

Hung Chou Fiber Industrial Co., Ltd.
Financial Statements and
Independent Auditor's Report
For the Years 2023 and 2022

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Independent Auditor's Report

To the board of directors of Hung Chou Fiber Industrial Co., Ltd.:

Audit opinion

We have audited the standalone balance sheet of Hung Chou Fiber Industrial Co., Ltd. as at December 31, 2023 and 2022, and the standalone statement of comprehensive income, statement of changes in equity, cash flow statement, and the accompanying footnotes (including summary of key accounting policies) for the periods January 1 to December 31, 2023 and 2022.

In our opinion, all material disclosures of the standalone financial statements mentioned above were prepared in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and the version of International Financial Reporting Standards, International Accounting Standards and interpretations thereof approved and published by the Financial Supervisory Commission, and presented a fair view of the financial position of Hung Chou Fiber Industrial Co., Ltd. as at December 31, 2023 and 2022 and business performance and cash flow for the periods January 1 to December 31, 2023 and 2022

Basis of audit opinion

We have conducted our audits in accordance with Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and the generally accepted auditing standards. Our responsibilities as an auditor for the standalone financial statements under the abovementioned standards are explained in the Responsibilities paragraph. All relevant personnel of the accounting firm have followed CPA code of ethics and maintained independence from Hung Chou Fiber Industrial Co., Ltd. when performing their duties. We believe that the evidence obtained provide an adequate and appropriate basis for our opinion.

Key audit issues

Key audit issues are matters that we considered to be the most important, based on professional judgment, when auditing the 2023 standalone financial statements of Hung Chou Fiber Industrial Co., Ltd. These issues have already been addressed when we audited and formed our opinions on the financial statements. Therefore, we do not provide opinions separately for individual issues. Below are the key audit issues that we consider relevant for disclosure in this audit report:

1. Revenue recognition

Accounting policies relating to revenue recognition have been disclosed in Note

4(13) - Revenue recognition of the standalone financial statements; for details on recognized revenues, please refer to Note 6(15) - Revenue from contracts with customers of the standalone financial statements.

Explanation of key audit issues:

Hung Chou Fiber Industrial Co., Ltd. generates revenues mainly from sale of polyester filament, and the risks associated with revenue recognition lies in the authenticity of the underlying transactions. Due to the fact that operating revenues are highly susceptible to changes in the economy, we have identified revenue recognition test as one of the key assessments when auditing the financial statements of Hung Chou Fiber Industrial Co., Ltd.

Audit procedures:

The primary audit procedures taken to address the above key audit matters included: testing the sales and collection cycle as well as relevant controls; verifying and reconciling sales system data against customers' contracts, external certificates, and general journal entries; and evaluating whether the revenue recognition policy of Hung Chou Fiber Industrial Co., Ltd. conforms with accounting standards.

2. Inventory valuation

For accounting policies on inventory valuation, please refer to Note 4(7) - Inventory of the standalone financial statements; for detailed disclosure on inventory valuation, please refer to Note 6(4) - Inventory of the standalone financial statements.

Explanation of key audit issues:

Fluctuations in the international price of raw materials combined with changes in supply and demand may give rise to significant volatility with regards to the selling price and sales volume of the inventory held by Hung Chou Fiber Industrial Co., Ltd., causing the cost of inventory to exceed net realizable value in some circumstances. For this reason, inventory impairment test was identified as one of our key assessments when auditing the financial statements of Hung Chou Fiber Industrial Co., Ltd.

Audit procedures:

The primary audit procedures taken to address the above key audit matters included: learning the management's inventory management and valuation policies, and assessing whether inventory management and valuation were duly performed according to policies. We have conducted random checks to determine the rationality of net realizable values adopted by the management, to test the correctness of the inventory aging reports prepared, and to evaluate the adequacy of inventory loss provisions that Hung Chou Fiber Industrial Co., Ltd. had made as at the reporting date.

Responsibilities of the management and governance body to the standalone financial statements

Responsibilities of the management were to prepare and ensure fair presentation of

standalone financial statements in accordance with “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the version of IFRS, IAS, IFRIC and interpretations thereof approved and effected by the Financial Supervisory Commission, and to exercise proper internal control practices that are relevant to the preparation of standalone financial statements so that the standalone financial statements are free of material misstatements, whether caused by fraud or error.

The management’s responsibilities when preparing standalone financial statements also involved: assessing the ability of Hung Chou Fiber Industrial Co., Ltd. to operate, disclose information, and account for transactions as a going concern unless the management intends to liquidate or cease business operations, or is compelled to do so with no alternative solution.

The governance body of Hung Chou Fiber Industrial Co., Ltd. (including supervisors) is responsible for supervising the financial reporting process.

Responsibilities of the auditor when auditing standalone financial statements

The purposes of our audit were to obtain reasonable assurance of whether the standalone financial statements were prone to material misstatements, whether due to fraud or error, and to issue a report of our audit opinions. We considered assurance to be reasonable only if it is highly credible. However, audit tasks conducted in accordance with generally accepted auditing principles do not necessarily guarantee detection of all material misstatements within the standalone financial statements. Misstatements can arise from fraud or error. Misstatements are considered material if the individual amount or aggregate total is reasonably expected to affect economic decisions of the standalone financial statement user.

When conducting audits in accordance with generally accepted auditing principles, we exercised judgments and raised doubts as deemed professionally appropriate. We also performed the following tasks as an auditor:

1. Identifying and assessing risks of material misstatement due to fraud or error; designing and executing appropriate response measures for the identified risks; and obtaining adequate and appropriate audit evidence to support audit opinions. Fraud may involve conspiracy, forgery, intentional omission, untruthful declaration, or breach of internal control, and our audit did not find any material misstatement where the risk of fraud is greater than the risk of error.
2. Developing the required level of understanding on relevant internal controls and designing audit procedures that are appropriate under the prevailing circumstances, but without providing opinion on the effectiveness of internal control system of Hung Chou Fiber Industrial Co., Ltd.
3. Assessing the appropriateness of accounting policies adopted by the management, and the rationality of accounting estimates and related disclosures made.
4. Forming conclusions regarding the appropriateness of management’s decision to account

for the business as a going concern, and whether there are doubts or uncertainties about the ability of Hung Chou Fiber Industrial Co., Ltd. to operate as a going concern, based on the audit evidence obtained. We are bound to remind financial statement users and make related disclosures if material uncertainties exist in regards to the abovementioned events or circumstances, and amend audit opinions when the disclosures are no longer appropriate. Our conclusions are based on the audit evidence obtained up to the date of audit report. However, future events or change of circumstances may still render Hung Chou Fiber Industrial Co., Ltd. no longer capable of operating as a going concern.

5. Assessing the overall presentation, structure, and contents of the standalone financial statements (including related footnotes), and whether certain transactions and events are presented appropriately in the standalone financial statements.
6. Obtaining sufficient and appropriate audit evidence on financial information of equity-accounted investments held by the Company, and expressing opinions on standalone financial statements. Our responsibilities as auditor are to instruct, supervise, and execute audits and form audit opinions on Hung Chou Fiber Industrial Co., Ltd.

We have communicated with the governance body about the scope, timing, and significant findings (including significant defects identified in internal control) of our audit.

We have also provided the governance body with a declaration of independence stating that all relevant personnel of the accounting firm have complied with auditors' professional ethics, and communicated with the governance body on all matters that may affect the auditor's independence (including protection measures).

We have identified the key audit issues after communicating with the governance body regarding the 2023 standalone financial statements of Hung Chou Fiber Industrial Co., Ltd. These issues have been addressed in our audit report except for: 1. Certain topics that are prohibited by law from disclosing to the public; or 2. Under extreme circumstances, topics that we decide not to communicate in the audit report because of higher negative impacts they may cause than the benefits they bring to public interest.

KPMG

CPA: Jun-Ming Pan

Shu-Ying Chang

Approval reference of the securities authority : Jin-Guan-Zheng-Shen-1110333933
March 7, 2024 : Jin-Guan-Zheng-VI-0940100754

Hung Chou Fiber Industrial Co., Ltd.

Balance sheet

As at December 31, 2023 and 2022

Unit: NTD thousands

| Asset | December 31, 2022 | | December 31, 2021 | |
|--|----------------------|------------|----------------------|------------|
| | Amount | % | Amount | % |
| Current assets: | | | | |
| 1100 Cash and cash equivalents (Note 6(1)) | \$ 62,915 | 3 | 71,700 | 3 |
| 1120 Financial assets at fair value through other comprehensive income - current (Note 6(2)) | 3 | - | 3 | - |
| 1150 Notes receivable - net (Notes 6(3) and (15)) | 46,117 | 2 | 53,878 | 2 |
| 1160 Notes receivable - related parties, net (Notes 6(3) and (15) and 7) | 36,919 | 2 | 39,922 | 1 |
| 1170 Accounts receivable, net (Notes 6(3) and (15)) | 18,193 | 1 | 36,973 | 1 |
| 1180 Accounts receivable - related parties, net (Notes 6(3) and (15) and 7) | 2,779 | - | 5,632 | - |
| 1200 Other receivables | 17 | - | 415 | - |
| 1210 Other receivables - related parties (Note 7) | 8,971 | - | 10,902 | - |
| 130X Inventory (Note 6(4)) | 323,464 | 14 | 541,095 | 21 |
| 1410 Prepayments (Note 9(3)) | 2,781 | - | 4,297 | - |
| 1479 Other current assets - others | 760 | - | 4 | - |
| | <u>503,620</u> | <u>22</u> | <u>764,821</u> | <u>28</u> |
| Non-current assets: | | | | |
| 1517 Financial assets at fair value through other comprehensive income - non-current (Note 6(2)) | 3,147 | - | 3,147 | - |
| 1550 Equity-accounted investments (Note 6(5)) | 70,908 | 2 | 64,142 | 2 |
| 1600 Property, plant and equipment (Notes 6(6), 8, and 9(3)) | 1,066,439 | 45 | 1,125,962 | 43 |
| 1760 Investment property - net (Notes 6(7) and 8) | 663,190 | 28 | 670,881 | 26 |
| 1840 Deferred income tax assets (Note 6(12)) | 36,000 | 2 | 36,000 | 1 |
| 1900 Other non-current assets (Notes 6(3) and 9(3)) | 913 | - | 250 | - |
| | <u>1,900,382</u> | <u>78</u> | <u>1,900,382</u> | <u>72</u> |
| Total assets | \$ 2,344,217 | 100 | 2,665,203 | 100 |

Hung Chou Fiber Industrial Co., Ltd.

Balance Sheet (continued)

As at December 31, 2022 and 2021

Unit: NTD thousands

| | | December 31, 2022 | | December 31, 2021 | |
|---------------------------------|---|------------------------------|-------------------|------------------------------|-------------------|
| | | Amount | % | Amount | % |
| Liabilities and equity | | | | | |
| Current liabilities: | | | | | |
| 2100 | Short-term borrowings (Note 6(8)) | \$ 175,402 | 9 | 175,402 | 7 |
| 2130 | Contractual liabilities - current (Note 6(15)) | 31,313 | 1 | 31,313 | 1 |
| 2150 | Notes payable | 13,176 | 1 | 16,383 | 1 |
| 2160 | Notes payable - related parties (Note 7) | - | - | - | - |
| 2170 | Accounts payable | 72,719 | 3 | 199,768 | 7 |
| 2180 | Accounts payable - related parties (Note 7) | - | - | - | - |
| 2200 | Other payables | 45,940 | 2 | 65,846 | 2 |
| 2220 | Other payables - related parties (Note 7) | - | - | - | - |
| 2320 | Long-term liabilities due within 1 year or 1 business cycle (Note 6(9)) | 74,528 | 3 | 67,028 | 3 |
| 2399 | Other current liabilities - others | 3,414 | - | 3,520 | - |
| | | <u>446,348</u> | <u>19</u> | <u>559,260</u> | <u>21</u> |
| Non-current liabilities: | | | | | |
| 2540 | Long-term borrowings (Note 6(9)) | 579,166 | 25 | 653,694 | 25 |
| 2570 | Deferred income tax liabilities (Note 6(12)) | 223,530 | 10 | 224,290 | 8 |
| | | <u>802,696</u> | <u>35</u> | <u>877,984</u> | <u>33</u> |
| | Total liabilities | <u>1,249,044</u> | <u>54</u> | <u>1,437,244</u> | <u>54</u> |
| Equity (Note 6(13)): | | | | | |
| 3100 | Share capital | 1,321,124 | 55 | 1,321,124 | 49 |
| 3350 | Losses pending reimbursement | (217,248) | (9) | (84,462) | (3) |
| 3400 | Other equity items | (8,703) | - | (8,703) | - |
| | Total equity | <u>1,095,173</u> | <u>46</u> | <u>1,227,959</u> | <u>46</u> |
| | Total liabilities and equity | <u>\$ 2,344,217</u> | <u>100</u> | <u>2,665,203</u> | <u>100</u> |

(Please refer to the attached notes to financial statements)

Chairman:
Cheng-Tien Chan

General Manager:
Cheng-Tien Chan

Accountant Manager:
Wallace Lin

Hung Chou Fiber Industrial Co., Ltd.
Statements of Comprehensive Income
For the periods January 1 to December 31, 2023 and 2022

