MATERIALS CORPORATION**  
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		December 31, 2021				
		Carrying amount	Fair value			
			Level 1	Level 2	Level 3	Total
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			
			Level 1	Level 2	Level 3	Total
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	\$	283,533	-	-	-	-
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>2,474,759</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

**DAXIN MATERIALS CORPORATION**  
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	December 31, 2020				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial liabilities					
Financial liabilities measured at fair value through profit or loss					
— current — derivative financial liabilities	\$ <u>15</u>	<u>-</u>	<u>15</u>	<u>-</u>	<u>15</u>
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	<u>138</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	\$ <u>1,206,615</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

The Company 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.

## **DAXIN MATERIALS CORPORATION**

### **Notes to the Financial Statements**

#### **(21) Financial risk management**

##### **A. Overview**

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

The following likewise discusses the Company'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 parent-company-only financial statements.

##### **B. Structure of risk management**

The Company'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 Company 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 Company, 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 Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company'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 Company 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 Company's credit ratings, historical payment records, and current economic situations. If necessary, the Company 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 Company's finance department. As the Company deals with banks and financial institutions, and corporate organization with good credit standing which are graded above par level, the Company believes that does not have performance capability issues and no significant credit risk.

D. Liquidity risk

Liquidity risk is the risk that the Company 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 Company has sufficient capital and working capital to fulfill contract obligations. Please refer to note 6(20).

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 Company's income or the value of its holdings of financial instruments. Please refer to note 6(20). 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 Company is exposed to currency risk on sales and purchases that are denominated in currencies other than the functional currencies of the Company's entities. These transactions are denominated in NTD, USD, and JPY.

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

(b) Interest rate risk

Please refer to note 6(20).

(22) Capital management

The Company'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 contemporarily so that investors, creditors and the market can rest assured. The management may achieve the purpose of maintaining or adjusting the Company'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 Company's approach to capital management during the year ended December 31, 2021.

**DAXIN MATERIALS CORPORATION**  
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(23) Investing and financing activities not affecting current cash flow

The Company'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.



**DAXIN MATERIALS CORPORATION**  
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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 Company during the periods covered in the parent-company-only financial statements:

<u>Names of related parties</u>	<u>Relationship with the Company</u>
Eternal Materials Co., Ltd. (“Eternal”)	The entity with significant influence over the Company
AU Optronics Corp. (“AUTW”)	The entity with significant influence over the Company
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 Company 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 Company – ACTW	\$ 2,318,125	2,307,659	853,177	797,622
The entity with significant influence over the Company – 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 Company 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:

	<b>Purchase and process outsourcing</b>		<b>Accounts payable to related parties</b>	
	<b>2021</b>	<b>2020</b>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
The entity with significant influence over the Company	<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 Company 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:

	<b>Proceeds from disposal</b>		<b>Accounts receivable due from related parties</b>	
	<b>2021</b>	<b>2020</b>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
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:

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

**8. Pledged assets:**

The carrying values of pledged assets were as follows:

<b>Asset name</b>	<b>Pledge or Mortgage underlying subject</b>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
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	4,150	4,150
		<u>\$ 10,350</u>	<u>10,350</u>

**9. Commitments and contingencies:**

The significant commitments and contingencies of the Company as of December 31, 2021 and 2020, except for note 6(12), were as follows:

- (1) As of December 31, 2021 and 2020, a guarantee letter for import tariffs and VAT which the Company 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 Company 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	452,514	599,545	137,176	427,358	564,534
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
Remuneration of directors		-	18,757	18,757	-	18,297	18,297
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

For the years ended December 31, 2021 and 2020, the Company's other information of employee benefits were as follows:

	2021	2020
Number of employees	\$ <u>383</u>	\$ <u>368</u>
Number of directors who's not employee	\$ <u>7</u>	\$ <u>7</u>
Average employee benefits	\$ <u>1,790</u>	\$ <u>1,762</u>
Average employee salaries	\$ <u>1,595</u>	\$ <u>1,564</u>
Average adjustment of employee salaries	<u>1.98 %</u>	<u>0.71 %</u>
Supervisor's remuneration.	\$ <u>-</u>	\$ <u>-</u>

