

**DINGZING ADVANCED MATERIALS  
INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT  
DECEMBER 31, 2022 AND 2021**

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For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

## **Representation Letter**

In connection with the Consolidated Financial Statements of Affiliated Enterprises of DINGZING ADVANCED MATERIALS INCORPORATED (the “Consolidated FS of the Affiliates”), we represent to you that, the entities required to be included in the Consolidated FS of the Affiliates as of and for the year ended December 31, 2022 in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” are the same as those required to be included in the Consolidated Financial Statements of DINGZING ADVANCED MATERIALS INCORPORATED and its subsidiaries (the “Consolidated FS of the Group”) in accordance with International Financial Reporting Standard 10. Additionally, the information required to be disclosed in the Consolidated FS of Affiliates is disclosed in the Consolidated FS of the Group. Consequently, DINGZING ADVANCED MATERIALS INCORPORATED does not prepare a separate set of Consolidated FS of Affiliates.

Very truly yours,

DINGZING ADVANCED MATERIALS INCORPORATED

By

Lin, Hsun-Tai, Chairman

March 14, 2023

## INDEPENDENT AUDITORS' REPORT TRANSLATED FROM CHINESE

PWCR22000500

To the Board of Directors and Stockholders of Dingzing Advanced Materials Incorporated

### ***Opinion***

We have audited the accompanying consolidated balance sheets of Dingzing Advanced Materials Incorporated and its subsidiaries (the “Group”) as at December 31, 2022 and 2021, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations that came into effect as endorsed by the Financial Supervisory Commission.

### ***Basis for opinion***

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and the Standards on Auditing of the Republic of China. Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the Norm of Professional Ethics for Certified Public Accountants of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## ***Key audit matters***

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Group's 2022 consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

Key audit matters for the Group's 2022 consolidated financial statements are stated as follows:

### **Appropriateness of sales revenue cut-off**

#### Description

Please refer to Note 4(25) for the accounting policies on revenue recognition.

All of the Group's operating revenue are revenue from contracts with customers. The revenue is recognised when the control of the products has transferred and when there is no unfulfilled obligation that could affect the customer's acceptance of the products. Given that a manual process and judgments are involved in the process of transferring the control of the products and fulfilling the contracts, it raises concern about whether the revenue accrued near the financial period-end was recognised in an appropriate manner. Hence, the sales revenue cut-off is identified as a key audit matter.

#### How our audit addressed the matter

Our key audit procedures performed in respect of the above included the following:

1. Obtained an understanding, assessed and tested whether the internal controls of the sales recognition process is effectively designed and implemented.
2. Verified if the revenue is recognised in an appropriate manner by testing transactions conducted during a certain period of time immediately prior to and after the financial period end, agreeing documentation required for revenue recognition and determining the cut-off based on the terms of sales.

## **Allowance for inventory valuation loss**

### Description

Please refer to Note 4(12) for the accounting policies on inventory valuation, Note 5 for uncertainty of accounting estimates and assumption on inventory evaluation; and Note 6(4) for the details of the inventories.

The inventories are stated at the lower of cost and net realisable value. The net realisable value is subject to management judgement when individually identifying the excess or damaged inventories among numerous items. Thus, the allowance for valuation loss is identified as a key audit matter given the estimate uncertainty.

### How our audit addressed the matter

Our key audit procedures performed in respect of the above included the following:

1. Based on our understanding of the Group's businesses and industry, assessed that the policies are reasonable relating to the allowance for inventory valuation loss, including policies associated with scrapped or sold inventories, judgement on excess or obsolete items and the consistency of policies on estimates.
2. Verified whether the reports are consistent with the Group's accounting policy, agreed with scrapped or sold inventories by sampling the individual items of inventories and assessed whether the allowance for inventory valuation loss is appropriate.

## ***Other matter – Parent company only financial statements***

We have audited and expressed an unqualified opinion on the parent company only financial statements of Dingzing Advanced Materials Incorporated as at and for the years ended December 31, 2022 and 2021.

### ***Responsibilities of management and those charged with governance for the consolidated financial statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations that came into effect as endorsed by the Financial Supervisory Commission, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including the audit committee, are responsible for overseeing the Group's financial reporting process.

### ***Auditors' responsibilities for the audit of the consolidated financial statements***

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

As part of an audit in accordance with the Standards on Auditing of the Republic of China, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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WANG, CHUN-KAI

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Liao, A-Shen

For and on behalf of PricewaterhouseCoopers, Taiwan

March 14, 2023

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The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and independent auditors' report are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.



**DINGZING ADVANCED MATERIALS INCORPORATED AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2022 AND 2021**  
(Expressed in thousands of New Taiwan dollars)

Assets		Notes	December 31, 2022		December 31, 2021	
			AMOUNT	%	AMOUNT	%
Current assets						
1100	Cash and cash equivalents	6(1)	\$ 473,773	10	\$ 382,515	8
1136	Current financial assets at amortised cost	6(2)	-	-	55,308	1
1150	Notes receivable, net	6(3)	22,635	-	21,427	1
1170	Accounts receivable, net	6(3) and 7	323,628	7	287,576	6
130X	Inventories	6(4)	683,610	14	619,550	13
1410	Prepayments		69,183	1	31,511	1
1476	Other current financial assets		487	-	579	-
1479	Other current assets, others	6(5)	27,351	-	47,932	1
11XX	Current Assets		1,600,667	32	1,446,398	31
Non-current assets						
1600	Property, plant and equipment	6(6) and 8	3,182,959	65	2,890,566	63
1755	Right-of-use assets	6(7)	84,916	2	149,930	3
1780	Intangible assets	6(8)	6,928	-	8,461	-
1840	Deferred income tax assets	6(24)	35,165	1	33,259	1
1915	Prepayments for business facilities		9,253	-	63,215	2
1920	Guarantee deposits paid	8	8,299	-	6,321	-
15XX	Non-current assets		3,327,520	68	3,151,752	69
1XXX	Total assets		\$ 4,928,187	100	\$ 4,598,150	100

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**DINGZING ADVANCED MATERIALS INCORPORATED AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2022 AND 2021**  
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity			December 31, 2022		December 31, 2021	
			AMOUNT	%	AMOUNT	%
Liabilities						
Current liabilities						
2100	Short-term borrowings	6(9) and 8	\$ 300,000	6	\$ -	-
2130	Current contract liabilities	6(17)	10,777	-	45,206	1
2170	Accounts payable		60,414	1	31,221	1
2180	Accounts payable to related parties	7	40,413	1	55,683	1
2200	Other payables	6(10)	185,659	4	192,652	4
2230	Current income tax liabilities		67,301	1	60,682	1
2280	Current lease liabilities		13,652	-	15,752	-
2320	Long-term liabilities, current portion	6(11) and 8	355,824	7	204,051	4
2399	Other current liabilities, others	6(11)	19,845	1	22,646	1
21XX	Current Liabilities		1,053,885	21	627,893	13
Non-current liabilities						
2540	Long-term borrowings	6(11) and 8	831,785	17	1,400,865	31
2580	Non-current lease liabilities		71,965	2	136,290	3
2630	Long-term deferred revenue	6(11)	14,145	-	11,888	-
2645	Guarantee deposits received		433	-	-	-
25XX	Non-current liabilities		918,328	19	1,549,043	34
2XXX	Total Liabilities		1,972,213	40	2,176,936	47
Equity						
Share capital						
3110	Share capital - common stock	6(13)(14)	692,430	14	615,480	13
Capital surplus						
3200	Capital surplus	6(15)	585,400	12	194,589	4
Retained earnings						
		6(16)				
3310	Legal reserve		222,005	5	193,981	4
3320	Special reserve		20,672	-	19,273	1
3350	Unappropriated retained earnings		1,447,061	29	1,418,563	31
Other equity interest						
3400	Other equity interest		( 11,594)	-	( 20,672)	-
3XXX	Total equity		2,955,974	60	2,421,214	53
Significant contingent liabilities and unrecognised contract commitments			9			
Significant events after the balance sheet date			11			
3X2X	Total liabilities and equity		\$ 4,928,187	100	\$ 4,598,150	100

The accompanying notes are an integral part of these consolidated financial statements.