Unit: NTD thousands

| | | 2022 | | 2021 | |
|------|--|---------------------|------------|---------------|----------|
| | | Amount | % | Amount | % |
| 4110 | Sales revenues (Notes 6(15) and 7) | \$ 2,006,616 | 101 | 3,169,337 | 101 |
| 4170 | Less: sales return | 7,431 | - | 11,276 | - |
| 4190 | Sales discount | 3,809 | - | 12,128 | 1 |
| | Net operating revenues | 1,995,376 | 101 | 3,145,933 | 100 |
| 5110 | Cost of sale (Notes 6(4) and (11) and 7) | 2,074,211 | 104 | 2,937,786 | 93 |
| | Gross profit (loss) | (78,835) | (3) | 208,147 | 7 |
| 6000 | Operating expenses (Notes 6(11) and 7) | 57,362 | 3 | 110,244 | 4 |
| 6500 | Net other income and expenses | - | - | (13,395) | - |
| | Net operating profit (loss) | (136,197) | (6) | 84,508 | 3 |
| | Non-operating income and expenses (Notes 6(17) and 7): | | | | |
| 7100 | Interest income | 178 | - | 73 | - |
| 7010 | Other income | 23,259 | 1 | 23,655 | 1 |
| 7020 | Other gains and losses | 860 | - | 8,255 | - |
| 7050 | Financial costs | (20,606) | (1) | (15,379) | - |
| 7060 | Share of profit/loss from equity-accounted associated companies (Note 6(5)) | (1,040) | - | (1,386) | - |
| | | 2,651 | - | 15,218 | 1 |
| | Profit (loss) before tax from continuing segments | (133,546) | (6) | 99,726 | 4 |
| 7950 | Less: income tax expense (benefit) (Note 6(12)) | (760) | - | 685 | - |
| | Current net income (loss) | (132,786) | (6) | 99,041 | 4 |
| 8300 | Other comprehensive income: | | | | |
| 8310 | Items not reclassified into profit or loss (Note 6(18)) | | | | |
| 8316 | Unrealized gain/loss on valuation of equity instruments at fair value through other comprehensive income | - | - | (7,222) | - |
| 8300 | Other comprehensive income for the current period (net, after-tax) | - | - | (7,222) | - |
| | Total comprehensive income for the current period | \$ (132,786) | (6) | 91,819 | 4 |
| | Earnings (losses) per share (NTD) (Note 6(14)) | | | | |
| 9750 | Basic earnings (losses) per share | \$ (1.01) | | 0.75 | |
| 9810 | Diluted earnings per share | \$ (1.01) | | 0.75 | |

(Please refer to the attached notes to financial statements)

Chairman:
Cheng-Tien Chan

General Manager:
Cheng-Tien Chan

Accountant Manager:
Wallace Lin

Hung Chou Fiber Industrial Co., Ltd.
Statement of Changes in Equity
For the periods January 1 to December 31, 2023 and 2022

Unit: NTD thousands

| | Common share capital | Losses pending reimbursement | Other equity items - unrealized gains (losses) on financial assets at fair value through other comprehensive income | Total equity |
|--|----------------------------|---------------------------------|---|-------------------------|
| Balance as at January 1, 2022 | <u>\$ 1,321,124</u> | <u>(172,846)</u> | <u>(1,481)</u> | <u>1,146,797</u> |
| Current net loss | - | 99,041 | - | 99,041 |
| Other comprehensive income for the current year | - | - | (7,222) | (7,222) |
| Total comprehensive income for the current period | - | (132,786) | (7,222) | 91,819 |
| | - | (10,657) | - | (10,657) |
| Balance as at December 31, 2022 | <u>1,321,124</u> | <u>(84,462)</u> | <u>(8,703)</u> | <u>1,227,959</u> |
| Current net income | - | (132,786) | - | (132,786) |
| Other comprehensive income for the current year | - | - | - | - |
| Total comprehensive income for the current period | - | (132,786) | - | (132,786) |
| Balance as at December 31, 2023 | <u>\$ 1,321,124</u> | <u>(217,248)</u> | <u>(8,703)</u> | <u>1,095,173</u> |

(Please refer to the attached notes to financial statements)

Chairman:
Cheng-Tien Chan

General Manager:
Cheng-Tien Chan

Accountant Manager:
Wallace Lin

Hung Chou Fiber Industrial Co., Ltd.

Cash Flow Statement

For the periods January 1 to December 31, 2023 and 2022

| | Unit: NTD thousands | |
|--|---------------------|---------------|
| | 2023 | 2022 |
| Cash flow from operating activities: | | |
| Pre-tax profit (loss) for the current period | \$ (133,546) | 99,726 |
| Adjustments: | | |
| Income, expenses, and losses | | |
| Depreciation expenses | 72,712 | 67,871 |
| Net gain on financial assets at fair value through profit or loss | (1) | 2 |
| Interest expenses | 20,606 | 15,379 |
| Interest income | (178) | (73) |
| Share of profit/loss from equity-accounted associated companies and joint ventures | 1,040 | 1,386 |
| Net other income and expenses | - | 13,395 |
| Gain on disposal of property, plant, and equipment | (570) | 93 |
| Income, expenses, and losses | 98,053 | 98,053 |
| Change in assets and liabilities related to operating activities: | | |
| Net change in assets related to operating activities: | | |
| Financial assets mandatory to be carried at fair value through profit or loss | (1,000) | (2) |
| Notes receivable | 7,761 | 3,423 |
| Notes receivable - related parties | 3,303 | (10,860) |
| Accounts receivable | 18,780 | 11,544 |
| Accounts receivable - related parties | 2,853 | (5,632) |
| Other receivables | 398 | (412) |
| Other receivables - related parties | 1,931 | 327 |
| Inventory | 217,631 | 39,940 |
| Prepayments | 1,516 | 1,299 |
| Other current assets - others | (756) | 1 |
| Net change in assets related to operating activities | 252,417 | 39,628 |
| Net change in liabilities related to operating activities: | | |
| Notes payable | (3,207) | (12,502) |
| Notes payable - related parties | - | (1,126) |
| Accounts payable | (127,049) | (47,052) |
| Accounts payable - related parties | - | (107) |
| Other payables | (20,457) | (10,169) |
| Other payables - related parties | - | - |
| Contractual liabilities | 610 | (55,838) |
| Other current liabilities - others | (106) | (163) |
| Net change in liabilities related to operating activities | (150,209) | (126,957) |
| Net change in assets and liabilities related to operating activities | 102,208 | (87,329) |
| Total adjustments | 195,817 | 10,724 |
| Cash inflow (outflow) from operating activities | 62,271 | 110,450 |
| Interests received | 178 | 73 |
| Interests paid | (20,055) | (15,220) |
| Income tax paid | - | - |
| Net cash inflow (outflow) from operating activities | 42,394 | 95,303 |

Hung Chou Fiber Industrial Co., Ltd.

Cash Flow Statement (continued)

For the periods January 1 to December 31, 2023 and 2022

Unit: NTD thousands

| | 2023 | 2022 |
|--|------------------|------------------|
| Cash flow from investing activities: | | |
| Acquisition of equity-accounted investments | (7,806) | (25,187) |
| Acquisition of property, plant and equipment | (5,498) | (33,019) |
| Disposal of property, plant and equipment | 570 | - |
| Acquisition of Investment property | - | (190) |
| Other non-current assets | (663) | (131) |
| Net cash outflow from investing activities | (13,397) | (58,527) |
| Cash flow from financing activities: | | |
| (Decrease) increase in short-term borrowings | 29,246 | (74,103) |
| Borrowing of long-term loan | - | - |
| Repayment of long-term borrowings | (67,028) | (49,528) |
| Net cash inflow (outflow) from financing activities | (37,782) | (123,631) |
| Increase in cash and cash equivalents for the current period | (8,785) | (86,855) |
| Opening cash and cash equivalents balance | 71,700 | 158,555 |
| Closing cash and cash equivalents balance | \$ 62,915 | 71,700 |

(Please refer to the attached notes to financial statements)

Chairman:
Cheng-Tien Chan

General Manager:
Cheng-Tien Chan

Accountant Manager:
Wallace Lin

Hung Chou Fiber Industrial Co., Ltd.

Notes to Financial Statements

For the Years 2023 and 2022

(Unless otherwise specified, all amounts are presented in NTD thousands)

1. Company history

Hung Chou Fiber Industrial Co., Ltd. (the Company) has been listed for trading on Taiwan Stock Exchange Corporation since December 23, 1975. It has business address registered at 7F, No. 607, Ruigang Road, Neihu District, Taipei City.

Primary business activities of the Company include the manufacturing, processing, and trading of synthetic fibers and plastic filaments.

2. Financial statement approval date and procedures

The standalone financial statements were passed during the board of directors meeting held on March 7, 2024.

3. Application of new and amended standards and interpretations

- (1) Effect of adopting the latest and amended standards and interpretations approved by Financial Supervisory Commission ("FSC")

The Company became subject to the newly revised international financial reporting standards listed below since January 1, 2022, and the adoption of which had no material impact on the financial statements.

- Amendment to IAS 16: Property, Plant and Equipment – Proceeds before Intended Use ◦
- "Amendment to IAS 37: Provisions, Contingent Liabilities and Contingent Assets – Costs of Fulfilling a Contract
- Annual Improvements to International Financial Reporting Standards 2018 – 2020 Cycle ◦
- Amendment to IFRS 3: Business Combinations – Reference to the Conceptual Framework ◦

- (2) Impact of not adopting FSC-approved IFRS

Based on the Company's own evaluation, adopting the newly revised international financial reporting standards listed below that take effect from January 1, 2023 onwards do not have material impact on the financial statements.

- Amendment to IAS 1: Presentation of Financial Statements – Disclosure of Accounting Policies.
- Amendment to IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates.

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

- Amendment to IAS 12: Income Taxes – Deferred Tax related to Assets and Liabilities arising from a Single Transaction with a Taxpayer

(3) Newly published/revised standards and interpretations that are not yet approved by FSC

Below is a list of standards and interpretations amended and announced by International Accounting Standards Board (IASB) that are yet to be approved by FSC but may be relevant to the Company:

| New or revised standards | Summary of amendment | Effective date of IASB announcement |
|---|--|--|
| Amendments to IAS 1 regarding "Classification of Liabilities as Current or Non-current" | <p>The amendment is intended to ensure uniformity of the standard, and to help businesses determine whether debts or other liabilities with undefined settlement date should be classified as current (likely to mature within one year) or non-current on the balance sheet.</p> <p>The amended standard also outlines classification rules for situations where businesses are able to settle debts by converting into equity.</p> | January 1, 2024 |

The Company continues to evaluate how revisions of the above standards and interpretations affect its financial position and business performance. Outcomes of these assessments will be disclosed upon completion.

The Company expects no material impact from other newly published and revised standards that are not yet approved by FSC.

4. Summary of significant accounting policies

Below is a summary of significant accounting policies adopted for the preparation of financial statements. Unless otherwise specified, the following accounting policies have been applied consistently across all periods presented in the financial statements.

(1) Statement of compliance

The financial statements have been prepared in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers (the "Preparation Guidelines") and FSC-approved international financial reporting standards, international accounting standards, and interpretations thereof (collectively referred to as "FSC-approved IFRS").

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

(2) Basis of preparation

1. Basis for measurement

The financial statements are prepared on the basis of historical cost, except for the key balance sheet item listed below:

- (1) Financial assets at fair value through profit or loss;
- (2) Financial assets at fair value through other comprehensive income.

2. Functional currency and presentation currency

The Company has designated its functional currency as the main currency used in the economic environment where operations take place. This financial statement is presented using the Company's functional currency (NTD). All financial figures denominated in NTD have been presented in NTD thousands.

(3) Foreign currency

Foreign currency transactions are converted into the functional currency using exchange rates as of the date of transaction. Foreign currency monetary items outstanding at the end of each reporting period (referred to as reporting date below) are subsequently converted into the functional currency using exchange rate applicable on that day. Foreign currency-denominated non-monetary items carried at fair value are converted into the functional currency using exchange rate as of the date of fair value measurement. Foreign currency-denominated non-monetary items carried at historical cost are converted using exchange rate as of the initial transaction date.

Differences from foreign currency conversion are generally recognized through profit or loss, or recognized through other comprehensive income under the following circumstances:

- (1) Equity instruments designated to be carried at fair value through other comprehensive income;
- (2) Financial liabilities designated to hedge net investment in foreign operations, within the effective scope of hedge; or
- (3) Qualifying cash flow hedge, within the effective scope of hedge.

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

Assets that meet one of the following conditions are classified as current assets; assets that do not meet the criteria for current asset are classified as non-current assets:

1. Assets that are expected to be realized, or intended to be sold or consumed, over the normal operating cycle;

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

2. Assets that are held mainly for the purpose of trading;
3. Assets that are expected to be realized within twelve (12) months after the end of the reporting period; or
4. Cash or cash equivalents, except those that will be swapped or used to repay liabilities at least 12 months from the reporting period, and those with restricted uses.

Liabilities that match any of the following criteria are classified as current liabilities; liabilities that do not meet the criteria for current liability are classified as non-current liabilities:

1. Liabilities that are expected to be repaid within the normal operating cycle;
2. Liabilities that are held mainly for the purpose of trading;
3. Liabilities that are expected to be repaid within twelve (12) months after the end of the reporting period; or
4. Liabilities with repayment terms that cannot be extended unconditionally beyond twelve (12) months after the reporting period. Liabilities with terms that give counterparties the option to be repaid in the form of equity instruments do not affect their classification.

(5) Cash and cash equivalents

Cash includes cash on hand and demand deposits. Cash equivalent refers to short-term and highly liquid investments that are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Time deposit that meets the above mentioned definition and is intended to meet short-term cash commitment instead of investment or other purposes is stated as cash equivalent.

Bank overdraft facilities that are immediately repayable and used as part of the Company's cash management are presented as a composition of cash and cash equivalents when preparing the cash flow statement.

(6) Financial instrument

Accounts receivable are initially recognized at the time of occurrence. All other financial assets and financial liabilities are recognized at initiation when the Company becomes a party to a financial instrument contract. Financial assets or liabilities that are not carried at fair value through profit or loss (excluding accounts receivable without major financial component) are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issuance. Accounts receivable without major financial component are initially measured at

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

transaction price.