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The salary policy of the Company (including directors, managers and employees) were as follows:

- (1) According to Company's Articles of Incorporation, 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: 1. No less than 3% as employees' remuneration; 2. No more than 1% as directors' remuneration. The remuneration of employees and directors shall be resolved by the Board of Directors and reported to the shareholders' meeting.
- (2) In order to keep salary policy being competitive and attract, encouraging, keeping superb talent, in accordance with Company Act, the Company's "Article of Incorporation", "Compensation Committee Charter", "Rules for Managerial Officers' Salary", and "Rules for Salary Paying", the Company defines the procedures of remuneration for directors, general manager and vice president. Depends on the position of directors, general manager and vice president and responsibilities being taken and the salary level in the same industry, the Company decides the amount of remuneration following the performance of the Company, which is submitted by Compensation Committee and decided by Board of Directors.
- (3) The Company examines the salary condition of the market periodically, and attract, keeping talent with competitive salaries. According to Company's Articles of Incorporation, it is required that profits shall be distributed no less than 3% as employee remuneration.

# DAXIN MATERIALS CORPORATION

## Notes to the Financial Statements

### 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 Company:

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.

## DAXIN MATERIALS CORPORATION

### Notes to the Financial Statements

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

(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			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	-	-	
The Company	FMSA	Samoa	Investing and shareholding	-	-	-	- %	-	-	-	Note

Note: 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:

Shareholding	Shares	Percentage
<b>Shareholder's Name</b>		
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.

#### 14. Segment information:

Please refer to the 2021 Consolidated Financial Statements.

**Daxin Materials Corporation**  
**Statement of Cash and Cash Equivalents**  
**December 31, 2021**  
**(Expressed in thousands of New Taiwan Dollars)**

<b>Item</b>	<b>Description</b>	<b>Amount</b>
Petty cash		\$ 20
Demand deposits		59,260
Foreign currency deposits	JPY: 106 thousand 、 USD: 4,423 thousand 、 RMB: 690 thousand (Note)	125,375
Cash Equivalents	Time deposits	<u>30,000</u>
		<b><u>\$ 214,655</u></b>

Note: The exchange rates of foreign currencies converted into NTD at the balance sheet date is as follows:

JPY: 0.2407

USD: 27.66

RMB: 4.3410



**Daxin Materials Corporation**  
**Statement of Accounts Receivable**  
**December 31, 2021**  
**(Expressed in thousands of New Taiwan Dollars)**

<u>Client name</u>	<u>Description</u>	<u>Amount</u>
Client A	Operating	\$ 61,737
Client B	Operating	84,523
Client C	Operating	41,001
Client D	Operating	39,513
Client E	Operating	69,806
Client F	Operating	53,853
Client G	Operating	31,917
Client H	Operating	34,249
Other(The individual amount does not exceed 5% of the account balance)		<u>67,293</u>
Subtotal		483,892
Less: loss allowance	Operating	<u>(31,107)</u>
Total		<u><u>\$ 452,785</u></u>

**Statement of Financial Assets Measured at**  
**Amortized Cost—Current**

For related information, please refer to Note 6 (3) “Financial assets measured at amortized cost—current” from the parent-company-only financial statements.

**Daxin Materials Corporation**  
**Statement of Inventories**  
**December 31, 2021**  
**(Expressed in thousands of New Taiwan Dollars)**

Item	Amount		Notes
	Cost	Net Realizable Value	
Finished goods and merchandise	\$ 94,697		Please refer to Note 4 (7) of this parent-company-only financial statements for the determination of net realizable value of inventory.
Less: provision for inventory devaluation loss	<u>(2,173)</u>		
Subtotal	<u>92,524</u>	171,565	
Work in progress and semi-finished products	72,538		
Less: provision for inventory devaluation loss	<u>(1,466)</u>		
Subtotal	<u>71,072</u>	117,578	
Raw materials and supplies	196,687		
Less: provision for inventory devaluation loss	<u>(4,056)</u>		
Subtotal	<u>192,631</u>	<u>197,915</u>	
	<u><u>\$ 356,227</u></u>	<u><u>487,058</u></u>	