**DINGZING ADVANCED MATERIALS INCORPORATED AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**YEARS ENDED DECEMBER 31, 2022 AND 2021**

(Expressed in thousands of New Taiwan dollars, except earnings per share amount)

			Year ended December 31			
			2022		2021	
Items	Notes		AMOUNT	%	AMOUNT	%
4000 Sales revenue	6(17) and 7		\$ 2,607,212	100	\$ 2,539,743	100
5000 Operating costs	6(4)(22)(23) and 7		( 1,929,087)	( 74)	( 1,844,066)	( 73)
5900 Net operating margin			<u>678,125</u>	<u>26</u>	<u>695,677</u>	<u>27</u>
Operating expenses	6(4)(8)(22)(23)					
6100 Selling expenses			( 163,806)	( 6)	( 178,054)	( 7)
6200 General and administrative expenses			( 110,726)	( 4)	( 105,816)	( 4)
6300 Research and development expenses			( 107,233)	( 4)	( 73,559)	( 3)
6450 Impairment loss (impairment gain and reversal of impairment loss) determined in accordance with IFRS 9	12(2)		<u>2,711</u>	<u>-</u>	<u>( 8,075)</u>	<u>-</u>
6000 Total operating expenses			<u>( 379,054)</u>	<u>( 14)</u>	<u>( 365,504)</u>	<u>( 14)</u>
6900 Operating profit			<u>299,071</u>	<u>12</u>	<u>330,173</u>	<u>13</u>
Non-operating income and expenses						
7100 Interest income	6(18)		3,433	-	2,018	-
7010 Other income	6(7)(19)		26,388	1	50,739	2
7020 Other gains and losses	6(20)		28,755	1	( 6,620)	-
7050 Finance costs	6(7)(9)(11)(21)		( 22,161)	( 1)	( 19,116)	( 1)
7000 Total non-operating income and expenses			<u>36,415</u>	<u>1</u>	<u>27,021</u>	<u>1</u>
7900 Profit before income tax			<u>335,486</u>	<u>13</u>	<u>357,194</u>	<u>14</u>
7950 Income tax expense	6(24)		( 69,834)	( 3)	( 76,948)	( 3)
8200 Profit for the year			<u>\$ 265,652</u>	<u>10</u>	<u>\$ 280,246</u>	<u>11</u>
<b>Other comprehensive income</b>						
<b>Components of other comprehensive income that will be reclassified to profit or loss</b>						
8361 Other comprehensive income (loss), before tax, exchange differences on translation			<u>\$ 9,078</u>	<u>1</u>	<u>( \$ 1,399)</u>	<u>-</u>
8300 Other comprehensive income (loss) for the year, net of tax			<u>\$ 9,078</u>	<u>1</u>	<u>( \$ 1,399)</u>	<u>-</u>
8500 Total comprehensive income for the year			<u>\$ 274,730</u>	<u>11</u>	<u>\$ 278,847</u>	<u>11</u>
Profit, attributable to:						
8610 Owners of the parent			<u>\$ 265,652</u>	<u>10</u>	<u>\$ 280,246</u>	<u>11</u>
Comprehensive income attributable to:						
8710 Owners of the parent			<u>\$ 274,730</u>	<u>11</u>	<u>\$ 278,847</u>	<u>11</u>
Earnings per share	6(25)					
9750 Total basic earnings per share			<u>\$ 4.00</u>		<u>\$ 4.55</u>	
9850 Total diluted earnings per share			<u>\$ 3.99</u>		<u>\$ 4.54</u>	

The accompanying notes are an integral part of these consolidated financial statements.

DINGZING ADVANCED MATERIALS INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
YEARS ENDED DECEMBER 31, 2022 AND 2021  
(Expressed in thousands of New Taiwan dollars)

	Notes	Equity attributable to owners of the parent					Financial statements translation differences of foreign operations	Total equity
		Share capital - common stock	Capital surplus, additional paid-in capital	Legal reserve	Special reserve	Retained Earnings Unappropriated retained earnings		
<u>Year ended December 31, 2021</u>								
Balance at January 1, 2021		\$ 615,480	\$ 256,137	\$ 187,733	\$ 17,895	\$ 1,176,717	(\$ 19,273)	\$ 2,234,689
Profit for the year		-	-	-	-	280,246	-	280,246
Other comprehensive loss		-	-	-	-	-	( 1,399)	( 1,399)
Total comprehensive income (loss)		-	-	-	-	280,246	( 1,399)	278,847
Appropriation 2020 earnings :								
Legal reserve appropriated		-	-	6,248	-	( 6,248)	-	-
Special reserve		-	-	-	1,378	( 1,378)	-	-
Cash dividends	6(16)	-	-	-	-	( 30,774)	-	( 30,774)
Cash dividends from capital surplus	6(16)	-	( 61,548)	-	-	-	-	( 61,548)
Balance at December 31, 2021		<u>\$ 615,480</u>	<u>\$ 194,589</u>	<u>\$ 193,981</u>	<u>\$ 19,273</u>	<u>\$ 1,418,563</u>	<u>(\$ 20,672)</u>	<u>\$ 2,421,214</u>
<u>Year ended December 31, 2022</u>								
Balance at January 1, 2022		\$ 615,480	\$ 194,589	\$ 193,981	\$ 19,273	\$ 1,418,563	(\$ 20,672)	\$ 2,421,214
Profit for the year		-	-	-	-	265,652	-	265,652
Other comprehensive income		-	-	-	-	-	9,078	9,078
Total comprehensive income		-	-	-	-	265,652	9,078	274,730
Appropriation 2021 earnings :								
Legal reserve appropriated		-	-	28,024	-	( 28,024)	-	-
Special reserve		-	-	-	1,399	( 1,399)	-	-
Cash dividends	6(16)	-	-	-	-	( 207,731)	-	( 207,731)
Proceeds from issuance of shares	6(13)(14)	76,950	390,811	-	-	-	-	467,761
Balance at December 31, 2022		<u>\$ 692,430</u>	<u>\$ 585,400</u>	<u>\$ 222,005</u>	<u>\$ 20,672</u>	<u>\$ 1,447,061</u>	<u>(\$ 11,594)</u>	<u>\$ 2,955,974</u>

The accompanying notes are an integral part of these consolidated financial statements.

DINGZING ADVANCED MATERIALS INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2022 AND 2021  
(Expressed in thousands of New Taiwan dollars)

		Year ended December 31	
	Notes	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		\$ 335,486	\$ 357,194
Adjustments			
Adjustments to reconcile profit (loss)			
Expected credit loss	12(2)	( 2,711 )	8,075
Depreciation expense	6(6)(7)(22)	208,572	202,605
Amortization expense	6(8)(22)	1,273	1,352
Interest income	6(18)	( 3,433 )	( 2,018 )
Interest expense	6(21)	22,161	19,116
Government grant revenue (shown as deduction on operating costs)	6(4)	( 445 )	( 2,480 )
Losses (gains) on disposal of property, plant and equipment	6(20)	( 5 )	84
Loss on disposal of intangible assets	6(8)	746	-
Profit from lease modification	6(7)(19)	( 17 )	( 28,589 )
Impairment loss recognised in profit or loss, other receivables	6(20)	11,726	-
Unrealised exchange (gains) losses		1,890	( 21,703 )
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		( 1,086 )	20,935
Accounts receivable		( 28,779 )	( 10,457 )
Inventories		( 63,039 )	( 280,449 )
Prepayments		( 37,567 )	( 8,795 )
Other current financial assets		2	( 374 )
Other current assets, other		9,469	( 3,719 )
Changes in operating liabilities			
Current contract liabilities		( 34,544 )	( 3,607 )
Notes payable		-	( 79 )
Accounts payable		29,253	( 15,462 )
Accounts payable to related parties		( 15,202 )	( 39,488 )
Other payables		5,854	38,378
Other current liabilities, others		( 3,701 )	( 231 )
Cash inflow generated from operations		435,903	230,288
Interest received		3,524	2,048
Interest paid		( 15,395 )	( 14,332 )
Income tax paid		( 64,524 )	( 15,321 )
Net cash flows from operating activities		359,508	202,683