1. Financial assets

Purchase and sale of financial asset that conforms with customary practices is accounted using trade day accounting, and the same approach is applied consistently to financial assets of the same classification.

Financial assets are classified at initiation into: financial assets carried at amortized cost, equity instruments at fair value through other comprehensive income, or financial assets at fair value through profit or loss. Only when the Company changes the ways financial assets are managed will it reclassify the affected financial assets according to policy, starting from the next reporting period.

(1) Financial assets carried at amortized cost

Financial assets that meet all of the following conditions and are not designated to be carried at fair value through profit or loss are carried at amortized cost:

- The financial asset is held for the purpose of collecting contractual cash flow.
- Contractual terms of the financial asset give rise to cash flows on specific dates, and the cash flows are intended solely to pay principals and interests accruing on outstanding principals.

These assets are subsequently carried at amortized cost, at the amount of initial cost plus/less accumulated amortization calculated using the effective interest rate method and after adjusting for loss provisions. Interest income, gain/loss on foreign currency exchange, and impairment loss are recognized through profit or loss. When removed from balance sheet, gains or losses are recognized through profit or loss.

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

At initiation, the Company can make an irrevocable choice to account for subsequent fair value changes through other comprehensive income for equity instruments that are not held for trading. The above choice is determined on an instrument-by-instrument basis.

Investments in equity instruments are subsequently measured at fair value. Dividend income is recognized through profit or loss (unless the dividends clearly represent a partial recovery of the investment cost). Other net gains or losses are recognized through other comprehensive income

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

and are not reclassified into profit or loss.

Dividend income from equity investments are recognized on the day the Company becomes entitled to collect them (which is usually the ex-dividend day).

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

Financial assets that are neither carried at amortized cost nor at fair value through other comprehensive income are carried at fair value through profit or loss; this includes derivative financial assets. At initial recognition, the Company can make an irrevocable decision to designate financial assets that satisfy the criteria of being carried at amortized cost or at fair value through other comprehensive income to be carried at fair value through profit or loss, for the purpose of eliminating or reducing accounting mismatch.

These assets are subsequently measured at fair value with net gains or losses (including any dividend and interest income) recognized through profit or loss.

(4) Impairment on financial assets

The Company recognizes loss provisions on financial assets carried at amortized cost (including cash and cash equivalents, financial assets carried at amortized cost, notes and accounts receivable, other receivables, guarantee deposits paid, and other financial assets) based on expected credit loss.

Loss provisions for the following financial assets are made based on 12-month expected credit loss; for all other financial assets, loss provisions are made based on expected credit loss for the remaining lifetime:

- Debt securities that are deemed to be of low risk as of the reporting date; and
- Other debt securities and bank deposits that exhibit no significant increase in credit risk (i.e. risk of default over the financial instrument's expected duration) since initial recognition.

Loss provisions for accounts receivable are measured based on expected credit loss over the remaining lifetime.

When assessing whether a financial instrument has significantly increased in credit risk since initial recognition, the Company uses reasonable and verifiable information (that can be obtained without

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

excessive cost or investment) including qualitative and quantitative data in conjunction with its own past experience, credit rating, and forecasts.

The Company considers credit risk to have increased significantly if contractual payment is overdue for more than two months.

The Company considers financial asset to have defaulted if contractual payment is overdue for more than one year, or if the borrower is unlikely to fulfill credit obligation and make pay full payment to the Company.

Expected credit loss for the remaining lifetime refers to the amount of credit losses that the financial instrument is likely to incur due to any possible default event in the remaining lifetime.

12-month expected credit loss refers to the amount of credit loss that a financial instrument may incur due to default event in the next 12 months (or shorter, if the financial instrument's expected remaining lifetime is less than 12 months).

The longest duration by which expected credit loss is measured is the maximum contract duration for which the Company is exposed to credit risk.

Expected credit loss is estimated by weighing credit losses for the remaining lifetime of a financial instrument against probability of occurrence. Credit losses are measured as the shortfall of cash collected, which is the difference between the amount of contractual cash flow collectible and the amount of cash flow the Company expects to collect. Expected credit losses are discounted at effective interest rate applicable to the financial asset.

The Company assesses financial assets carried at amortized cost for credit impairment on every reporting date. A financial asset is deemed to have credit-impaired if estimated future cash flow exhibits one or several adverse events. Evidence of credit impairment includes any observable data that can be used to establish the following with respect to a financial asset:

- The borrower or issuer encounters significant financial distress;
- Event of default, such as delinquency or more than one-year overdue;
- The Company grants compromise to the borrower for reasons relating to financial distress or contractual obligation that the Company would not have done so otherwise;

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

- The borrower is very likely to file for bankruptcy or undergo financial restructuring; or
- Occurrence of financial distress that may cause the financial asset to be removed from active market.

Loss provisions on financial assets carried at amortized cost are deducted from book value.

When the Company has reason to believe that it may not recover part or all of a financial asset, the total book value of financial asset is reduced directly to reflect the expectation. If the counterparty is a corporate entity, the Company would analyze the timing and amount of charge-off based on rational expectations about recoverability. The Company expects no major reversal of amounts that it has charged off. However, the Company may still make claims on charged-off financial assets according to its recovery procedures.

(5) Removal of financial assets

Financial assets can be removed from balance sheet only if all contractual cash flow entitlements have ended, or if the asset has been transferred with virtually all risks and returns of ownership assumed by another party, or in situations where the Company neither transfers nor retains virtually all risks and returns associated with ownership and retains no control over such financial asset.

The Company will continue recognizing financial assets it has signed transfer agreement for on the balance sheet if it retains virtually all risks and returns associated with the ownership of the transferred asset.

2. Financial liabilities and equity instruments

(1) Classification of liabilities or equity

Debt and equity instruments issued by the Company are classified into financial liabilities or equity depending on the terms of the underlying contract and the definitions of financial liability and equity used.

(2) Equity transactions

Equity instrument refers to any contract that represents the Company's entitlement to assets net of liabilities. Equity instruments issued by the Company are recognized at the amount of proceeds received net of direct issuing costs.

(3) Financial liabilities

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

Financial liabilities are classified to be carried at amortized cost, and are subsequently carried at amortized cost using the effective interest method. Interest expenses and gains/losses on currency exchange are recognized through profit or loss. When removing from balance sheet, any gains or losses incurred are also recognized through profit or loss.

(4) Removal of financial liabilities

Financial liabilities are removed from balance sheet upon fulfillment, cancellation, or expiry of contractual obligation. If a change in the terms of a financial liability alters cash flow by a significant extent, the old financial liability is removed and a new financial liability will be recognized based on the revised terms.

When removing financial liabilities from balance sheet, any differences between the book value and the amount paid or payable (including any non-cash assets transferred and any liabilities assumed as part of the arrangement) are recognized through profit or loss.

(5) Offset of financial assets and liabilities

Financial assets and financial liabilities may be offset against each other and presented in the balance sheet in net amount only when the Company is legally entitled to do so, and has the intention to settle assets and liabilities in net amount or realize them both at the same time.

(6) Amendments regarding Interest Rate Benchmark Reform - Phase 2 (applicable from January 1, 2021)

When there is a change to the benchmark interest rate used for determining contractual cash flow of a financial asset or liability carried at amortized cost, the Company will update the effective interest rate of the given financial asset/liability to reflect the interest rate benchmark reform.

A change in the basis for determining the contractual cash flows of a financial asset or liability is required by the interest rate benchmark reform only if the following two conditions are met:

- the change is necessary as a direct consequence of the interest rate benchmark reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis (i.e. basis before the reform).

If any changes are made to such financial asset/liability in addition to

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

changes in the basis for determining contractual cash flows as required by the interest rate benchmark reform, the Company will first update the effective interest rate for the financial asset/liability to reflect the reform, and treat the additional changes as contract amendment according to accounting policies.

(7) Inventory

Inventory is valued at the lower of cost and net realizable value. Cost includes all costs incurred to acquire, produce, process, and bring inventory to its usable state and location, and is calculated using the weighted average method. Cost of finished products and work-in-progress includes manufacturing overheads, which are allocated proportionally based on normal production capacity.

Net realizable value refers to the estimated selling price less all additional costs required for completion and all associated marketing expenses under normal circumstances.

(8) Investment in associated companies

Associated company is an entity in which the Company has significant influence over financial and operating decisions, but no single or joint control.

The Company accounts for associated companies using the equity method. Under the equity method, investments are accounted at acquisition cost at initiation; acquisition cost includes transaction cost. The book value of associated company includes goodwill recognized at initiation less any cumulative impairment losses.

The financial statements include profit or loss and other comprehensive income from associated companies, recognized based on percentage of equity ownership and adjusted for consistency of accounting policy, from the day the Company gains significant influence until the day it no longer exercises significant influence. If an associated company undergoes a change of equity that is not attributed to profit, loss, or other comprehensive income and has no impact on the Company's shareholding percentage, the Company will account for changes in ownership interest and its share of equity change in the associated company based on shareholding percentage, and recognize the change as "capital reserve."

Unrealized gains and losses arising from transactions between the Company and associated companies are recognized in corporate financial statements only to the extent of investor's ownership interest in the associated company.

The Company will stop recognizing losses on associated companies when its share of the loss equals or exceeds the value of equity held. The Company will

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

recognize extra losses and liabilities only for legal obligations and constructive obligations occurred, or payments made on behalf of investees.

(9) Investment properties

Investment properties refer to real estate properties that are held for rental income or capital gain, or both, as opposed to normal business activities such as sale, production, supply of products, rendering of services, or administration. Investment properties are initially accounted at cost, and subsequently carried at cost less accumulated depreciation and cumulative impairment. These assets are subject to the same depreciation method and parameters such as useful year and residual value as does property, plant, and equipment.

Gain or loss on disposal of investment property (calculated as the difference between net disposal proceeds and book value of the asset) is recognized through profit or loss.

Rental income from investment properties are recognized as operating revenues using the straight-line method over the lease tenor. Any lease incentives offered are recognized as part of rental income over the lease tenor.

(10) Property, plant, and equipment

1. Recognition and measurement

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

Major components of property, plant, and equipment that have different useful lives are accounted as separate categories (of major components).

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

2. Subsequent costs

Subsequent expenditures are capitalized only when the Company is very likely to realize future economic benefits.

3. Depreciation

Depreciation is calculated using the straight-line approach, in which the cost of asset net of residual value is divided by the useful life of each component, and recognized through profit or loss.

No depreciation is provided on land.

The following useful life estimates are used for the current and comparative periods:

| | |
|---------------------|------------|
| Buildings | 3-55 years |
| Machinery equipment | 3-15 years |

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

| | |
|--------------------------|------------|
| Utility equipment | 7-15 years |
| Transportation equipment | 3-10 years |
| Office equipment | 3-11 years |
| Other equipment | 3-50 years |

The Company reviews its depreciation method, useful life, and residual value estimates yearly on each reporting date. Changes are made as deemed necessary and appropriate.

4. Reclassification to investment properties

Any self-occupied property that is repurposed into investment property shall have book value at the time of repurpose reclassified into investment property.

(11) Leases

The Company evaluates whether a contract meets the criteria of (or contains arrangements characterized as) lease on the day of establishment. A contract is considered as lease or deemed to contain lease elements if it involves a transfer of control over identified assets for a period of time in exchange for consideration.

1. As a lessee

The Company recognizes right-of-use assets and lease liabilities on the lease start date. Right-of-use assets are measured at cost at initiation; this cost includes the initial amount of lease liability, adjusted for any lease payments paid on or before the lease start date, plus any initial direct costs incurred and any estimated costs to dismantle/remove the asset and restore the location or the asset to its original state, less any lease incentives received.

Right-of-use assets are depreciated on a straight-line basis from the lease start date until the end of useful life of right-of-use asset or until expiry of the lease tenor, whichever the earlier. Furthermore, the Company regularly assesses right-of-use assets for impairment and accounts for impairment losses as they occur. Right-of-use assets are also adjusted in circumstances where lease liabilities are subject to remeasurement.

Lease liabilities are initially measured as the present value of unpaid lease payments as at the lease start date. Interest rate implicit in a lease is used as the discount rate if it can be easily determined; if the rate can not be easily determined, the Company's incremental borrowing rate will be used as the discount rate instead. In general, the Company uses incremental borrowing rate as the discount rate.

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

The types of lease payments taken into the calculation of lease liabilities include:

- (1) Fixed payments, including in-kind fixed payments;
- (2) Variable lease payments that are determined by certain index or rate (which are initially measured using index or rate as at the lease start date);
- (3) Amount of residual value guarantee expected to be paid; and
- (4) Amount of strike price or penalty payable, if there is reasonable assurance to exercise the purchasing or termination option.

Lease liabilities subsequently accrue interest using the effective interest approach, and are remeasured in the following circumstances:

- (1) When there is a change in the index or rate used for determining lease payments, which leads to changes in future lease payments;
- (2) When there is a change in the amount of residual value guarantee expected to be paid;
- (3) When there is a change in the assessment of asset purchasing option;
- (4) When there is a change in the likelihood of exercising lease extension/termination option, which may alter expectation about the lease tenor;
- (5) When there is a change in leased asset, scope of lease, or other terms.

When lease liability is remeasured due to: a change in the index or rate used to determine lease payment, a change in guaranteed residual value, or a purchase, extension, or termination of embedded options, a corresponding adjustment is also made to the book value of right-of-use asset at the same time. When book value of the right-of-use asset has been reduced to zero, further remeasurements are recognized through profit or loss instead.

Any contract amendment that reduces the scope of lease is accounted by reducing the book value of right-of-use asset by an amount that reflects partial or total termination of lease arrangement. Any difference between right-of-use asset and remeasured lease liability is recognized through profit or loss.