**Daxin Materials Corporation**  
**Statement of Other Current Assets**  
**December 31, 2021**  
**(Expressed in thousands of New Taiwan Dollars)**

<b>Item</b>	<b>Amount</b>
Tax refund receivable	\$ 25,348
Prepayment for purchases	2,831
Prepaid insurance	2,509
Temporary payments	4,438
Others (The individual amount does not exceed 5% of the account balance)	<u>1,291</u>
	<b><u>\$ 36,417</u></b>

**Daxin Materials Corporation**  
**Statement of Movement in Investments Accounted for Using the Equity**  
**Method**  
**December 31, 2021**  
**(Expressed in thousands of New Taiwan Dollars)**

<u>Name of investee</u>	<u>Beginning Balance</u>		<u>Addition (Decrease)</u>		<u>Investment Loss</u>	<u>Conversion Adjustment</u>	<u>Ending Balance</u>		<u>Percent age of Owners hip</u>	<u>Net Assets Value</u>	<u>Collateral</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			<u>Shares</u>	<u>Amount</u>		<u>Amount</u>	
LS Materials Corporation	1,500	\$ <u>162</u>	-	<u>-</u>	<u>-</u>	<u>(19)</u>	1,500	<u>143</u>	100.00	143	None

**Daxin Materials Corporation**  
**Statement of Movement in Property, Plant and**  
**Equipment**  
**For the year ended December 31, 2021**  
**(Expressed in thousands of New Taiwan Dollars)**

For related information, please refer to Note 6 (7) “Property, Plant and Equipment” of the parent-company-only financial statements.

**Statement of Movement in Right-of-Use Assets**

For related information, please refer to Note 6 (8) “Right-of-Use Assets” of the parent-company-only financial statements.

**Statement of Movement in Intangible Assets**

For related information, please refer to Note 6 (9) “Intangible Assets” of the parent-company-only financial statements.

**Daxin Materials Corporation**  
**Statement of Other Non-Current Assets**  
**December 31, 2021**  
**(Expressed in thousands of New Taiwan Dollars)**

<u>Item</u>	<u>Amount</u>
Line subsidies	\$ 854
Others (The individual amount does not exceed 5% of the account balance)	<u>116</u>
	<u><u>\$ 970</u></u>

**Statement of Refundable deposits**

<u>Item</u>	<u>Amount</u>
Refundable deposits of Office & Dormitory	\$ <u><u>178</u></u>

**Daxin Materials Corporation**  
**Statement of Accounts Payable**  
**December 31, 2021**  
**(Expressed in thousands of New Taiwan Dollars)**

<b>Vendor name</b>	<b>Description</b>	<b>Amount</b>
Accounts Payable:		
Vendor T	Operating	\$ 139,890
Vendor S	Operating	67,165
Vendor H	Operating	33,657
Others (The individual amount does not exceed 5% of the account balance)	Operating	<u>344,704</u>
Total		<u><u>\$ 585,416</u></u>

**Statement of Other Current Liabilities**

<b>Item</b>	<b>Amount</b>
Freight payable	\$ 39,341
Commission payable	19,438
Advance sales receipts	12,045
Others (The individual amount does not exceed 5% of the account balance)	<u>74,069</u>
	<u><u>\$ 144,893</u></u>

**Daxin Materials Corporation**  
**Statement of Long-Term Borrowings**  
**December 31, 2021**  
**(Expressed in thousands of New Taiwan Dollars)**

<b>Bank</b>	<b>Amount</b>	<b>Term of Contract</b>	<b>Interest Rate</b>	<b>Collateral</b>
Mega Bank	\$ 131,500	109.09~114.09	0.5%	None
E.SUN Bank	27,700	109.08~114.08	0.5%	None
E.SUN Bank	<u>54,300</u>	110.08~114.08	0.5%	None
	213,500			
Less: current portion	<u>(14,216)</u>			
	<u><u>\$ 199,284</u></u>			