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DINGZING ADVANCED MATERIALS INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2022 AND 2021  
(Expressed in thousands of New Taiwan dollars)

	Notes	Year ended December 31	
		2022	2021
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Acquisition of financial assets at amortised cost		\$ -	(\$ 55,308 )
Proceeds from disposal of financial assets at amortised		55,308	-
Acquisition of property, plant and equipment	6(26)	( 246,022 )	( 222,432 )
Increase in prepayments for business facilities	6(26)	( 194,694 )	( 272,747 )
Proceeds from disposal of property, plant and equipment		196	334
Acquisition of intangible assets	6(8)	( 486 )	( 693 )
(Increase) decrease in refundable deposits		( 1,822 )	( 2,708 )
Net cash flows used in investing activities		( 387,520 )	( 553,554 )
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Proceeds from short-term borrowings	6(27)	1,300,000	800,000
Repayments from short-term borrowings	6(27)	( 1,000,000 )	( 902,359 )
Proceeds from long-term borrowings	6(27)	193,200	483,500
Repayments of long-term borrowings	6(27)	( 613,956 )	( 398,332 )
Payments of lease liabilities	6(27)	( 21,647 )	( 17,554 )
Increase in guarantee deposits received	6(27)	420	-
Cash dividends paid (cash dividends from capital surplus)	6(16)	( 207,731 )	( 92,322 )
Proceeds from issuance of shares	6(14)	467,761	-
Net cash flows from (used in) financing activities		118,047	( 127,067 )
Effect of exchange rate changes		1,223	23,613
Net increase (decrease) in cash and cash equivalents		91,258	( 454,325 )
Cash and cash equivalents at beginning of year	6(1)	382,515	836,840
Cash and cash equivalents at end of year	6(1)	\$ 473,773	\$ 382,515

The accompanying notes are an integral part of these consolidated financial statements.

DINGZING ADVANCED MATERIALS INCORPORATED AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT AS OTHERWISE  
INDICATED)

1. HISTORY AND ORGANISATION

(1) Dingzing Advanced Materials Incorporated (the “Company”) was established in February 1981, formerly named Dingzing Chemical Products Co., Ltd. and renamed in May 2015 for business operation. The Company and its subsidiaries (the “Group”) are primarily engaged in manufacture and sale of high-tech polyurethane (Thermoplastic Polyurethane, hereinafter “TPU”), wholesale of chemical raw materials and international trade.

(2) The Company has been a listed company since May 20, 2022.

2. THE DATE OF AUTHORISATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORISATION

These consolidated financial statements were authorised for issuance by the Board of Directors on March 14, 2023.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRS”) that came into effect as endorsed by the Financial Supervisory Commission (“FSC”)

New standards, interpretations and amendments endorsed by FSC and became effective from 2022 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 3, ‘Reference to the conceptual framework’	January 1, 2022
Amendments to IAS 16, ‘Property, plant and equipment: proceeds before intended use’	January 1, 2022
Amendments to IAS 37, ‘Onerous contracts — cost of fulfilling a contract’	January 1, 2022
Annual improvements to IFRS Standards 2018 – 2020	January 1, 2022

The above standards and interpretations have no significant impact to the Group’s financial condition and financial performance based on the Group’s assessment.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Group

New standards, interpretations and amendments endorsed by the FSC effective from 2023 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IAS 1, 'Disclosure of accounting policies'	January 1, 2023
Amendments to IAS 8, 'Definition of accounting estimates'	January 1, 2023
Amendments to IAS 12, 'Deferred tax related to assets and liabilities arising from a single transaction'	January 1, 2023

The above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture'	To be determined by International Accounting Standards Board
Amendments to IFRS 16, 'Lease liability in a sale and leaseback'	January 1, 2024
IFRS 17, 'Insurance contracts'	January 1, 2023
Amendments to IFRS 17, 'Insurance contracts'	January 1, 2023
Amendment to IFRS 17, 'Initial application of IFRS 17 and IFRS 9 – comparative information'	January 1, 2023
Amendments to IAS 1, 'Classification of liabilities as current or non-current'	January 1, 2024
Amendments to IAS 1, 'Non-current liabilities with covenants'	January 1, 2024

The above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.



(1) Compliance statement

The consolidated financial statements of the Group have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations that came into effect as endorsed by the FSC (collectively referred herein as the “IFRSs”).

(2) Basis of preparation

- A. The consolidated financial statements have been prepared under the historical cost convention.
- B. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

- (a) All subsidiaries are included in the Group’s consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
- (b) Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- (c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.
- (d) Changes in a parent’s ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity.

- (e) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognised in profit or loss. All amounts previously recognised in other comprehensive income in relation to the subsidiary are reclassified to profit or loss on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognised in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

B. Subsidiaries included in the consolidated financial statements:

Name of investor	Name of subsidiary	Main business activities	Ownership(%)		Description
			December 31, 2022	December 31, 2021	
The Company	DING ZING POLYURETHANE EUROPE B.V.	Marketing	100%	100%	Note
	SHANGHAI DINTEX TRADING CO., LTD	Sale of high-tech polyurethane relative products	100%	100%	
	DING LI POLYURETHANE CO., LTD.	Sale of high-tech polyurethane relative products	100%	100%	
	DINGZING ADVANCED MATERIALS INCORPORATED	Reinvest in various business	100%	100%	
	DINGZING ADVANCED MATERIALS VIETNAM COMPANY LIMITED	Marketing	100%	100%	
	DINGZING ADVANCED MATERIALS INCORPORATED	Reinvest in various business	100%	100%	
DINGZING ADVANCED MATERIALS INCORPORATED	DINGZING ADVANCED MATERIALS USA, INC.	Marketing	100%	100%	
DINGZING ADVANCED MATERIALS USA, INC.	DINGZING ADVANCED MATERIALS USA LLC	Marketing	100%	100%	

Note: On September 7, 2022, the Board of Directors approved the dissolution and liquidation. The related procedures are still in process.

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Significant restrictions: None.

F. Subsidiaries that have non-controlling interests that are material to the Group: None.

#### (4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan Dollars, which is the Company's functional and the Group's presentation currency.

##### A. Foreign currency transactions and balances

- (a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.
- (b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.
- (c) All foreign exchange gains and losses are presented in the statement of comprehensive income within 'other gains and losses'.

##### B. Translation of foreign operations

The operating results and financial position of all the group entities, associates and joint arrangements that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
- (b) Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
- (c) All resulting exchange differences are recognised in other comprehensive income.

#### (5) Classification of current and non-current items

A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

- (a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;
- (b) Assets held mainly for trading purposes;
- (c) Assets that are expected to be realised within twelve months from the balance sheet date;
- (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

- (a) Liabilities that are expected to be paid off within the normal operating cycle;
- (b) Liabilities arising mainly from trading activities;
- (c) Liabilities that are to be paid off within twelve months from the balance sheet date;
- (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that were obtained within three months, and meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

(7) Financial assets at amortised cost

- A. Financial assets at amortised cost are those that meet all of the following criteria:
  - (a) The objective of the Group's business model is achieved by collecting contractual cash flows.
  - (b) The assets' contractual cash flows represent solely payments of principal and interest.
- B. On a regular way purchase or sale basis, financial assets at amortised cost are recognised and derecognised using trade date accounting.
- C. The Group's time deposits which do not fall under cash equivalents are those with a short maturity period and are measured at initial investment amount as the effect of discounting is immaterial.

(8) Accounts and notes receivable

- A. Accounts and notes receivable entitle the Group a legal right to receive consideration in exchange for transferred goods or rendered services.
- B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(9) Impairment of financial assets

For financial assets at amortised cost, at each reporting date, the Group recognises the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognises the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable that do not contain a significant financing component, the Group recognises the impairment provision for lifetime ECLs.