Right-of-use assets and lease liabilities that do not meet the definition of investment property are presented on the balance sheet as single-line items.

For a contract that contains both lease and non-lease components, the Company would allocate consideration into individual lease components based on relative standalone price. However, when leasing land and building as a lessee, the Company chooses not to separate non-lease component but instead

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

treats lease component and non-lease component as one lease component.

For short-term leases and leases of low-value assets, the Company chooses not to recognize right-of-use asset or liability, but instead recognizes lease payments as expenses over the course of the lease tenor on a straight-line basis.

For any change to the basis for determining future lease payments following an interest rate benchmark reform that takes place on or after January 1, 2021, the Company will adopt an amended discount rate that reflects the reform and discount the revised lease payments in order to measure lease liabilities.

2. As a lessor

For lease arrangements where the Company is a lessor, the terms of the lease contract are evaluated to determine whether virtually all risks and returns associated with ownership of the asset are transferred on the day of lease commencement. If so, the contract would be classified as a finance lease; if not, the asset would be classified as an operating lease. When evaluating leases, the Company takes into consideration whether the lease tenor covers a major portion of the asset's useful life, among other indicators.

For lease arrangements where the Company is an intermediate lessor, the Company accounts for the master lease and the sublease separately, and classifies the sublease based on the right-of-use asset given rise by the master lease. If the master lease is short-term in nature and is exempted from lease recognition, the sublease is classified as operating lease.

For a contract that contains both lease and non-lease components, the Company adopts IFRS 15 and allocates considerations accordingly.

For operating leases, the Company recognizes lease payments collected as rental income over the lease tenor on a straight-line basis.

(12) Impairment of non-financial assets

The Company evaluates non-financial assets (excluding inventory and deferred income tax assets) for signs of impairment in the book value on each reporting date. Assets that exhibit any of the signs will have recoverable amount estimated.

For the purpose of impairment testing, assets that generate cash inflows that are largely independent of cash inflows from other assets or groups of assets are determined as a smallest identifiable group of assets.

Recoverable amount is determined as fair value less disposal cost or the

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

utilization value of individual asset or cash-generating unit, whichever the higher. Utilization value is assessed by discounting projected cash flows to the present value using the pre-tax discount rate. This discount rate reflects the time value that the market has currently priced for the given currency, and risks that are specific to the given asset or cash-generating unit.

If the recoverable amount of an individual asset or cash-generating unit falls below its book value, the difference is recognized as impairment loss.

Impairment losses are immediately recognized through current profit or loss against a reduction to the book value of goodwill that has been allocated to the cash-generating unit; any remaining amount of impairment will then be taken to reduce book values of other assets within the unit on a pro-rated basis (i.e. proportionally based on book value weight of each asset).

For non-financial assets, impairment losses can be reversed provided that doing so does not exceed the book value (net of depreciation or amortization) of the particular asset if impairment losses were not recognized in the first place.

(13) Revenue recognition

1. Revenue from contracts with customers

Income is measured as the amount of consideration expected to receive for the delivery of merchandise or service. The Company recognizes income when control of merchandise or service has been transferred to customers and the contractual obligations fulfilled. A more detailed description by main revenue categories is as follows:

(1) Sale of merchandise

The Company recognizes revenues when control of product has been transferred. Product control is deemed to have transferred upon delivery, at a time when customer is able to exercise full discretion over the use of sales channel and selling price and no unfulfilled obligations exist that may otherwise affect customer's acceptance of the product. Delivery is deemed to have taken place when products are shipped to the designated location where all risks of obsolescence and loss are assumed by the customer, and that the customer accepts the products according to sales contract, thereby voiding the acceptance clause, or under any other circumstances where the Company has objective evidence to prove having satisfied all inspection criteria.

The Company recognizes accounts receivable at the time merchandise

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

is delivered, as the Company has unconditional rights to collect consideration at this point.

(2) Financial component

The Company expects no more than one year between the time at which merchandise or service is transferred to customers and the time at which payment is received for such merchandise or service for all its customers. As a result, no time value adjustment is made to the transaction price.

(14) Employee benefits

1. Defined contribution plan

Contributions to the defined contribution plan are expensed over the duration of employees' service.

2. Short-term employee benefits

Short-term employee benefit obligations are expensed at the time service is rendered. If the Company has a statutory or constructive obligation to pay benefits due to services rendered by employees in the past and such obligation can be estimated reliably, the amount is recognized as liability.

(15) Income tax

Income tax expense comprises current income tax and deferred income tax. Current income tax and deferred income tax are recognized through profit or loss, except for amounts that arise in relation to business combination and items that are recognized directly under equity or other comprehensive income.

Based on the Company's judgment, interest and penalties related to income taxes (including uncertainty over income tax treatments) do not meet the definition of income tax, and are therefore subject to the accounting treatment of IAS 37.

Current income tax includes all income taxes refundable/payable for the current year, which is calculated based on current year's taxable income (or loss), plus any adjustment to income tax payable/refundable in previous years. This amount represents the best estimate for the amount payable/collectible using statutory or substantively enacted tax rates as of the reporting date.

Deferred income tax represents the tax impact of temporary differences between asset/liability figures presented for financial reporting purpose and asset/liability figures used for taxation basis. No deferred income tax is recognized on temporary differences that arise under the following circumstances:

1. Initial recognition of assets or liabilities for transactions unrelated to business

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

combination, provided that accounting profit and taxable income (loss) are unaffected at the time of transaction;

2. Temporary differences arising from investment in subsidiaries, associated companies, and joint ventures, where the Company has control over the timing at which temporary difference is reversed and that the temporary difference is unlikely to be reversed in the foreseeable future; and

3. Taxable temporary differences arising from initial recognition of goodwill.

Unused tax losses and tax credits can be carried forward, added to deductible temporary differences, and recognized as deferred income tax assets to the extent that is likely to be offset against taxable income earned in the future. Deferred income tax assets are evaluated on each reporting date. Tax benefits that are not very likely to be realized will be reduced down to the realizable amount, and amounts previously reduced may be reversed up to the point where sufficient taxable income can be generated.

Deferred income tax is calculated using tax rate that is expected to be effective at the time the temporary difference is reversed. In this financial report, the statutory tax rate or substantively enacted tax rate as at the reporting date was used for calculation.

The Company will offset deferred income tax assets against deferred income tax liabilities only when the following conditions are met:

1. When it is legally entitled to offset current income tax assets against current income tax liabilities; and
2. The deferred income tax assets and deferred income tax liabilities arise in relation to income taxes imposed by the same tax authority, and the tax-paying entities meet any of the following conditions:
 - (1) The tax-paying entities are one and the same; or
 - (2) The tax-paying entities are different, but all entities have the intent to settle current income tax liabilities and assets on a netted basis or realize them at the same time, for every future period in which they expect to recover deferred income tax assets and settle deferred income tax liabilities.

(16) Earnings per share

The Company presents earnings per share attributable to the Company's common shareholders in basic and diluted terms. Basic earnings per share of the Company is calculated by dividing the amount of profits attributable to the Company's common shareholders with the weighted average number of outstanding

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

common shares for the given period. Diluted earnings per share is calculated after adjusting the amount of profits attributable to the Company's common shareholders and weighted average number of common shares for the dilutive effect of potential common shares.

(17) Segment information

An operating segment is a section of the Company that generates income and incurs expenses as part of its activities (including income and expenses from transacting with other sections of the Company). Operating results of all segments are reviewed regularly by the Company's main decision maker for resource allocation and performance evaluation. All operating segments report financial information separately.

5. Sources of uncertainty in significant accounting judgments, estimates, and assumptions

When preparing financial statements in compliance with the Preparation Regulations, the management is required to make judgments, estimates, and assumptions in accordance with FSC-approved IFRS. These judgments, estimates, and assumptions may affect adoption of accounting policies and amounts of asset, liability, income, and expense reported. The actual outcome may differ from initial estimates.

The management examines its estimates and assumptions on an ongoing basis. Impacts from changes in accounting estimate are recognized in the year the changes take place and in future years when impacts materialize.

Accounting policies that involve significant judgment and have material effect on the amounts recognized in the financial statements are explained below:

(1) Note 6(7), classification of investment properties

The Company leased out one idle factory premise and land that are held with the intention of generating long-term capital gain or rental income, and therefore reclassified the asset as investment property.

The following assumptions and estimates involve uncertainties that may pose significant risk of material adjustments being made to the book value of assets and liabilities in the next financial year, and are considered to have reflected the impact of COVID-19. Detailed explanation is as follows:

(1) Valuation of inventory

Due to the fact that inventory is measured at the lower of cost and net realizable value, the Company assesses inventory on each reporting date for any decrease in sales value due to normal wear, obsolescence, or absence of market demand, and

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

reduces inventory cost to net realizable value accordingly. Inventory valuation is conducted by estimating product demand within a specific period of time in the future, which may vary significantly due to rapid industry development. For details on inventory valuation, please refer to Note 6(4).

Valuation process

The Company's accounting policies and disclosures include fair value assessments of financial and non-financial assets and liabilities. The Company has implemented internal control systems for fair value measurement; it reviews significant unobservable inputs on a regular basis and makes adjustments accordingly. In situations where information sourced from an external third party (such as broker or pricing service provider) is used as fair value input, the valuation panel will evaluate supporting evidence that the third party has provided for the input, in order to ensure that fair value assessment and classification both conform with International Financial Reporting Standards.

When measuring assets and liabilities, the Company uses observable inputs available on the market wherever possible. Levels of fair value assessment are classified based on the types of input used:

- (1) Level 1: Open market quotation (unadjusted) for the same asset or liability.
- (2) Level 2: Inputs/parameters that are directly observable (i.e. price) or indirectly observable (i.e. inferred from price), other than level 1 inputs (open market quotation).
- (3) Level 3: Market inputs/parameters that are not observable (non-observable parameters).

Policy on changes between fair value inputs

Any transfer between levels of fair value assessment is recognized by the Company on the reporting date.

More information on the assumptions adopted for fair value assessment

Please see Note 6(18) for details on the assumptions adopted for fair value assessment.

6. Notes to major accounts

- (1) Cash and cash equivalents

| | December 31, 2023 | December 31, 2022 |
|----------------|----------------------|----------------------|
| Reserve cash | \$ 130 | \$ 130 |
| Check deposit | 41,943 | 56,959 |
| Demand deposit | 1,711 | 2,798 |

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

| | | |
|--|------------------|---------------|
| Foreign currency deposit | 19,131 | 11,813 |
| Cash and cash equivalents presented in the cash flow statement | \$ 62,915 | 71,700 |

Please see Note 6(18) for detailed disclosure of interest rate risk and sensitivity analysis on the Company's financial assets and liabilities.

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

| | December 31, 2023 | December 31, 2022 |
|---|------------------------------|------------------------------|
| Equity instruments at fair value through other comprehensive income | | |
| Current: | | |
| Domestic TWSE/TPEX listed shares | \$ 3 | 3 |
| Non-current: | | |
| Domestic unlisted shares | 3,147 | 3,147 |
| Total | \$ 3,150 | 3,150 |

1. Equity instruments at fair value through other comprehensive income

This category of equity instruments is held as strategic investments and not for trading, and therefore are designated to be measured at fair value through other comprehensive income.

In 2023 and 2022, the Company did not dispose of any strategic investment or transfer any cumulative gain or loss under equity.

2. Please see Note 6(18) for detailed information on market risk.

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

(3) Notes and accounts receivable

| | December 31, 2023 | December 31, 2022 |
|---|------------------------------|------------------------------|
| Notes receivable - arising from business activities | \$ 46,117 | 53,878 |
| Notes receivable - related parties - arising from business activities | 36,619 | 39,922 |
| Accounts receivable - at amortized cost | 18,193 | 36,973 |
| Accounts receivable - related parties - at amortized cost | 2,779 | 5,632 |
| | \$ 103,708 | 134,880 |

The Company adopted the simplified approach to estimate expected credit loss on all notes and accounts receivable, which involved measuring expected credit loss

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

for the duration of its receivables. To facilitate this approach, notes and accounts receivable were divided into several groups using common credit risk characteristics for assessing customers' ability to pay contractual sum at maturity. This approach incorporates the use of forward-looking information. Expected credit loss analysis for notes and accounts receivable is explained below:

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

| | December 31, 2023 | | |
|----------------------------|--|--|---|
| | Book value of notes and accounts receivable | Weighted average expected credit loss rate | Provision for expected credit loss over the remaining duration |
| Normal | \$ 103,708 | 0.00% | - |
| Overdue 1 - 120 days | - | 0.00% | - |
| Overdue 121 - 365 days | - | 10.00% | - |
| Overdue 365 days and above | - | 100.00% | - |
| | <u>\$ 136,405</u> | | <u>-</u> |

| | December 31, 2022 | | |
|----------------------------|--|--|---|
| | Book value of notes and accounts receivable | Weighted average expected credit loss rate | Provision for expected credit loss over the remaining duration |
| Normal | \$ 136,388 | 0.00% | - |
| Overdue 1 - 120 days | 17 | 0.00% | - |
| Overdue 121 - 365 days | - | 10.00% | - |
| Overdue 365 days and above | - | 100.00% | - |
| | <u>\$ 136,405</u> | | <u>-</u> |

Changes in loss provision on notes receivable and accounts receivable are shown below:

| | 2023 | 2022 |
|--|--------------------|-----------------|
| Opening balance (i.e. closing balance) | <u>\$ -</u> | <u>-</u> |

None of the Company's notes receivable and accounts receivable was placed as collateral as at December 31, 2023 and 2022.