**Statement of Lease Liabilities**

<b>Item</b>	<b>Description</b>	<b>Lease term</b>	<b>Discount rate</b>	<b>Balance, End of Year</b>	<b>Note</b>
Land	Mainly for the use of plants and offices	103.1.1~116.12.31	1.5%	\$ 183,956	
Machinery and equipment	For operation use	106.4.1~111.3.31	1.5%	<u>80</u>	
				184,036	
Less: current portion				<u>(8,144)</u>	
				<u><u>\$ 175,892</u></u>	

Note: The above leases with an option to renew the lease for an additional period after the end of the contract term.



**Daxin Materials Corporation**  
**Statement of Operating Revenue**  
**For the year ended December 31, 2021**  
**(Expressed in thousands of New Taiwan Dollars)**

<b>Item</b>	<b>Quantity (kg)</b>	<b>Amount</b>
Display materials	45,506,595	\$ 4,309,094
Semiconductor materials and key raw materials	501,484	<u>204,340</u>
		<b><u>\$ 4,513,434</u></b>

**Daxin Materials Corporation**  
**Statement of Operating Costs**  
**For the year ended December 31, 2021**  
**(Expressed in thousands of New Taiwan Dollars)**

<u>Item</u>	<u>Amount</u>
Raw materials	
Beginning balance of raw materials	\$ 134,584
Add: Purchase	1,828,686
Less: Ending balance of raw materials	(196,687)
Physical inventory loss	(88)
Sale of raw materials	(23,458)
Transferred to expense and others	<u>(32,315)</u>
Raw materials used	<u>1,710,722</u>
Semi-finished products	
Beginning balance of semi-finished products	36,952
Add: Transferred from Finished good for rework	744,086
Purchase	1,542
Physical inventory profit	68
Less: Ending balance of semi-finished products	(41,853)
Transferred to expense and others	(5,779)
Sale of semi-finished products	<u>(25)</u>
Semi-finished products used	<u>734,991</u>
Direct labor	65,053
Manufacturing overhead	410,479
Costs of conversion	<u>125,048</u>
Manufacturing cost	3,046,293
Add: Beginning balance of work-in -process	26,187
Less: Ending balance of work-in process	<u>(30,685)</u>
Cost of finished goods	3,041,795
Beginning balance of Finished good	93,846
Add: Purchase	719
Less: Transferred to semi-finished products for rework	(744,086)
Physical inventory loss	(12)
Transferred to expense and others	(2,145)
Ending balance of Finished good	<u>(94,697)</u>
Cost of sales — Finished goods	2,295,420
Cost of sales — Merchandise	575,674
Sale of raw materials and semi-finished products	23,483
Inventory devaluation loss	9,088
Inventory other costs	<u>(957)</u>
Operating costs	<u><u>\$ 2,902,708</u></u>

**Daxin Materials Corporation**  
**Statement of Selling Expenses**  
**For the year ended December 31, 2021**  
**(Expressed in thousands of New Taiwan Dollars)**

<b>Item</b>	<b>Amount</b>
Freight	\$ 91,875
Salary	57,130
Commission	43,696
Others (The individual amount does not exceed 5% of the account balance)	16,571
	<u>\$ 209,272</u>

**Statement of Administrative Expenses**

<b>Item</b>	<b>Amount</b>
Salary	\$ 103,698
Remuneration of directors	18,757
Depreciation	9,139
Others (The individual amount does not exceed 5% of the account balance)	50,155
	<u>\$ 181,749</u>

**Daxin Materials Corporation**  
**Statement of Research and Development Expenses**  
**For the year ended December 31, 2021**  
**(Expressed in thousands of New Taiwan Dollars)**

<b>Item</b>	<b>Amount</b>
Salary	\$ 291,685
Depreciation	44,138
Consumables	30,820
Others (The individual amount does not exceed 5% of the account balance)	73,351
	<u>\$ 439,994</u>

**Statement of Other Gains and Losses**

For related information, please refer to Note 6 (19) “Other gains and losses” of the parent-company-only financial statements.