(10) Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to receive the cash flows from the financial asset expire.

(11) Leasing arrangements (lessor) - operating leases

Lease income from an operating lease (net of any incentives given to the lessee) is recognised in profit or loss on a straight-line basis over the lease term.

(12) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and the estimated costs necessary to make the sale.

(13) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.
- B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Buildings and structures	2 ~ 46 years
Machinery and equipment	3 ~ 21 years
Transportation equipment	3 ~ 10 years
Office equipment	4 ~ 10 years
Leasehold assets	10 years
Other equipment	3 ~ 16 years

(14) Leasing arrangements (lessee) - right-of-use assets/ lease liabilities

- A. Leases are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group. For short-term leases or leases of low-value assets, lease payments are recognised as an expense on a straight-line basis over the lease term.
- B. Lease liabilities include the net present value of the remaining lease payments at the commencement date, discounted using the incremental borrowing interest rate. Lease payments are comprised of the following:
- (a) Fixed payments, less any lease incentives receivable;
  - (b) Variable lease payments that depend on an index or a rate; and
  - (c) The exercise price of a purchase option, if the lessee is reasonably certain to exercise that option.
- The Group subsequently measures the lease liability at amortised cost using the interest method and recognises interest expense over the lease term. The lease liability is remeasured and the amount of remeasurement is recognised as an adjustment to the right-of-use asset when there are changes in the lease term or lease payments and such changes do not arise from contract modifications.
- C. At the commencement date, the right-of-use asset is stated at cost comprising the following:
- (a) The amount of the initial measurement of lease liability;
  - (b) Any lease payments made at or before the commencement date;
  - (c) Any initial direct costs incurred by the lessee; and
  - (d) An estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

The right-of-use asset is measured subsequently using the cost model and is depreciated from the commencement date to the earlier of the end of the asset's useful life or the end of the lease term. When the lease liability is remeasured, the amount of remeasurement is recognised as an adjustment to the right-of-use asset.

(15) Intangible assets

A. Trademarks

Trademarks and licences that are separately acquired at cost, have a finite useful life and are amortised on a straight-line basis over their estimated useful lives of 2 to 10 years.

B. Software

Computer software is stated at cost and amortised on a straight-line basis over its estimated useful life of 2 to 5 years.

C. Patents

Patents are stated at cost and amortised on a straight-line basis over their estimated useful life of 9 to 20 years.

(16) Impairment of non-financial assets

The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognising impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.

(17) Borrowings

Borrowings comprise long-term and short-term bank borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

(18) Accounts payable

A. Accounts payable are liabilities for purchases of raw materials, goods or services.

B. The short-term accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(19) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability specified in the contract is discharged or cancelled or expires.

(20) Employee benefits

A. Salaries and other short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognised as expenses in that period when the employees render service.

B. Pensions

Defined contribution plans

For defined contribution plans, the contributions are recognised as pension expenses when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

C. Employees' compensation and directors' remuneration

Employees' compensation and directors' remuneration are recognised as expenses and liabilities, provided that such recognition is required under legal obligation or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is paid by shares, the Group calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(21) Employee share-based payment

For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-market vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. And ultimately, the amount of compensation cost recognised is based on the number of equity instruments that eventually vest.

(22) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.



- C. Deferred tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.
- D. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.

(23) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.

(24) Dividends

Cash dividends are recorded as liabilities in the Company's financial statements in the period in which they are resolved by the Company's Board of Directors; stock dividends are recorded as stock dividends to be distributed in the Company's financial statements in the period in which they are resolved by the Company's shareholders and are reclassified to ordinary shares on the effective date of new shares issuance.

(25) Revenue recognition

- A. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.

B. Sales is recognised based on the price specified in the contract, net of the estimated volume discounts and sales discounts and allowances. Accumulated experience is used to estimate and provide for the volume discounts and sales discounts and allowances, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. The estimation is subject to an assessment at each reporting date. A refund liability is recognised for expected volume discounts and sales rebate payable to customers (shown as other current liabilities, others) in relation to sales made until the end of the reporting period.

As the time interval between the transfer of committed goods and the payment of customer does not exceed one year, the Group does not adjust the transaction price to reflect the time value of money.

C. A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

#### (26) Government grants

Government grants are recognised at their fair value only when there is reasonable assurance that the Group will comply with any conditions attached to the grants and the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises expenses for the related costs for which the grants are intended to compensate. Government grants related to property, plant and equipment are recognised as non-current liabilities and are amortised to profit or loss over the estimated useful lives of the related assets using the straight-line method.

#### (27) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker. The Group's Chief Operating Decision-Maker is responsible for allocating resources and assessing performance of the operating segments.

### 5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The related information is addressed below:

#### Evaluation of inventories

As inventories are stated at the lower of cost and net realisable value, the Group must determine the net realisable value of inventories on balance sheet date using judgements and estimates. The Group evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realisable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation.

As of December 31, 2022, the carrying amount of inventories was \$683,610.

## 6. DETAILS OF SIGNIFICANT ACCOUNTS

### (1) Cash and cash equivalents

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Cash on hand and petty cash	\$ 1,769	\$ 2,152
Checking accounts and demand deposits	472,004	380,363
	<u>\$ 473,773</u>	<u>\$ 382,515</u>

A. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B. The Group has no cash and cash equivalents pledged to others.

### (2) Current financial assets at amortised cost

<u>Items</u>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Current items:		
Time deposits with maturity over three months	<u>\$ -</u>	<u>\$ 55,308</u>

A. Interest income from asset measured at amortised cost were recognized under interest income from bank deposits.

B. As at December 31, 2022 and 2021, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the financial assets at amortised cost held by the Group was \$0 and \$55,308, respectively.

C. The Group has no financial assets at amortised cost pledged to others.

D. Information relating to credit risk of financial assets at amortised cost is provided in Note 12(2). The counterparties of the Group's investments in certificates of deposits are financial institutions with high credit quality, so the Group expects that the probability of counterparty default is remote.

### (3) Notes and accounts receivable, net

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Notes receivable	\$ 22,644	\$ 21,440
Less: Allowance for uncollectible accounts	( 9)	( 13)
	<u>\$ 22,635</u>	<u>\$ 21,427</u>
Accounts receivable	\$ 331,289	\$ 297,807
Less: Allowance for uncollectible accounts	( 7,661)	( 10,231)
	<u>\$ 323,628</u>	<u>\$ 287,576</u>

A. The ageing analysis of accounts receivable that were past due but not impaired is as follows:

	December 31, 2022		December 31, 2021	
	<u>Notes receivable</u>	<u>Accounts receivable</u>	<u>Notes receivable</u>	<u>Accounts receivable</u>
Not past due	\$ 22,644	\$ 289,050	\$ 21,440	\$ 237,567
Past due:				
Up to 30 days	-	23,578	-	44,942
31 to 90 days	-	11,004	-	3,147
91 to 180 days	-	1,021	-	3,973
Over 181 days	-	6,636	-	8,178
	<u>\$ 22,644</u>	<u>\$ 331,289</u>	<u>\$ 21,440</u>	<u>\$ 297,807</u>

The above ageing analysis was based on past due date.

B. As of December 31, 2022 and 2021, notes and accounts receivable were all from contracts with customers. And as of January 1, 2021, the balance of receivables from contracts with customers amounted to \$327,900.

C. As at December 31, 2022 and 2021, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the notes and accounts receivable held by the Group was \$346,263 and \$309,003, respectively.