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

(4) Inventory

| | December 31, 2023 | December 31, 2022 |
|-----------------------|------------------------------|------------------------------|
| Finished goods | \$ 182,236 | 305,961 |
| Less: loss provisions | <u>(25,967)</u> | <u>(32,266)</u> |
| Subtotal | <u>156,269</u> | <u>273,695</u> |
| Work-in-progress | 92,297 | 199,190 |
| Less: loss provisions | <u>(4,375)</u> | <u>(2,580)</u> |
| Subtotal | <u>87,922</u> | <u>196,610</u> |
| Raw materials | 60,041 | 49,604 |
| Less: loss provisions | <u>-</u> | <u>-</u> |
| Subtotal | <u>60,041</u> | <u>49,604</u> |
| Supplies | 46,573 | 48,489 |
| Less: loss provisions | <u>(27,341)</u> | <u>(27,303)</u> |
| Subtotal | <u>19,232</u> | <u>21,186</u> |
| | <u>\$ 323,464</u> | <u>541,095</u> |

1. Allowance for inventory devaluation

| | 2023 | 2022 |
|---|-------------------------|-------------------------|
| Beginning retained earnings | \$ 62,149 | 91,766 |
| Recognition of inventory devaluation losses (reversal gains) | <u>(4,466)</u> | <u>(29,617)</u> |
| Closing balance | <u>\$ 57,683</u> | <u>\$ 62,149</u> |

2. Detailed breakdown of cost of sale:

| | 2023 | 2022 |
|---|----------------------------|----------------------------|
| Reclassification of inventory sold | \$ 2,041,319 | 2,978,644 |
| Inventory devaluation losses (reversal gains) | (4,466) | (29,617) |
| Income from sale of scrap | (1,874) | (2,468) |
| Materials outsourced for processing | - | (1,845) |
| Others (Note) | <u>39,232</u> | <u>(6,928)</u> |
| | <u>\$ 2,074,211</u> | <u>\$ 2,937,786</u> |

- In 2023 and 2022, the Company reversed inventory devaluation losses that it had previously recognized, as the net realizable value of inventory increased with rising demand and market selling price.
- None of the Company's inventory was pledged as collateral.

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

(5) Investments accounted using the equity method

The Company's equity-accounted investments as at the reporting date are presented below:

| | December 31, 2023 | December 31, 2022 |
|----------------------|----------------------|----------------------|
| Associated companies | <u>\$ 70,908</u> | <u>64,142</u> |

1. Associated companies

Information of associated companies that are significant to the Company:

| Name of associated company | Nature of relationship with the Company | Main business activities Place/ country of registration | Percentage of ownership/voting right | |
|--|---|--|---|----------------------|
| | | | December 31, 2023 | December 31, 2022 |
| Da Yi International Development Co., Ltd. | Development of residential and commercial buildings | Taiwan | 7.10% | 7.10% |

In February 2022, our company participated in a cash capital increase of TWD 7,806 thousand in Daiyi International Development Co., Ltd. according to our shareholding percentage. Subsequently in May 2022, our company purchased 1,000,000 shares from non-related parties at a price of TWD 19 per share, with a total price of TWD 19,000 thousand. This increased our company's shareholding percentage from 6.19% to 7.10%, and resulted in a decrease of TWD 10,657 thousand in accumulated gains and losses.

The following is an aggregate disclosure of financial information for the Company's significant associated companies. The figures reported on IFRS-compliant financial statements of each associated company have been adjusted to reflect the amount of adjustments the Company had made for fair value and differences in accounting policy at the time of acquisition:

| | December 31, 2023 | December 31, 2022 |
|--|----------------------|----------------------|
| Current assets | \$ 27,710 | 22,075 |
| Non-current assets | 1,856,766 | 1,857,302 |
| Current liabilities | (93,482) | (93,326) |
| Non-current liabilities | (791,816) | (881,936) |
| Net asset | <u>\$ 999,178</u> | <u>\$ 903,836</u> |
| Net asset attributable to non-controlling owners | <u>\$ -</u> | <u>-</u> |

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

| | | |
|---|--------------------|-----------------|
| Net asset attributable to owners of the investee | <u>\$ 999,178</u> | <u>903,836</u> |
| | 2023 | 2022 |
| Operating revenues | <u>\$ 12,718</u> | <u>4,809</u> |
| Current net income (loss) from continuing operations | <u>\$ (14,659)</u> | <u>(20,368)</u> |
| Total comprehensive income | <u>\$ (14,659)</u> | <u>(20,368)</u> |
| Total comprehensive income attributable to non-controlling owners | <u>\$ -</u> | <u>-</u> |
| Total comprehensive income attributable to owners of the investee | <u>\$ (14,659)</u> | <u>(20,368)</u> |
| | 2023 | 2022 |
| Share of associated company's net asset - opening | \$ 64,142 | 50,998 |
| Share of net asset in associated companies acquired in the current period | 7,806 | 14,530 |
| Total comprehensive income attributable to the Company - current | (1,040) | (1,386) |
| Share of associated company's net asset - closing | 70,908 | 64,142 |
| Closing book value of equity in associated company | <u>\$ 70,908</u> | <u>64,142</u> |

2. Collaterals

None of the Company's equity-accounted investment was pledged as collateral as at December 31, 2022 and 2022.

(6) Property, plant and equipment

Changes in cost and accumulated depreciation of the Company's property, plant, and equipment for 2023 and 2022 are explained below:

| | Land | Buildings | Machinery equipment | Utility equipment | Transportation equipment | Office equipment | Other equipment | Leased assets | Construction in progress and equipment pending inspection | Total |
|---------------------------------|-------------------|----------------|---------------------|-------------------|--------------------------|------------------|-----------------|----------------|---|------------------|
| Cost: | | | | | | | | | | |
| Balance as at January 1, 2023 | \$ 726,835 | 566,553 | 3,503,639 | 227,013 | 17,791 | 24,452 | 258,139 | 211,185 | 3,801 | 5,539,381 |
| Addition | - | 4,144 | 1,328 | 165 | - | 179 | 960 | 224 | 1,498 | 5,498 |
| Disposal/scraping | - | - | - | - | (5,523) | - | (413) | - | - | (5,936) |
| Reclassification | - | 953 | 185 | - | - | - | 506 | - | (1,644) | - |
| Balance as at December 31, 2023 | <u>\$ 726,835</u> | <u>568,650</u> | <u>3,505,152</u> | <u>227,178</u> | <u>12,268</u> | <u>24,604</u> | <u>259,182</u> | <u>211,409</u> | <u>3,655</u> | <u>5,538,943</u> |
| Balance as at January 1, 2022 | \$ 742,912 | 552,874 | 3,491,372 | 227,013 | 17,497 | 24,243 | 259,341 | 209,797 | 19,072 | 5,544,121 |
| Addition | - | - | 7,411 | - | 686 | 182 | 798 | - | 23,942 | 33,019 |
| Disposal/scraping | - | - | (13,949) | - | (392) | - | (2,000) | - | - | (16,341) |

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

| | Land | Buildings | Machinery equipment | Utility equipment | Transport ation equipment | Office equipment | Other equipment | Leased assets | Constructi on in progress and equipment pending inspection | Total |
|------------------------------------|--------------------------|-----------------------|-------------------------|-----------------------|---------------------------------|----------------------|-----------------------|-----------------------|--|-------------------------|
| Reclassification | <u>(16,077)</u> | <u>13,679</u> | <u>18,805</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,388</u> | <u>(39,213)</u> | <u>(21,418)</u> |
| Balance as at December 31, 2022 | <u>\$ 726,835</u> | <u>566,553</u> | <u>3,503,639</u> | <u>227,013</u> | <u>17,791</u> | <u>24,425</u> | <u>258,139</u> | <u>211,185</u> | <u>3,801</u> | <u>5,539,381</u> |
| Accumulated depreciation: | | | | | | | | | | |
| Balance as at January 1, 2023 | \$ - | 355,666 | 3,401,641 | 226,155 | 16,873 | 23,844 | 241,321 | 147,919 | - | 4,413,419 |
| Depreciation | - | 12,673 | 33,860 | 1,210 | 222 | 384 | 3,000 | 13,672 | - | 65,021 |
| Disposal/scrapping | - | - | - | - | (5,523) | - | (413) | - | - | (5,936) |
| Reclassification | - | - | - | <u>(2,780)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,780</u> | <u>-</u> | <u>-</u> |
| Balance as at December 31, 2023 | <u>\$ -</u> | <u>368,339</u> | <u>3,435,501</u> | <u>224,585</u> | <u>11,572</u> | <u>24,228</u> | <u>243,908</u> | <u>164,371</u> | <u>-</u> | <u>4,472,504</u> |
| Balance as at January 1, 2022 | \$ - | 346,477 | 3,385,841 | 224,956 | 17,172 | 23,469 | 240,297 | 134,595 | - | 4,337,807 |
| Depreciation | - | 12,554 | 29,656 | 1,199 | 93 | 375 | 3,024 | 13,324 | - | 60,225 |
| Disposal/scrapping | - | - | (13,856) | - | (392) | - | (2,000) | - | - | (16,248) |
| Reclassification | - | <u>(3,365)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(3,365)</u> |
| Balance as at December 31, 2022 | <u>\$ -</u> | <u>355,666</u> | <u>3,401,641</u> | <u>226,155</u> | <u>16,873</u> | <u>23,844</u> | <u>241,321</u> | <u>147,919</u> | <u>-</u> | <u>4,413,419</u> |
| Book value: | | | | | | | | | | |
| December 31, 2023 | <u>\$ 726,835</u> | <u>200,311</u> | <u>69,651</u> | <u>2,593</u> | <u>696</u> | <u>376</u> | <u>15,284</u> | <u>47,038</u> | <u>3,655</u> | <u>1,066,439</u> |
| January 1, 2022 | <u>\$ 742,912</u> | <u>206,397</u> | <u>105,531</u> | <u>2,234</u> | <u>325</u> | <u>774</u> | <u>19,044</u> | <u>75,025</u> | <u>19,072</u> | <u>1,171,314</u> |
| December 31, 2022 | <u>\$ 726,835</u> | <u>210,887</u> | <u>101,998</u> | <u>858</u> | <u>918</u> | <u>581</u> | <u>16,818</u> | <u>63,266</u> | <u>3,801</u> | <u>1,125,962</u> |

- On September 2, 2019, the Company purchased land located at Fengshukeng Section, Guishan District, Taoyuan City for a sum of NT\$40,590 thousand (including other acquisition costs). Due to the fact that the land was registered for agricultural use, the laws require the purpose of land to be changed before ownership transfer. For this reason, arrangements were made to have the land registered under the title of a natural person, and a mandate contract has been signed with the registered owner along with the completion of asset security measures. Ownership of the property will be transferred to the Company at an appropriate time.
- Please see Note 8 for details on bank borrowings and collaterals pledged to secure credit limits as at December 31, 2023 and 2022.

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

(7) Investment properties

Change of investment properties in 2022 and 2021 is explained below:

| | Land and increase from revaluation | Buildings | Total |
|---------------------------------|---|------------------|---------------------|
| Cost: | | | |
| Balance as at January 1, 2023 | \$ 337,208 | 441,607 | 778,815 |
| Addition | \$ - | - | - |
| Reclassification | - | - | - |
| Balance as at December 31, 2023 | \$ 337,208 | 441,607 | 778,815 |
| Balance as at January 1, 2022 | \$ 321,131 | 433,966 | 755,097 |
| Addition | \$ - | 190 | 190 |
| Reclassification | 16,077 | 7,451 | 23,528 |
| Balance as at December 31, 2022 | \$ 337,208 | 441,607 | 778,815 |
| Accumulated depreciation: | | | |
| Balance as at January 1, 2021 | \$ - | 107,934 | 107,934 |
| Depreciation | \$ - | 7,691 | 7,691 |
| Balance as at December 31, 2021 | \$ - | 115,625 | 115,625 |
| Balance as at January 1, 2021 | \$ - | 96,923 | 93,923 |
| Depreciation | - | 7,646 | 7,646 |
| Reclassification | - | 3,365 | 3,365 |
| Balance as at December 31, 2021 | \$ - | 107,934 | 107,934 |
| Book value: | | | |
| December 31, 2022 | \$ 337,208 | 325,982 | 663,190 |
| January 1, 2021 | \$ 321,131 | 337,043 | 658,174 |
| December 31, 2021 | \$ 327,208 | 333,673 | 670,881 |
| Fair value: | | | |
| December 31, 2023 | | | \$ 1,395,145 |
| December 31, 2022 | | | \$ 1,362,781 |

1. Fair value of investment properties is determined based on market price of nearby areas and valuation by independent valuer (one that possesses relevant and professional qualification and recent experience in valuing investment properties of similar location and category). The fair value assessment made use of level 3 input.
2. Please see Note 8 for details on bank borrowings and collaterals pledged to

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

secure credit limits as at December 31, 2023 and 2022.

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

(8) Short-term borrowings

Detailed breakdown of short-term borrowings:

| | December 31, 2023 | December 31, 2022 |
|-------------------------------|------------------------------|------------------------------|
| Secured borrowing under L/C | \$ 174,648 | 137,000 |
| Unsecured borrowing under L/C | 30,000 | - |
| Secured bank borrowing | - | - |
| Unsecured bank borrowing | - | 38,402 |
| Total | \$ 204,648 | 175,402 |
| Unused limit | \$ 781,352 | 763,744 |
| Interest rate range | 1.87%~1.90% | 1.70%~1.79% |

For details on bank borrowings secured by the Company's assets, please see Note 8.