D. Information relating to credit risk of notes and accounts receivable is provided in Note 12(2).

#### (4) Inventories

A. Details of inventories are as follows:

	December 31, 2022		
		Allowance	
	Cost	for valuation loss	Book value
Raw materials	\$ 446,156	(\$ 51,196)	\$ 394,960
Work in progress	61,080	( 3,366)	57,714
Finished goods	254,162	( 29,226)	224,936
Materials in transit	6,000	-	6,000
	<u>\$ 767,398</u>	<u>(\$ 83,788)</u>	<u>\$ 683,610</u>
	December 31, 2021		
		Allowance	
	Cost	for valuation loss	Book value
Raw materials	\$ 395,972	(\$ 32,122)	\$ 363,850
Work in progress	80,574	( 6,952)	73,622
Finished goods	209,328	( 27,250)	182,078
	<u>\$ 685,874</u>	<u>(\$ 66,324)</u>	<u>\$ 619,550</u>

B. The cost of inventories recognised as expense for the period:

	Year ended	Year ended
	December 31, 2022	December 31, 2021
Cost of goods sold	\$ 1,929,087	\$ 1,844,066
Recognised as marketing, research and development expenses	88,747	61,650
	<u>\$ 2,017,834</u>	<u>\$ 1,905,716</u>

The Group wrote down from cost of inventories to net realisable value and scrapping accounted for as cost of goods sold and government grant revenue in the amounts of \$26,154 and \$445 for the year ended December 31, 2022, respectively. The Group reversed a previous inventory write-down and accounted for as reduction of cost of goods sold in the amount of \$18,194 because the related inventory items were sold and wrote down cost of goods sold in the amount of \$2,480 because the government grant revenue was recognised for the year ended December 31, 2021.

C. The Group has no inventory pledged to others.

(5) Other current assets, others

	December 31, 2022	December 31, 2021
Lease agreement compensation receivable (Note)	\$ 27,777	\$ 31,711
Tax refund receivable	10,609	15,679
Others	<u>2,187</u>	<u>2,051</u>
	40,573	49,441
Less: Allowance for uncollectible accounts	( 13,222)	( 1,509)
	<u>\$ 27,351</u>	<u>\$ 47,932</u>

Note: As the lessor asked to terminate the lease contract of the plant in advance, the Group completed the return of the related leased plant and recognised gain arising from the related lease modification in August 2021, which was the uncollected remaining amount of the related compensation.

(6) Property, plant and equipment

	2022							
	Land	Buildings and structures	Machinery and equipment	Transportation equipment	Office equipment	Other equipment	Unfinished construction	Total
<u>At January 1</u>								
Cost	\$ 750,807	\$ 1,230,386	\$ 2,631,470	\$ 19,037	\$ 7,014	\$ 336,086	\$ 413,092	\$ 5,387,892
Accumulated depreciation	-	( 349,904)	( 1,972,047)	( 12,407)	( 5,904)	( 157,064)	-	( 2,497,326)
	<u>\$ 750,807</u>	<u>\$ 880,482</u>	<u>\$ 659,423</u>	<u>\$ 6,630</u>	<u>\$ 1,110</u>	<u>\$ 179,022</u>	<u>\$ 413,092</u>	<u>\$ 2,890,566</u>
Opening net book amount as at January 1	\$ 750,807	\$ 880,482	\$ 659,423	\$ 6,630	\$ 1,110	\$ 179,022	\$ 413,092	\$ 2,890,566
Additions	-	16,974	59,765	596	1,053	5,085	148,732	232,205
Disposals - cost	-	-	( 528)	( 930)	( 330)	-	-	( 1,788)
Transfer	-	456,756	128,850	-	-	4,292	( 341,242)	248,656
Depreciation charge	-	( 45,623)	( 112,506)	( 2,169)	( 598)	( 27,499)	-	( 188,395)
Disposals - accumulated depreciation	-	-	528	866	203	-	-	1,597
Effects of foreign exchange	-	( 1)	34	25	58	2	-	118
Closing net book amount as at December 31	<u>\$ 750,807</u>	<u>\$ 1,308,588</u>	<u>\$ 735,566</u>	<u>\$ 5,018</u>	<u>\$ 1,496</u>	<u>\$ 160,902</u>	<u>\$ 220,582</u>	<u>\$ 3,182,959</u>
<u>At December 31</u>								
Cost	\$ 750,807	\$ 1,704,130	\$ 2,819,612	\$ 18,777	\$ 7,948	\$ 345,471	\$ 220,582	\$ 5,867,327
Accumulated depreciation	-	( 395,542)	( 2,084,046)	( 13,759)	( 6,452)	( 184,569)	-	( 2,684,368)
	<u>\$ 750,807</u>	<u>\$ 1,308,588</u>	<u>\$ 735,566</u>	<u>\$ 5,018</u>	<u>\$ 1,496</u>	<u>\$ 160,902</u>	<u>\$ 220,582</u>	<u>\$ 3,182,959</u>

	2021							
	Land	Buildings and structures	Machinery and equipment	Transportation equipment	Office equipment	Other equipment	Unfinished construction	Total
<u>At January 1</u>								
Cost	\$ 750,807	\$ 1,202,992	\$ 2,539,495	\$ 19,207	\$ 7,301	\$ 250,644	\$ 131,625	\$ 4,902,071
Accumulated depreciation	-	( 313,448)	( 1,853,883)	( 11,881)	( 5,667)	( 133,709)	-	( 2,318,588)
	<u>\$ 750,807</u>	<u>\$ 889,544</u>	<u>\$ 685,612</u>	<u>\$ 7,326</u>	<u>\$ 1,634</u>	<u>\$ 116,935</u>	<u>\$ 131,625</u>	<u>\$ 2,583,483</u>
Opening net book amount as at January 1	\$ 750,807	\$ 889,544	\$ 685,612	\$ 7,326	\$ 1,634	\$ 116,935	\$ 131,625	\$ 2,583,483
Additions	-	7,668	38,313	2,139	49	21,910	160,588	230,667
Disposals - cost	-	-	( 3,009)	( 2,367)	( 283)	( 23)	-	( 5,682)
Transfer	-	19,711	56,617	30	-	63,552	120,879	260,789
Depreciation charge	-	( 36,443)	( 121,158)	( 2,464)	( 538)	( 23,376)	-	( 183,979)
Disposals - accumulated depreciation	-	-	3,009	1,957	276	22	-	5,264
Effects of foreign exchange	-	2	39	9	( 28)	2	-	24
Closing net book amount as at December 31	<u>\$ 750,807</u>	<u>\$ 880,482</u>	<u>\$ 659,423</u>	<u>\$ 6,630</u>	<u>\$ 1,110</u>	<u>\$ 179,022</u>	<u>\$ 413,092</u>	<u>\$ 2,890,566</u>
<u>At December 31</u>								
Cost	\$ 750,807	\$ 1,230,386	\$ 2,631,470	\$ 19,037	\$ 7,014	\$ 336,086	\$ 413,092	\$ 5,387,892
Accumulated depreciation	-	( 349,904)	( 1,972,047)	( 12,407)	( 5,904)	( 157,064)	-	( 2,497,326)
	<u>\$ 750,807</u>	<u>\$ 880,482</u>	<u>\$ 659,423</u>	<u>\$ 6,630</u>	<u>\$ 1,110</u>	<u>\$ 179,022</u>	<u>\$ 413,092</u>	<u>\$ 2,890,566</u>

A. The Group has no borrowing costs capitalised as part of property, plant and equipment for the years ended December 31, 2022 and 2021.

B. The significant components of buildings include main plants, partition and maintenance and repairment constructions, which are depreciated over 30 to 46 years and 2 to 16 years, respectively.

C. Information about the property, plant and equipment that were pledged to others as collaterals is provided in Note 8, 'Pledged assets'.

D. Please refer to Note 9, for the details of significant contingent liabilities and unrecognised contract commitments.

(7) Leasing arrangements

A. Lessee

(a) The Group leases various assets including land, buildings, transportation equipment and other equipment. Rental contracts are made for periods of 3 to 20 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose covenants, but leased assets may not be used as security for borrowing purposes.