(9) Long-term borrowing

Detailed breakdown of long-term borrowings:

| December 31, 2023 | | | |
|--------------------------------------|-----------------|--------------------------------|-----------------------------|
| | Currency | Interest rate range | Year of maturity |
| Secured bank borrowing | NTD | 2.10%~2.43% | 2025~2039 |
| Less: portion maturing within 1 year | | | \$ (74,528) |
| Total | | | \$ 579,166 |
| Unused limit | | | \$ - |

| December 31, 2022 | | | |
|--------------------------------------|-----------------|--------------------------------|-----------------------------|
| | Currency | Interest rate range | Year of maturity |
| Secured bank borrowing | NTD | 1.98%~2.29% | 2025~2039 |
| Less: portion maturing within 1 year | | | \$ (67,028) |
| Total | | | \$ 653,694 |
| Unused limit | | | \$ - |

For details on bank borrowings secured by the Company's assets, please see Note 8.

(10) Operating lease - as a lessor

The Company leases out its investment properties, and classifies these leases as operating lease considering that there is no transfer of virtually all risks and returns associated with ownership of the underlying asset. Please see Note 6(8) -

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

Investment property for details.

Maturity analysis on lease payments is performed using the sum of undiscounted lease payments expected to be collected after the reporting date, and is presented in the following chart:

| | December 31, 2023 | December 31, 2022 |
|------------------------------------|------------------------------|------------------------------|
| Less than 1 year | \$ 35,171 | 37,143 |
| 1 to 2 years | 29,214 | 34,374 |
| 2 to 3 years | 28,959 | 28,562 |
| 3 to 4 years | 27,637 | 28,374 |
| 4 to 5 years | 27,699 | 27,614 |
| More than 5 years | 17,414 | 45,167 |
| Sum of undiscounted lease payments | <u>\$ 166,094</u> | <u>201,234</u> |

Rental income generated from investment properties totaled NT\$37,410 thousand in 2023 and NT\$38,474 thousand in 2022.

(11) Employee benefits

Defined contribution plan

The Company's defined contribution plan complies with the Labor Pension Act, in which the Company contributes an amount equal to 6% of employees' salaries each month to employees' pension accounts held with the Bureau of Labor Insurance. Under this plan, the Company would be freed of pension obligations (whether legal or constructive) once it has contributed this amount to the Bureau of Labor Insurance.

Pension expenses recognized for the defined contribution plan in 2023 and 2022 are explained below, which have been contributed to the Bureau of Labor Insurance:

| | 2023 | 2022 |
|-------------------------|------------------------|---------------------|
| Operating costs | \$ 4,677 | 4,604 |
| Administrative expenses | 545 | 577 |
| Total | <u>\$ 5,222</u> | <u>5,181</u> |

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

(12) Income tax

- Below are details of the Company's income tax expenses (benefits) for 2023 and 2022:

| | 2023 | 2022 |
|---------------------------------------|------------------------|-------------------|
| Current income tax expense | \$ - | - |
| Deferred income tax expense (benefit) | (760) | 685 |
| Income tax expense (benefit) | <u>\$ (760)</u> | <u>685</u> |

Reconciliation of income tax expense (benefit) and pre-tax profit (loss),
2023 and 2022:

| | 2023 | 2022 |
|--|----------------------------|----------------------|
| Pre-tax profit (loss) | <u>\$ (133,546)</u> | <u>99,726</u> |
| Income tax calculated using the local tax rate | (26,709) | 19,945 |
| Land value increment tax | 29,584 | - |
| Recognition of unrecognized tax losses from previous years | - | (13,646) |
| Change in unrecognized temporary difference | (3,635) | (5,617) |
| Tax-exempt income | 3 | 3 |
| Income tax expense (benefit) | <u>\$ (760)</u> | <u>685</u> |

2. Deferred income tax assets and liabilities

- Items not recognized as deferred income tax asset

The following items were not recognized as deferred income tax asset:

| | December 31, 2023 | December 31, 2022 |
|------------|------------------------------|------------------------------|
| Tax losses | \$ 138,409 | 175,082 |
| Others | 14,646 | 18,281 |
| | <u>\$ 153,055</u> | <u>210,556</u> |

Tax losses, as defined in the Income Tax Act, are losses certified by the tax authority in the last 10 years that can be taken to reduce current year's taxable income before applying the income tax rate. Tax losses were not recognized as deferred income tax asset because the Company is not very likely to generate adequate taxable income to offset tax losses in the future.

- Recognized amounts of deferred income tax assets and liabilities

Changes in deferred income tax assets and liabilities in 2023 and 2022 are explained below:

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

Deferred income tax liabilities:

| | Incremental land value from revaluation | Others | Total |
|--|--|------------|----------------|
| Balance as at January 1, 2023 | \$ 223,456 | 834 | 224,290 |
| (Credits) debits to income statement | - | (760) | (760) |
| Balance as at December 31, 2023 | \$ 223,456 | 74 | 223,530 |
| Balance as at January 1, 2022 | \$ 223,456 | 149 | 223,605 |
| (Credits) debits to income statement | - | 685 | 685 |
| Balance as at December 31, 2022 | \$ 223,456 | 834 | 224,290 |

Deferred income tax assets:

| | Loss carried forward | Others | Total |
|--|-------------------------|--------|---------------|
| Balance as at January 1, 2023 | \$ 36,000 | - | 36,000 |
| Balance as at December 31, 2023 | \$ 36,000 | - | 36,000 |
| Balance as at January 1, 2023 | \$ 36,000 | - | 36,000 |
| Balance as at December 31, 2023 | \$ 36,000 | - | 36,000 |

(3) Tax losses not yet deducted as at December 31, 2023 have the following expiries:

| Year of loss | Losses not yet deducted | Final year available for deduction |
|--------------|-------------------------|------------------------------------|
| 2014 | 282,482 | 2024 |
| 2015 | 253,230 | 2025 |
| 2016 | 46,191 | 2026 |
| 2020 | 142,222 | 2030 |
| 2020 | 147,921 | 2033 |
| | \$ 872,046 | |

3. Assessment of income tax return

The Company's profit-seeking enterprise income tax returns have been certified by the tax authority up until 2021.

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

(13) Capital and other equity items

1. Issuance of common shares

The Company had authorized capital of \$3,500,000 thousand as at December 31, 2023 and 2022, available in 350,000,000 shares at a face value of NT\$10 per share. 132,112,000 shares were outstanding on both dates. All issued shares had been fully paid up.

Private placement of securities as at December 31, 2021:

| Type of security | Time of issuance | Number of shares issued (thousands) | Price of private placement per share (NTD) | Amount of privately placed share capital (NTD thousands) |
|------------------|------------------|-------------------------------------|--|--|
| Common share | June 17, 2015 | 30,000 | \$ 6.5 | \$ 195,000 |

The above private placement of common shares and subsequent distribution of stock dividends are subject to comply with Article 43-8 of the Security and Exchange Act. A public offering request for the above shares can be submitted to the Financial Supervisory Commission 3 years after the day the privately placed common shares are delivered, and only then can requests be raised with Taiwan Stock Exchange Corporation for TWSE listing.

2. Retained earnings

According to the Articles of Incorporation, the Company may distribute earnings or use them to reimburse losses on a half-yearly basis. Any earnings concluded at the end of each half-year shall first be taken to offset cumulative losses (including adjustment of unappropriated earnings) followed by a 10% provision for legal reserve unless the legal reserve has accumulated to an amount equal to paid-up capital. The remaining balance of net income is then subject to provision or reversal of special reserve pursuant to laws or the authority's instructions. Part of the earnings may be retained, and the remaining balance can be added to cumulative unappropriated earnings carried from the previous half-year (including adjustment of unappropriated earnings) and proposed for distribution by the board of directors. Distribution through issuance of new shares will have to be resolved in a shareholder meeting; distribution in cash is subject to resolution of the board of directors.

Any current net income concluded at year-end closing shall first be taken to offset cumulative losses (including adjustment of unappropriated earnings), followed by a 10% provision for legal reserve unless the legal reserve has

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

accumulated to an amount equal to paid-up capital. The remaining balance of net income is then subject to provision or reversal of special reserve pursuant to laws or the authority's instructions. Part of the earnings may be retained, and the remaining balance can be added to cumulative unappropriated earnings carried from the previous half-year (including adjustment of unappropriated earnings), which the board of directors may propose to distribute in the form of dividends for shareholders' resolution.

The Company's dividend policy has been established to accommodate current and future development plans after taking into consideration the investment environment, capital requirement, domestic/foreign competition, and shareholders' interests. No less than 10% of distributable earnings from the above shall be paid as dividend each year. Dividends can be paid in cash or in shares, with cash dividends amounting to no less than 10% of total dividends.

(1) Legal reserve

The Company may distribute legal reserve in cash or in new shares in the absence of cumulative losses, subject to resolution in a shareholder meeting; however, only the amount of legal reserve that exceeds 25% of paid-up capital is distributable.

(2) Earnings distribution

The Company's 2022 loss reimbursement proposal was resolved during the annual general meeting held on May 30, 2023. No earning was available for distribution in 2020 as the Company reported cumulative losses.

The Company's 2021 loss reimbursement proposal was resolved during the annual general meeting held on June 29, 2022. No earning was available for distribution in 2021 as the Company reported cumulative losses.

(14) Earnings (losses) per share

Calculation of basic and diluted earnings (losses) per share is explained below:

| | 2023 | 2022 |
|--|---------------------|---------------|
| Net income (loss) attributable to common shareholders of the Company | \$ (132,786) | 99,041 |
| Weighted average outstanding common shares | 132,112 | 132,112 |
| Basic and diluted earnings (losses) per share | \$ (1.01) | 0.75 |

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

(15) Revenue from contracts with customers

1. Breakdown of income

| | 2023 | 2022 |
|---------------------------|----------------------------|-------------------------|
| Main regions and markets: | | |
| Taiwan | 1,843,099 | 2,759,135 |
| Other countries | 152,277 | 386,798 |
| | <u>\$ 1,995,376</u> | <u>3,145,933</u> |
| Main products: | | |
| Polyester filament | \$ 1,418,806 | 2,176,878 |
| Polyester chip | 561,086 | 949,787 |
| Yarn | 14,235 | 15,546 |
| Others | 1,249 | 3,722 |
| | <u>\$ 1,955,376</u> | <u>3,145,933</u> |

2. Contract balance

| | December 31, 2023 | December 31, 2023 | January 1, 2023 |
|---|------------------------------|------------------------------|----------------------------|
| Notes and accounts receivable (including related parties and overdue balance) | \$ 103,708 | 136,405 | 150,922 |
| Less: loss provisions | - | - | (16,112) |
| Total | <u>\$ 103,708</u> | <u>136,405</u> | <u>134,880</u> |
| Contractual liabilities | <u>\$ 31,923</u> | <u>31,313</u> | <u>87,151</u> |

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

Contractual liabilities arise mainly as a result of advance receipts collected on merchandise sales contracts; these liabilities are reclassified into income at the time merchandise is handed over to customers.

NT\$31,313 thousand and NT\$87,151 thousand of opening contractual liabilities as at January 1, 2023 and 2022, were later recognized as income for 2023 and 2022, respectively.

(16) Remuneration to employees, directors, and supervisors

According to the Articles of Incorporation, profits concluded in a year (refers to profit before tax, employee remuneration, and director/supervisor remuneration) are subject to employee remuneration of 2% and director/supervisory remuneration of no more than 2%. However, profits must first be reserved to offset against cumulative losses (including adjustment of unappropriated earnings) if any.

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

Employee remuneration in the preceding paragraph can be paid in cash or in shares. Payments may also be made to employees of subordinate companies that satisfy the eligibility criteria set forth by the board of directors. The director/supervisor remuneration mentioned in the preceding paragraph may be paid in cash only.

The Company reported cumulative losses in 2022 and 2022, and therefore was not required to allocate remuneration for employees, directors, or supervisors. Visit the Market Observation Post System for more information.

(17) Non-operating income and expense

1. Other income

Breakdown of other income of the Company:

| | 2023 | 2022 |
|----------------------|-------------------------|----------------------|
| Rental income (Note) | \$ 20,615 | 21,831 |
| Others | 2,644 | 1,824 |
| | <u>\$ 23,259</u> | <u>23,655</u> |

Note: NT\$16,795 thousand and NT\$16,643 thousand of depreciation expenses were presented as contra items to rental income in 2023 and 2022, respectively.

2. Other gains and losses

Breakdown of other gains and losses of the Company:

| | 2023 | 2022 |
|---|----------------------|---------------------|
| Gain on disposal of property, plant, and equipment | \$ 570 | (93) |
| Loss on currency exchange | 289 | 7,843 |
| Government grant income | - | 507 |
| Gain on financial assets at fair value through profit or loss | - | (2) |
| | <u>\$ 860</u> | <u>8,255</u> |

4. Financial cost

Breakdown of financial cost of the Company:

| | 2023 | 2022 |
|-------------------|-------------------------|----------------------|
| Interest expenses | <u>\$ 20,606</u> | <u>15,379</u> |

(18) Financial instruments

1. Credit risk

(1) Amount of maximum credit risk exposure

For financial assets, the book value represents the maximum credit

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

risk exposure.

(2) Concentration of credit risk

There was no significant concentration of sales to any single customer as the Company sells to a broad customer base and diverse locations. As a result, there was no significant concentration of credit risk in accounts receivable. The Company also monitors customers' financial position on a regular basis as a means to reduce credit risk, and generally does not require collaterals from customers.

(3) Credit risk of receivables and debt securities

For credit risk information on notes receivable and accounts receivable, please refer to Note 6(3).

There was no overdue collection of other financial assets carried at amortized cost or other receivables in 2023 or 2022, hence no loss provision was made.

The financial assets mentioned above are deemed to be of low risk, therefore provisions are made based on 12-month expected credit loss (please see Note 4(6) for details on the methods taken to establish low credit risk).

2. Liquidity risk

The following shows the expiry dates of financial liabilities, including estimated interest but excluding the effect of net agreements.

| | Book amount | Contractual cash flow | Within 1 year | 1-2 years | 2-5 years | More than 5 years |
|----------------------------------|------------------------|----------------------------------|--------------------------|------------------|------------------|----------------------------------|
| December 31, 2023 | | | | | | |
| Floating rate instruments | \$ 858,342 | 901,682 | 288,940 | 179,624 | 202,728 | 230,390 |
| Non-interest bearing liabilities | 131,835 | 131,835 | 131,835 | - | - | - |
| | \$ 990,177 | 1,033,517 | 420,775 | 179,624 | 202,728 | 230,390 |
| December 31, 2022 | | | | | | |
| Floating rate instruments | \$ 896,124 | 949,200 | 253,212 | 83,246 | 359,825 | 252,917 |
| Non-interest bearing liabilities | 281,997 | 281,997 | 281,997 | - | - | - |
| | \$1,178,121 | 1,231,197 | 535,209 | 83,246 | 359,825 | 252,917 |

The Company does not expect cash flows in the maturity analysis to occur at any earlier time, or in amounts that differ significantly.

3. Exchange rate risk

(1) Exchange rate risk exposure

The Company had the following financial assets and liabilities that

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

were exposed to significant foreign currency/exchange rate risk:

| | December 31, 2023 | | | December 31, 2022 | | | |
|------------------------------|---------------------|------------------|-------|---------------------|------------------|-------|--------|
| | Foreign currency | Exchange rate | NTD | Foreign currency | Exchange rate | NTD | |
| <u>Financial assets</u> | | | | | | | |
| <u>Monetary items</u> | | | | | | | |
| USD | \$ | 646 | 30.71 | 19,389 | 625 | 30.71 | 19,194 |
| JPY | | - | - | - | - | - | - |
| <u>Financial liabilities</u> | | | | | | | |
| <u>Monetary items</u> | | | | | | | |
| USD | \$ | 12 | 30.71 | 369 | 13 | 30.71 | 399 |

(2) Sensitivity analysis

Exchange rate risk of the Company arises primarily from the conversion of cash, cash equivalents, and accounts receivable denominated in foreign currencies. Conversion of foreign currency-denominated amounts gives rise to gains/losses on exchange. If NTD weakened/strengthened against USD and JPY by 1% while all other factors remained unchanged as at December 31, 2023 and 2022, profit before tax would have increased/decreased by NT\$195 thousand and NT\$188 thousand, respectively, in 2023 and 2022. Analyses for the two periods were conducted on the same basis.

4. Interest rate risk

Interest rate risk exposure concerning the Company's financial liabilities has been explained as part of liquidity risk management in this footnote.

The following sensitivity analysis has been prepared based on interest rate risk exposures of derivatives and non-derivatives as at the reporting date. For liabilities that bear floating interests, the analysis is conducted by assuming that the amount of liabilities outstanding as at the reporting date remained outstanding throughout the entire year. Interest rate sensitivity analyses are reported to the management by applying a variance of 1% above and below. This variance conforms with the management's expectation about the possible and reasonable range of interest rate variation.

If interest rate increased/decreased by 1% while other variables remained unchanged, the Company's pre-tax profit would have decreased/increased by NT\$8,375 thousand and NT\$8,815 thousand in 2023 and 2022, respectively. This is primarily attributed to floating rate borrowings.

5. Fair value information

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

(1) Category and fair value of financial instruments

Financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income are measured at fair value on a recurring basis. Book value and fair value of financial assets and liabilities are shown below (categorized by level of fair value input; however, it is not required to disclose fair value information for financial instruments that are not subject to fair value assessment and where the book value resembles the fair value):

| | | December 31, 2023 | | | | |
|--|--|-------------------|------------|----------|--------------|--------------|
| | | Book amount | Fair value | | | |
| | | | Level 1 | Level 2 | Level 3 | Total |
| Financial assets at fair value through other comprehensive income | | | | | | |
| TWSE/TPEX listed shares | | \$ 3 | 3 | - | - | 3 |
| Equity instruments without open quotation carried at fair value | | 3,147 | - | - | 3,147 | 3,147 |
| Total | | \$ 3,150 | 3 | - | 3,147 | 3,150 |
| | | December 31, 2022 | | | | |
| | | Book amount | Fair value | | | |
| | | | Level 1 | Level 2 | Level 3 | Total |
| Financial assets at fair value through other comprehensive income | | | | | | |
| TWSE/TPEX listed shares | | \$ 3 | 3 | - | - | 3 |
| Equity instruments without open quotation carried at fair value | | 3,147 | - | - | 3,147 | 3,147 |
| Total | | \$ 3,150 | 3 | - | 3,150 | 3,150 |

(2) Fair value assessment techniques for financial instruments not carried at fair value

The Company adopts the following methods and assumptions to estimate the value of instruments that are not carried at fair value:

(2.1) Financial assets and liabilities carried at amortized cost

Where transaction data or quotation from a market maker exists, the latest transaction price or quotation is used as the fair value. If no

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

indicative market value is available, fair value shall be estimated using the valuation approach. In the valuation approach, fair value is estimated by calculating the present value of future cash flows.

(3) Fair value assessment techniques for financial instruments carried at fair value

Financial instruments that are openly quoted in an active market will have fair value determined at the openly quoted price. Fair values of public-listed (OTC-traded) equity instruments openly quoted in active markets are determined using market prices quoted on major exchange and OTC center for actively traded government bonds.

A financial instrument is deemed to be openly quoted on an active market if reliable quotations (that are representative of transactions actually and frequently taking place in a fair market) can be obtained from stock exchange, brokers, underwriters, industry associations, pricing institutions, or the authority on a timely and frequent basis. A market is deemed inactive if it fails to satisfy the above conditions. In general, increasing or excessive bid-ask spread and lack of transaction volume are considered signs of inactive market.

Financial instruments held by the Company are classified into the following categories based on how fair value is determined:

- Financial instruments with active market: refers to public listed and OTC-traded shares. Their fair values are determined based on market quotations.
- Financial instruments without active market: Fair value is estimated using the comparable company approach, which infers the investee's value based on market quotations and net worth multiples of comparable public-listed (or OTC-traded) companies. This estimate has already been adjusted and discounted for equity security's lack of marketability.

(4) Change between level 1 and level 2: None.

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

(5) Details of level 3 changes

| | At fair value through other comprehensive income |
|--|---|
| | Equity instruments without open quotation |
| January 1, 2023 | \$ 3,147 |
| Recognized in other comprehensive income | - |
| December 31, 2023 | <u>\$ 3,147</u> |
| January 1, 2022 | \$ 10,369 |
| Recognized in other comprehensive income | (7,222) |
| December 31, 2022 | <u>\$ 3,147</u> |

The above total gains or losses are presented as “Unrealized gains (losses) on valuation of financial assets at fair value through other comprehensive income.” Amounts relating to assets held as at December 31, 2023 and 2022, are explained below:

| | 2023 | 2022 |
|---|------|----------------|
| Total gains or losses | | |
| Recognized as other comprehensive income (presented as “unrealized gains (losses) on valuation of financial assets at fair value through other comprehensive income”) | \$ - | <u>(7,222)</u> |

(6) Quantitative information of significant and unobservable fair value input (level 3)

Assets that involve the use of level 3 fair value input are financial assets at fair value through other comprehensive income - equity securities, which are equity instruments without active market.

Valuation techniques and significant unobservable inputs used to determine fair value for this type of equity instruments are explained below:

| Section | Valuation technique | Significant unobservable input | Relationship between fair value and significant unobservable input |
|--|------------------------------------|---|--|
| Financial assets at fair value through other | Comparable listed company approach | Price-to-book multiple (4.77 and 2.13 as at December 31, 2023 | The higher the multiple, the higher the fair |

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

| Section | Valuation technique | Significant unobservable input | Relationship between fair value and significant unobservable input |
|---|---------------------|--|---|
| comprehensive income - equity instruments without active market | | and 2022, respectively) Discount for lack of liquidity (50% and 25% as at December 31, 2023 and 2022, respectively) | value. The higher discount for lack of liquidity, the lower the fair value |

- (7) Sensitivity of reasonable, possible alternative assumptions on fair value, for items that are subject to level 3 fair value input

The Company considers its fair value assessment of financial instruments to be reasonable, but uses of different valuation model or parameter may lead to different results. For financial instruments that involve the use of level 3 input, impacts on current other comprehensive income in the event of a change in valuation parameter are explained below:

| | | Upward/ downward variation | Fair value changes reflected in other comprehensive income | |
|--|-----------------------------------|----------------------------------|---|----------------------|
| Input | | | Favorable variation | Adverse variation |
| December 31, 2023 | | | | |
| Financial assets at fair value through other comprehensive income | | | | |
| Equity instruments without active market | Price-to-book multiple | ±10% | \$ 389 | (389) |
| | Discount for lack of liquidity | ±10% | \$ 101 | (101) |
| December 31, 2022 | | | | |
| Financial assets at fair value through other comprehensive income | | | | |
| Equity instruments without active market | Price-to-book multiple | ±10% | \$ 261 | (261) |
| | Discount for lack of liquidity | ±10% | \$ 261 | (261) |

(19) Financial risk management

1. Overview

Use of financial instrument exposes the Company to the following risks:

- (1) Credit risk
- (2) Liquidity risk

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

(3) Market risk

This footnote discloses exposure, assessment, and the Company's management goals, policies, and procedures for the above mentioned risks. For further quantitative disclosures, please see notes to the financial statement.

2. Risk management framework

The Company has established its risk management policy to identify and analyze the risks associated with business activities, to set appropriate risk limits and controls, and to monitor risk exposures as well as compliance with various risk limits. The risk management policy and system are regularly examined to reflect changes in market condition and the Company's operations. The Company develops a disciplined and constructive control environment through training, management guidelines, and operating procedures, so that all employees are able to comprehend their roles and duties.

3. Credit risk

Credit risk refers to the risk of financial loss the Company may incur due to its customers or financial instrument counterparties being unable to fulfill contractual obligations. Credit risk mainly arises from customers' accounts receivable and securities investment.

(1) Accounts receivable and other receivables

There was no significant concentration of sales to any single customer and the Company sells its products to diversified locations. As a result, there was no significant concentration of credit risk in accounts receivable. The Company also monitors customers' financial position on a regular basis as a means to reduce credit risk, and generally does not require collaterals from customers.

(2) Investments

Credit risks associated with bank deposit, fixed income investment, and other financial instruments are assessed and monitored by the Company's Treasury Department. The Company transacts and deals only with banks of strong credit standing and financial institutions and organizations of investment grade and above, hence there is no material concern of default or significant exposure of credit risk.

4. Liquidity risk

The Company maintains sufficient share capital and working capital to meet all contractual obligations, and hence is not exposed to the risk of

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

being unable to meet contractual obligations due to insufficient liquidity.

The Company will arrange its financing and investing activities according to working capital requirements and capital utilization plans, and therefore does not expect any material liquidity risk.

5. Market risk

Market risk refers to the effect a change of market price may have on the income or value of financial instruments held on hand, whether it is an exchange rate instrument, interest rate instrument, equity instrument or otherwise. The goal of market risk management is to control market risk exposure within a tolerable range while optimizing investment returns.

(1) Exchange rate risk

The Company is exposed to exchange rate risks arising from sales and purchases that are denominated in non-functional currencies. NTD represents the Company's main functional currency. The above mentioned transactions are primarily denominated in currencies such as NTD, USD, and JPY.

For monetary assets and liabilities denominated in other foreign currencies, the Company buys in or sell off foreign currencies at the spot exchange rate whenever a short-term mismatch arises, and in doing so ensures that the net exposure is kept within the tolerable level.

(2) Interest rate risk

Floating-rate assets mainly comprise bank deposits, whereas floating-rate liabilities are mostly long-term and short-term borrowings. Based on evaluation, the Company expects no material cash flow risk from market rate changes.

(3) Other price risks

The Company is exposed to the risk of equity price variation due to investment in equity securities. These equity investments are held as strategic investments and not for trading. The Company does not actively trade the above investments; risk is managed by holding portfolios of different risk profile.

(20) Capital management

Objectives of the Company's capital management practices are to ensure the ability to sustain operations, deliver shareholder returns, and perform in line with the interests of other stakeholders while maintaining optimal capital structure for minimal

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

funding cost.

The Company may maintain or adjust its capital structure by changing the amounts of dividend paid, reducing and refunding share capital back to shareholders, issuing new shares, or liquidating assets against liabilities.

The Company manages capital using debt-to-capital ratio as the primary form of measurement. This ratio is calculated by dividing net liabilities with gross capital. Net liabilities are calculated by deducting cash and cash equivalents from total liabilities, as shown in the balance sheet. Gross capital refers to the sum of all equity components (meaning share capital, capital reserve, retained earnings, and other equity items) plus net liabilities.

The Company's capital management strategy in 2022 was identical to 2021, which involved maintaining debt-to-capital ratio within a certain range to ensure financing at reasonable cost.

Debt-to-capital ratio as at December 31, 2023 and 2022, is as follows:

| | December 31, 2023 | December 31, 2022 |
|---------------------------------|------------------------------|------------------------------|
| Total liabilities | \$ 1,249,044 | 1,437,244 |
| Less: Cash and cash equivalents | <u>62,915</u> | <u>71,700</u> |
| Net liabilities | 1,186,129 | 1,365,544 |
| Total equity | <u>1,095,173</u> | <u>1,227,959</u> |
| Capital after adjustment | <u>\$ 2,281,302</u> | <u>2,593,503</u> |
| Debt-to-capital ratio | <u>51.99%</u> | <u>52.65%</u> |

7. Related party transactions

(1) Parent company and the ultimate controller

Yi Jinn Industrial Co., Ltd. is the Company's parent and the ultimate controller of the group, which directly and indirectly controls 27.70% of the Company's outstanding common shares. Although shareholding percentage does not exceed 50%, Yi Jinn Industrial still treats the Company as a subsidiary for exercising control. Yi Jinn Industrial Co., Ltd. prepares consolidated financial statements for public use.