(b) The carrying amount of right-of-use assets and the depreciation charge are as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
	<u>Carrying amount</u>	<u>Carrying amount</u>
Land	\$ 52,567	\$ 119,410
Buildings and structures	26,507	28,238
Transportation equipment	4,829	958
Other equipment	1,013	1,324
	<u>\$ 84,916</u>	<u>\$ 149,930</u>
	<u>Year ended</u>	<u>Year ended</u>
	<u>December 31, 2022</u>	<u>December 31, 2021</u>
	<u>Depreciation charge</u>	<u>Depreciation charge</u>
Land	\$ 1,280	\$ 2,581
Buildings and structures	17,173	15,339
Transportation equipment	1,413	395
Other equipment	311	311
	<u>\$ 20,177</u>	<u>\$ 18,626</u>

(c) For the years ended December 31, 2022 and 2021, the additions to right-of-use assets were \$5,192 and \$21,324, respectively. For the years ended December 31, 2022 and 2021, a decrease of \$50,436 and increase of \$1,438 in the right-of-use assets and lease liabilities was recognised due to the lease modification.

(d) Information on profit or loss in relation to lease contracts is as follows:

	<u>Year ended</u>	<u>Year ended</u>
	<u>December 31, 2022</u>	<u>December 31, 2021</u>
<u>Items affecting profit or loss</u>		
Interest expense on lease liabilities	\$ 1,451	\$ 2,238
Expense on short-term lease contracts	1,275	1,237
Gain on lease modification (Note)	17	28,589



Note: As the lessor asked to terminate the lease contract of the plant in advance, the Group completed the return of the leased plant in August 2021. Gain arising from the lease modification was \$28,589. As of December 31, 2022, there was related compensation uncollected which was shown as other current assets, others.

(e) For the years ended December 31, 2022 and 2021, the Group's total cash outflow for leases were \$24,373 and \$21,029, respectively.

(f) Extension and termination options

i. Extension options are included in the Group's lease contracts pertaining to land.

ii. In determining the lease term, the Group takes into consideration facts and circumstances that create an economic incentive to exercise an extension option. The assessment of lease period is reviewed if a significant event occurs which affects the assessment.

#### B. Lessor

(a) The Group leases various assets including buildings. Rental contracts are made for periods of 4 and 8 months. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. To protect the lessor's ownership rights on the leased assets, leased assets may not be used as security for borrowing purposes.

(b) For the years ended December 31, 2022 and 2021, the Group recognised rent income in the amounts of \$9,527 and \$5,061, respectively, based on the operating lease agreement, which does not include variable lease payments.

#### (8) Intangible assets

2022					
	Opening net book amount as at January 1	Additions	Amortisation charge	Disposals	Closing net book amount as at December 31
Software	\$ 1,447	\$ -	(\$ 467)	\$ -	\$ 980
Trademarks	2,365	434	( 446)	-	2,353
Patents	4,649	52	( 360)	( 746)	3,595
	<u>\$ 8,461</u>	<u>\$ 486</u>	<u>(\$ 1,273)</u>	<u>(\$ 746)</u>	<u>\$ 6,928</u>
2021					
	Opening net book amount as at January 1	Additions	Amortisation charge	Effects of foreign exchange	Closing net book amount as at December 31
Software	\$ 2,042	\$ -	(\$ 594)	(\$ 1)	\$ 1,447
Trademarks	2,067	693	( 395)	-	2,365
Patents	5,012	-	( 363)	-	4,649
	<u>\$ 9,121</u>	<u>\$ 693</u>	<u>(\$ 1,352)</u>	<u>(\$ 1)</u>	<u>\$ 8,461</u>

A. Details of amortisation on intangible assets are as follows:

	Year ended December 31, 2022	Year ended December 31, 2021
Selling expenses	\$ -	\$ 64
Administrative expenses	1,273	1,288
	<u>\$ 1,273</u>	<u>\$ 1,352</u>

B. The Group has no intangible assets pledged to others.

(9) Short-term borrowings

	December 31, 2022	December 31, 2021
Bank loan		
Secured borrowings	\$ 200,000	\$ -
Unsecured borrowings	100,000	-
	<u>\$ 300,000</u>	<u>\$ -</u>
Interest rate range	1.25%~1.375%	-

A. Interest expense recognised in profit or loss amounted to \$2,618 and \$1,217 for the years ended December 31, 2022 and 2021, respectively.

B. For the information of collaterals for short-term loan, please refer to Note 8, 'Pledged assets'.

(10) Other payables

	December 31, 2022	December 31, 2021
Salaries and bonus payable	\$ 102,699	\$ 97,194
Payable on machinery and equipment	7,156	20,973
Others	75,804	74,485
	<u>\$ 185,659</u>	<u>\$ 192,652</u>

(11) Long-term borrowings (including current portion)

Type of borrowings	Borrowing period and repayment term	Interest rate range	Collateral	December 31, 2022
Long-term bank borrowings				
Unsecured borrowings	The borrowing term is from September 2019 to September 2029. Starting from October 2022, the borrower will make monthly fixed payments on principal and pay interest calculated on a monthly basis.	1.125% (Note)	None	\$ 890,364
Unsecured borrowings	The borrowing term is from September 2019 to September 2024. Starting from October 2021, the borrower will make monthly fixed payments on principal and pay interest calculated on a monthly basis.	1.125% (Note)	None	115,423
Unsecured borrowings	The borrowing term is from October 2019 to October 2024. Starting from November 2021, the borrower will make monthly fixed payments on principal and pay interest calculated on a monthly basis.	1.125% (Note)	None	90,932
Unsecured borrowings	The borrowing term is from October 2019 to October 2024. Starting from November 2021, the borrower will make monthly fixed payments on principal and pay interest calculated on a monthly basis.	1.125%~1.225% (Note)	None	90,890
				<u>1,187,609</u>
Less: Current portion				( 355,824)
				<u>\$ 831,785</u>
Type of borrowings	Borrowing period and repayment term	Interest rate range	Collateral	December 31, 2021
Long-term bank borrowings				
Secured borrowings	The borrowing term is from June 2020 to June 2030. Starting from July 2023, the borrower will make monthly fixed payments on principal and pay interest calculated on a monthly basis.	1.00%	Land, buildings and structures	\$ 400,000
Unsecured borrowings	The borrowing term is from September 2019 to September 2029. Starting from October 2022, the borrower will make monthly fixed payments on principal and pay interest calculated on a monthly basis.	0.50% (Note)	None	742,892
Unsecured borrowings	The borrowing term is from September 2019 to September 2024. Starting from October 2021, the borrower will make monthly fixed payments on principal and pay interest calculated on a monthly basis.	0.50% (Note)	None	181,391
Unsecured borrowings	The borrowing term is from October 2019 to October 2024. Starting from November 2021, the borrower will make monthly fixed payments on principal and pay interest calculated on a monthly basis.	0.50% (Note)	None	140,329
Unsecured borrowings	The borrowing term is from October 2019 to October 2024. Starting from November 2021, the borrower will make monthly fixed payments on principal and pay interest calculated on a monthly basis.	0.50%~0.60% (Note)	None	140,304
				<u>1,604,916</u>
Less: Current portion				( 204,051)
				<u>\$ 1,400,865</u>

Note: In accordance with the “Guidelines of Project Loans for Returning Overseas Taiwanese Businesses” of National Development Fund, Executive Yuan, the interest rate for the first 5 years of the loan is the 2-year term floating rate of postal savings interest rate less 0.245%~0.345%. If the requirements in the guidelines are not met during the loan period, the interest rate will be adjusted to the 2-year term floating rate of postal savings interest rate plus 0.155%~0.255%.

- A. Interest expense recognised in profit or loss amounted to \$18,043 and \$15,650 for the years ended December 31, 2022 and 2021, respectively.
- B. For the information of collaterals for long-term borrowings, please refer to Note 8, ‘Pledged assets’.
- C. The abovementioned borrowings which were related to government grants were recognised by the Group as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Deferred revenue	\$ 307	\$ 227
(shown as other current liabilities)		
Long-term deferred revenue	<u>14,145</u>	<u>11,888</u>
	<u>\$ 14,452</u>	<u>\$ 12,115</u>

Please refer to Note 6(4) for the details of the recognition of government grant revenue.