(2) Name and relationship of related parties

Transactions with related parties that occurred within the period of the financial statements are as follows:

| Name of related party | Relationship with the Company |
|---|--------------------------------------|
| Yi Jinn Industrial Co., Ltd. (Yi Jinn Industrial) | The Company's parent company |
| Kwang Ming Silk Mill Co., Ltd. (Kwang Ming | Common Chairman between the two |

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

Silk Mill)

companies

(3) Significant transactions with related parties

1. Operating revenues

Sales to related parties and amounts:

| | 2023 | 2022 |
|----------------------|--------------------------|-----------------------|
| Yi Jinn Industrial | <u>\$ 6,246</u> | <u>-</u> |
| Kwang Ming Silk Mill | <u>439,678</u> | <u>568,472</u> |
| Total | <u><u>\$ 445,924</u></u> | <u><u>568,472</u></u> |

Sales to related parties are priced according to the price of raw materials and are not significantly different from transactions with unrelated parties. Sales to the parent company and other related parties are collectible 15 days after month-end, and the collection terms are not significantly different from unrelated parties. Accounts receivable from related parties are not secured by collateral, and do not require provision for bad debt upon evaluation.

2. Purchases

Purchases made by the Company from related parties:

| | 2023 | 2022 |
|----------------------|------------------------|---------------------|
| Kwang Ming Silk Mill | <u><u>\$ 2,236</u></u> | <u><u>1,463</u></u> |

Note: The Company purchased NT\$1,463 thousand and NT\$16,254 thousand of goods from related party - Kwang Ming Silk Mill in 2022 and 2021, respectively. The Company also generated NT\$0 thousand and NT\$9,009 thousand of sales revenue in the respective years from materials that were outsourced to the related party for processing, which have been charged against operating costs.

There is no significant difference between the price of purchases made by the Company with the above companies and with general suppliers. Payment term for the above parties is 30 days after month-end, which is not significantly different from general suppliers.

3. Related party receivables

Details of amounts receivable from related parties:

| Account category | Related party category | December 31, 2023 | December 31, 2022 |
|-------------------------|-------------------------------|------------------------------|------------------------------|
| Notes receivable | Kwang Ming Silk Mill | \$ 36,619 | 39,922 |
| Accounts receivable | Kwang Ming Silk Mill | 2,779 | 5,632 |
| Other receivables | Kwang Ming Silk Mill (Note) | <u>8,971</u> | <u>10,902</u> |

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

\$ 48,369 56,456

Note: Represents production line wages, utility expenses, and sundry expenses that the Company had paid on behalf.

4. Leases

The Company leases some of its plant and office premises to a related party, for which a 10-year lease agreement has been signed. Breakdown of rental income:

| | <u>2023</u> | <u>2022</u> |
|----------------------|------------------|---------------|
| Kwang Ming Silk Mill | <u>\$ 24,000</u> | <u>24,000</u> |

(4) Transactions involving key management personnel

Compensation to key management personnel includes the following:

| | <u>2022</u> | <u>2021</u> |
|------------------------------|-----------------|--------------|
| Short-term employee benefits | <u>\$ 4,200</u> | <u>3,960</u> |

8. Pledged assets

Book value of assets that the Company had placed as collateral is explained below:

| <u>Name of asset</u> | <u>Borrowings secured</u> | <u>December 31, 2023</u> | <u>December 31, 2022</u> |
|-------------------------------|---------------------------------|--------------------------|--------------------------|
| Property, plant and equipment | Long- and short-term borrowings | \$ 847,250 | 851,374 |
| Investment properties | " | 643,267 | 650,718 |
| | | <u>\$ 1,490,517</u> | <u>1,502,092</u> |

9. Major contingent liabilities and unrecognized contractual commitments

(1) Issued but undrawn letters of credit as at December 31, 2023 and 2022:

| | <u>December 31, 2023</u> | <u>December 31, 2022</u> |
|-----|--------------------------|--------------------------|
| NTD | \$ 274,000 | 297,000 |
| USD | - | 22,978 |
| JPY | - | 830 |
| EUR | - | - |

(2) The Company had issued NT\$160,000 thousand of guarantee notes for bank borrowings as at December 31, 2023 and 2022.

(3) The Company had the following contractual commitments that were not recognized on balance sheet:

| | <u>December 31, 2023</u> | <u>December 31, 2022</u> |
|--|--------------------------|--------------------------|
|--|--------------------------|--------------------------|

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

Contracts signed (before tax)

| | | |
|---------------------------|-----------|--------|
| Purchase of raw materials | \$ - | 49,950 |
| Renovation works | \$ 11,190 | 11,616 |

Proceeds paid (before tax)

| | | |
|------------------------------------|----------|--------|
| Purchase of raw materials (Note 1) | \$ - | 16,969 |
| Renovation works (Note 2) | \$ 5,476 | 5,647 |

Note 1: Presented as inventory and prepayments.

Note 2: Presented as property, plant and equipment.

10. Losses from major disasters: None.

11. Major post-balance sheet events: None.

12. Others

- (1) Summary of employee benefit, depreciation, depletion, and amortization expenses by function:

| Function Nature | 2023 | | | 2022 | | |
|---------------------------------|-----------------------------|--------------------------------|---------|-----------------------------|--------------------------------|---------|
| | Presented as operating cost | Presented as operating expense | Total | Presented as operating cost | Presented as operating expense | Total |
| Employee benefit expenses | | | | | | |
| Salary | 95,469 | 14,422 | 109,891 | 112,103 | 17,577 | 129,680 |
| Labor/health insurance premium | 10,701 | 956 | 11,657 | 10,661 | 1,002 | 11,663 |
| Pension expense | 4,6774 | 545 | 5,222 | 4,604 | 577 | 5,181 |
| Directors' compensation | - | 2,250 | 2,250 | - | 1,800 | 1,800 |
| Other employee benefit expenses | 5,926 | 418 | 6,344 | 6,797 | 489 | 7,286 |
| Depreciation expenses | 51,141 | 4,776 | 55,917 | 46,469 | 4,759 | 51,228 |
| Depletion expense | - | - | - | - | - | - |
| Amortization expense | - | - | - | - | - | - |

Note: NT\$16,795 thousand and NT\$16,643 thousand of depreciation expenses were presented as contra items to rental income in 2023 and 2022, respectively.

Additional information on employee size and employee benefit expenses for 2022 and 2021 is presented below:

| | 2023 | 2022 |
|----------------|------|------|
| Employee count | 196 | 204 |

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

| | | |
|--|-----------------|--------------|
| No. of directors without concurrent position as employee | <u>10</u> | <u>9</u> |
| Average employee benefit expenses | <u>\$ 716</u> | <u>789</u> |
| Average salary expenses | <u>\$ 591</u> | <u>665</u> |
| Adjustments to average employee salary expenses | <u>(11.43)%</u> | <u>6.08%</u> |
| Supervisors' compensation | <u>\$ -</u> | <u>120</u> |

Information regarding the Company's salary and compensation policies (including directors, supervisors, managers, and staff):

Given the vast number of workers and diverse job duties involved, the Company has implemented a compensation policy that pays the following benefits in addition to gross salary for ease of management and calculation:

Responsibility allowance: Employees are entitled to additional monthly pay depending on their duties and grades.

Allowances: Transportation allowance, shift allowance, special allowance, and shift bonus are granted depending on the nature of employees' duties.

Performance bonuses: Production bonus, repair bonus, and loading bonus are offered to reward employees' performance.

Overtime pay: The Company calculates and makes overtime pay according to Article 24 of the Labor Standards Act.

Meal allowance: The Company provides each employee with NT\$2,400 of meal allowance per month.

Pay deductions: The Company imposes pay deductions for improper use of factory and dormitory facilities and work-related mistakes.

13. Other disclosures

(1) Information relating to significant transactions

Significant transactions in 2022 that require further disclosures under Regulations Governing the Preparation of Financial Reports by Securities Issuers are as follows:

1. Loans to external parties: None.
2. Endorsements/guarantees to external parties: None.
3. End-of-period holding position of marketable securities (excluding investment in subsidiaries, associated companies, and joint ventures):

Unit: NTD thousands

| Holder | Name and type of securities | Relationship with the securities issuer | Account category | Closing amount | | | | Remarks |
|--------------------------------------|---|---|---|----------------|-------------|-------------------------|------------|---------|
| | | | | Shares | Book amount | Shareholding percentage | Fair value | |
| Hung Chou Fiber Industrial Co., Ltd. | Shares - China Man-Made Fiber Corporation | None | Financial assets at fair value through other comprehensive income - | 278 | 3 | - % | 3 | |

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

| | | | | | | | | |
|---|--|---|---|-----------|-------|--------|-------|--|
| | | | current | | | | | |
| " | Shares - Taiwan Filament Weaving Development Co., Ltd. | " | Financial assets at fair value through other comprehensive income - non-current | 2,175,660 | 3,147 | 3.57 % | 3,147 | |

4. Cumulative purchase or sale of any single marketable security that amounts to NT\$300 million or more than 20% of paid-up capital: None.
5. Acquisition of real estate amounting to NT\$300 million or more than 20% of paid-up capital: None.
6. Disposal of real estate amounting to NT\$300 million or more than 20% of paid up capital: None.
7. Sales and purchases with related parties amounting to NT\$100 million or more than 20% of paid-up capital:

Unit: NTD thousands

| Name of buyer (seller) | Counterparty Name | Relationship | Transaction summary | | | | Distinctive terms of trade and reasons | | Notes and accounts receivable (payable) | | Remarks |
|--------------------------------------|--------------------------------|--|---------------------|---------|--|-------------------------|--|--|---|--|---------|
| | | | Purchase (sale) | Amount | As a percentage to total purchases (sales) | Credit term | Unit price | Credit term | Balance | As a percentage of total notes and accounts receivable (payable) | |
| Hung Chou Fiber Industrial Co., Ltd. | Kwang Ming Silk Mill Co., Ltd. | Parties with material influence over the Company | Sale | 439,678 | 22.03 % | 15 days after month-end | Selling prices are determined according to the price of raw materials, and are not significantly different from transactions with unrelated parties. | General collection terms are 15 days after month-end | 39,398 | 37.99% | |

8. Related party receivables amounting to NT\$100 million or more than 20% of paid-up capital: None.
9. Derivative transactions: None.

(2) Information on business investments (excluding Mainland investees):

Information about the Company's business investments in 2022:

Unit: NTD thousands

| Name of investor | Name of investee | Location | Main business activities | Amount of initial investment | | End-of-period holding position | | | Current period profit/loss of the investee | Investment gains/losses recognized in the current period | Remarks |
|--------------------------------------|---|----------|---|------------------------------|----------------------|--------------------------------|-------|-------------|--|--|----------------------|
| | | | | Current period-end | End of previous year | Shares | Ratio | Book amount | | | |
| Hung Chou Fiber Industrial Co., Ltd. | Da Yi International Development Co., Ltd. | Taiwan | Development of residential and commercial buildings | 94,868 | 87,062 | 8,196,562 | 7.10% | 70,908 | (14,659) | (1,040) | Associated companies |

- (3) Information relating to investments in the Mainland: None.
- (4) Information on major shareholders:

Unit: shares

| Name of major shareholder | Share | Number of shares held | Shareholding percentage |
|---------------------------|-------|-----------------------|-------------------------|
|---------------------------|-------|-----------------------|-------------------------|

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

| | | |
|--------------------------------|------------|--------|
| Yi Jinn Industrial Co., Ltd. | 36,601,000 | 27.70% |
| Yi Tong Fiber Co., Ltd. | 10,000,000 | 7.56% |
| Kwang Ming Silk Mill Co., Ltd. | 7,000,000 | 5.29% |

14. Segment information

(1) General information

The Company is primarily involved in the production and trading of polyester fibers. The key decision makers evaluate performance based on overall business outcomes, and for this reason, the Company considers itself as a single operating segment. Segment information for 2023 and 2022 is consistent with the information presented throughout the financial statements.

(2) Basis of disclosure and reconciliation of profit, asset, and liability information for reportable segments

Profit, asset, and liability of the operating segment have been disclosed on the same basis as the financial statements. Please refer to the balance sheet and comprehensive income statement for details.

(3) Regional disclosure

Disclosure of regional information is as follows. Income location is determined based on customers' geographic presence, whereas location of non-current assets is determined based on the asset's physical presence.

| Location | 2023 | 2022 |
|-----------------------------------|----------------------------|-------------------------|
| Revenues from external customers: | | |
| Taiwan | \$ 1,843,099 | 2,759,135 |
| Other countries | 152,277 | 386,798 |
| | <u>\$ 1,995,376</u> | <u>3,145,933</u> |

Non-current assets:

The Company only has one operating segment, and information on non-current assets is consistent with the rest of the financial statements. Please see the balance sheet for details.

(4) Information on major customers

Details of customers that accounted for more than 10% of the Company's operating revenues in 2023 and 2022:

| 2023 | 2022 |
|-------------|-------------|
|-------------|-------------|

Notes to Financial Statements of Hung Chou Fiber Industrial Co., Ltd. (continued)

| | | | |
|------------|----|---------------------|------------------|
| Customer B | \$ | 321,824 | 319,527 |
| Customer C | | 439,678 | 568,472 |
| Customer D | | 148,279 | 300,315 |
| Customer G | | 533,416 | 752,388 |
| | | <u>\$ 1,443,197</u> | <u>1,940,702</u> |