- D. Details of the abovementioned borrowings which were repaid in advance were provided in Note 12(2) C.(c).

## (12) Pensions

- A. Effective July 1, 2005, the Company and its domestic subsidiaries have established a defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount at least 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.
- B. Shanghai Dintex Trading Co., Ltd. and Ding Li Polyurethane Co., Ltd. have a defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People’s Republic of China (PRC) are based on certain percentage of employees’ monthly salaries and wages. Other than the monthly contributions, the Group has no further obligations.

- C. DINGZING ADVANCED MATERIALS VIETNAM COMPANY LIMITED has a defined contribution pension plan. Monthly contributions to an independent fund administered by the local government in accordance with the social insurance regulations in the local government are based on certain percentage of employees' monthly salaries and wages. Other than the monthly contributions, the Group has no further obligations.
- D. DINGZING ADVANCED MATERIALS USA LLC has a 401K pension plan. Monthly contributions to an independent fund administered by the local government in accordance with the regulations are based on certain percentage of employees' monthly salaries and wages. Employees are responsible for their own profits and losses on the pension investment. Other than the monthly contributions, the Group has no further obligations.
- E. The pension costs under defined contribution pension plans of the Group for the years ended December 31, 2022 and 2021, were \$25,531 and \$23,898, respectively.

(13) Share-based payments

- A. The Group's share-based payment arrangements were as follows:

Type of arrangement	Grant date	Quantity granted	Contract period	Vesting conditions
Cash capital increase reserved for employee preemption	May 6, 2022	506 thousand shares	NA	Vested immediately

The abovementioned share-based payment arrangements are equity-settled.

- B. The fair value of stock options granted on May 6, 2022 is measured using the Black-Scholes option-pricing model. Relevant information is as follows:

Type of arrangement	Grant date	Stock price (in dollars)	Exercise price (in dollars)	Exercise price volatility	Expected option life	Expected dividends	Risk-free interest rate	Fair value per unit
Cash capital increase reserved for employee preemption	2022.05.06	\$ 55.59	\$ 60.79	33.62% (note 1)	0.03 year	-	0.6% (note 2)	\$ -

Note 1: Expected price volatility rate was estimated by using the daily volatility in prior year at the evaluation basis date of similar companies.

Note 2: It was calculated based on the rate published by the central bank, which is an average annual time deposit rate of one-month and near to the evaluation basis date.

- C. Expenses arising from equity-settled share-based payments transactions were \$0 for the year ended December 31, 2022. There was no such transaction for the year ended December 31, 2021.

(14) Share capital

A. As of December 31, 2022, the Group's authorised capital was \$1,000,000, consisting of 100,000 thousand shares of ordinary stock (including 9,000 thousand shares reserved for employee stock options), and the paid-in capital was \$692,430, consisting of 69,243 thousand shares of ordinary stock, with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected.

Movements in the number of the Company's ordinary shares outstanding are as follows:

	Shares in thousands	
	2022	2021
At January 1	\$ 61,548	\$ 61,548
Cash capital increase	7,695	-
At December 31	\$ 69,243	\$ 61,548

B. In order to meet the need for underwriting before initial public offering, on March 8, 2022, the Board of Directors of the Company resolved to increase its capital by issuing new shares. The issuance was approved by the Taiwan Stock Exchange under No. 1111801437, dated April 11, 2022. The Company issued 7,695 million common stocks at an issue price of \$60.79 (in dollars) per share. The rights and obligations of shares issued at this capital increase are the same as the original common stocks. The total amount raised was \$467,761. The effective date of capital increase was on May 18, 2022 and the registration has been completed.

(15) Capital surplus

A. Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Act requires that the amount of capital surplus to be capitalised mentioned above should not exceed 10% of the paid-in capital each year. However, capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

B. Please refer to Note 6(16) for details of dividends from capital surplus.

(16) Retained earnings

A. Under the Group's Articles of Incorporation adopted by the shareholders during their meeting, the current year's earnings, if any, shall first be used to pay all taxes and offset prior years' operating losses and then 10% of the remaining amount shall be set aside as legal reserve until the amount of legal reserve is equal to the amount of total capital. After appropriating or reversing special reserve in accordance with related regulations, the remaining earnings along with beginning balance of unappropriated earnings are distributable net profit for stockholders, the appropriation

is proposed by the Board of Directors and to be approved at the stockholders' meeting.

When the Company appropriates special reserve in accordance with the laws, an equivalent amount of special reserve shall be set aside from the undistributed earnings of the prior year based on the cumulative decrease of equity and increased amount in fair value of investment property of the prior year. If it is insufficient to be set aside, the current post-tax profit plus the amount other than the current post-tax profit are included in the appropriation of the current unappropriated earnings.

The Company's dividend distribution policy is based on the Group's current and future investment environment, future capital requirements, global competition and capital budget, shareholders' benefits, balanced dividends and the Company's long-term financial plan. The principle of dividend distribution is at least 30% of 'distributable retained earnings for current year'. However, the Company may choose not to distribute dividends if 'distributable retained earnings for current year' is lower than 5% of paid-in capital. Cash dividends shall not be less than 10% of the total dividends distributed to shareholders.

The aforementioned 'distributable retained earnings for current year' refers to the current year's earnings after paying all taxes, offsetting prior years' operating losses, setting aside legal reserve and appropriating or reversing special reserve in accordance with the regulation mentioned in paragraph A. The beginning balance of unappropriated earnings is not added.

The Board of Directors distributed all or part of the distributable dividends and bonus, capital surplus or legal reserve in the form of cash as resolved by a majority vote at their meeting attended by two-thirds of the total number of directors and reported to the shareholders. The aforementioned regulation of requiring resolution from the shareholders is not applicable.

- B. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.
- C. In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

D. On April 13, 2022, the Board of Directors resolved that total dividends for the distribution of earnings for the year of 2021 was \$207,731 at NT\$ 3.3751 (in dollars) per share. The resolutions had been reported to the shareholders on May 27, 2022. As the outstanding shares were affected by the cash capital increase before public offering, on May 27, 2022, the shareholders resolved to authorise the chairman to adjust the dividend rate. The total dividends for the distribution of earnings for the year of 2021 after the adjustment was unchanged and at NT\$ 3 (in dollars) per share. On April 14, 2021, the Board of Directors resolved that total dividends for the distribution of earnings for the year of 2020 was \$30,774 at NT\$ 0.5 (in dollars) per share and also resolved to distribute cash dividends of \$61,548 from capital surplus at NT\$1 (in dollars) per share. The resolutions had been reported to the shareholders on August 27, 2021.

E. On March 14, 2023, the Board of Directors resolved that total dividends for the distribution of earnings for the year of 2022 was \$207,729 at NT\$ 3 (in dollars) per share.

(17) Operating revenue

All of the Group's operating revenue are revenue from contracts with customers.

A. Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods at a point in time in the following geographical regions:

	Year ended December 31, 2022	Year ended December 31, 2021
Taiwan	\$ 358,015	\$ 421,254
Mainland China	1,064,287	1,303,827
U.S.A	597,024	141,501
Others	587,886	673,161
	<u>\$ 2,607,212</u>	<u>\$ 2,539,743</u>

B. Contract liabilities

(a) The Group has recognised the following revenue-related contract liabilities:

	December 31, 2022	December 31, 2021	January 1, 2021
Current contract liabilities	<u>\$ 10,777</u>	<u>\$ 45,206</u>	<u>\$ 48,726</u>

(b) Revenue recognised that was included in the contract liability balance at the beginning of the year amounted to \$45,206 and \$48,726 for the years ended December 31, 2022 and 2021, respectively.



(18) Interest income

	Year ended December 31, 2022	Year ended December 31, 2021
Interest income from bank deposits	\$ 3,389	\$ 1,341
Interest income from financial assets measured at amortised cost	35	91
Other interest income	9	586
	<u>\$ 3,433</u>	<u>\$ 2,018</u>

(19) Other income

	Year ended December 31, 2022	Year ended December 31, 2021
Renewable energy electricity sales income	\$ 7,434	\$ 4,184
Rent income	9,527	5,061
Gain on lease modification (Note)	17	28,589
Grant and compensation income	131	4,029
Others	9,279	8,876
	<u>\$ 26,388</u>	<u>\$ 50,739</u>

Note: Please refer to Note 6(7) for the details of the transactions related to gain on lease modification.

(20) Other gains and losses

	Year ended December 31, 2022	Year ended December 31, 2021
Currency exchange gain (losses)	\$ 41,105	(\$ 5,087)
Gains (losses) on disposals of property, plant and equipment	5	( 84)
Impairment losses on other receivables	( 11,726)	-
Other losses	( 629)	( 1,449)
	<u>\$ 28,755</u>	<u>(\$ 6,620)</u>

(21) Finance costs

	Year ended December 31, 2022	Year ended December 31, 2021
Interest expense:		
Bank borrowings	\$ 20,661	\$ 16,867
Lease liability	1,451	2,238
Others	49	11
	<u>\$ 22,161</u>	<u>\$ 19,116</u>

(22) Expenses by nature

	Year ended December 31, 2022	Year ended December 31, 2021
Change in inventory of finished goods and work in process	(\$ 25,340)	(\$ 89,064)
Raw materials used	1,036,749	1,052,653
Employee benefit expense	595,225	574,005
Depreciation charges on property, plant and equipment	188,395	183,979
Depreciation charges on right-of-use assets	20,177	18,626
Amortisation charges on intangible assets	1,273	1,352
Utilities expense	111,750	99,116
Research and development material cost	83,842	50,807
Package fees	76,057	74,720
Insurance expense	58,459	54,673
Repairs and maintenance expense	37,424	40,445
Consumables	35,549	49,895
Processing fees	20,616	12,192
Operating leases expenses	1,275	1,237
Other expenses	66,690	84,934
Operating cost and operating expenses	<u>\$ 2,308,141</u>	<u>\$ 2,209,570</u>

(23) Employee benefit expense

	Year ended December 31, 2022	Year ended December 31, 2021
Wages and salaries	\$ 502,274	\$ 485,039
Labour and health insurance fees	46,548	44,216
Pension costs	25,531	23,898
Directors' remuneration	4,994	4,896
Other personnel expenses	15,878	15,956
	<u>\$ 595,225</u>	<u>\$ 574,005</u>

A. According to the Articles of Incorporation of the Company, a ratio of distributable profit of the current year, shall be distributed as employees' compensation and directors' remuneration. The ratio shall not be lower than 1% for employees' compensation and shall not be higher than 5% for directors' remuneration. If the Company has accumulated deficit, earnings should be reserved to cover losses.

Employees' compensation can be distributed in cash or shares and shall be distributed to the

employees who meet certain specific requirements.

- B. For the years ended December 31, 2022 and 2021, employees' compensation was accrued at \$8,720 and \$7,367, respectively; directors' remuneration was accrued at \$3,389 and \$3,636, respectively. The aforementioned amounts were recognised in salary expenses.

For the year ended December 31, 2022, the employees' compensation and directors' remuneration were estimated as 3% and 1%, respectively. Employees' compensation and directors' remuneration of 2022 as resolved at the meeting of Board of Directors were in agreement with those amounts recognised in the 2022 financial statements. The employees' compensation will be distributed in the form of cash.

Employees' compensation and directors' remuneration of 2021 as resolved by the Board of Directors were in agreement with those amounts recognised in the 2021 financial statements.

Information about employees' compensation and directors' remuneration of the Company as resolved at the meeting of Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(24) Income tax

A. Components of income tax expense

	Year ended December 31, 2022	Year ended December 31, 2021
Current tax:		
Current tax on profits for the year	\$ 84,456	\$ 62,563
Prior year income tax over estimation	( 2,143)	( 20,897)
Total current tax	<u>82,313</u>	<u>41,666</u>
Deferred tax:		
Origination and reversal of temporary differences (	1,906)	35,282
Unrecognised tax losses in previous year are used for deducting the gains arising from current income tax expense	( 10,573)	-
Income tax expense	<u>\$ 69,834</u>	<u>\$ 76,948</u>

B. Reconciliation between income tax expense and accounting profit

	Year ended December 31, 2022	Year ended December 31, 2021
Tax calculated based on profit before tax and statutory tax rate (Note)	\$ 73,951	\$ 76,627
Off-the-book adjusted items by tax regulation	( 6,853)	16,895
Taxable loss not recognised as deferred tax assets	624	3,168
Prior year income tax over estimation	( 2,143)	( 20,897)
Effect of different tax rates in countries in which the group operates	4,255	1,155
Income tax expense	<u>\$ 69,834</u>	<u>\$ 76,948</u>

Note: The basis for computing the applicable tax rate are the rates applicable in the respective countries where the Group entities operate.

C. Amounts of deferred tax assets as a result of temporary difference and tax losses are as follows:

	Year ended December 31, 2022		
	January 1	Recognised in profit or loss	December 31
Deferred tax assets:			
— Temporary differences:			
Allowance for valuation loss	\$ 13,650	\$ 3,596	\$ 17,246
Tax difference of deferred sales revenue	2,391	137	2,528
Investment losses	( 346)	2,101	1,755
Estimated sales discounts and allowances	3,951	( 563)	3,388
Unrealised gain on inter-affiliate accounts	2,950	( 688)	2,262
Unused compensated absences	1,801	101	1,902
Loss allowance	2,487	( 595)	1,892
Others	( 538)	1,534	996
Tax losses	<u>6,913</u>	<u>( 3,717)</u>	<u>3,196</u>
	<u>\$ 33,259</u>	<u>\$ 1,906</u>	<u>\$ 35,165</u>

		Year ended December 31, 2021		
		Recognised in		
		January 1	profit or loss	December 31
Deferred tax assets:				
— Temporary differences:				
Allowance for valuation loss	\$	38,801	(\$ 25,151)	\$ 13,650
Tax difference of deferred sales revenue		5,653	( 3,262)	2,391
Investment losses		4,843	( 5,189)	( 346)
Estimated sales discounts and allowances		3,478	473	3,951
Unrealised gain on inter-affiliate accounts		2,168	782	2,950
Unused compensated absences		1,416	385	1,801
Loss allowance		555	1,932	2,487
Others		4,602	( 5,140)	( 538)
Tax losses		7,025	( 112)	6,913
	\$	68,541	(\$ 35,282)	\$ 33,259

D. Expiration dates and cash amounts of DINGZING ADVANCED MATERIALS USA, INC.'s unused tax losses are as follows:

December 31, 2022				
Year incurred	Amount filed/ assessed	Unused amount	Unrecognised deferred tax	Expiry year
2020	Amount filed	\$ 1,390	\$ -	No expiry date
2021	Amount filed	10,403	-	No expiry date
		<u>\$ 11,793</u>	<u>\$ -</u>	
December 31, 2021				
Year incurred	Amount filed/ assessed	Unused amount	Unrecognised deferred tax	Expiry year
2019	Amount filed	\$ 26,369	\$ 1,369	No expiry date
2020	Amount filed	13,172	13,172	No expiry date
2021	Estimated filed amount	8,647	8,647	No expiry date
		<u>\$ 48,188</u>	<u>\$ 23,188</u>	

E. Expiration dates and cash amounts of DINGZING ADVANCED MATERIALS VIETNAM COMPANY's unused tax losses are as follows:

December 31, 2022				
<u>Year incurred</u>	<u>Amount filed/ assessed</u>	<u>Unused amount</u>	<u>Unrecognised deferred tax</u>	<u>Expiry year</u>
2018	Amount filed	\$ 1,418	\$ 1,418	2019~2023
2019	Amount filed	3,176	3,176	2020~2024
2020	Amount filed	2,977	2,977	2021~2025
2021	Amount filed	2,856	2,856	2022~2026
2022	Estimated filed amount	3,123	3,123	2023~2027
		<u>\$ 13,550</u>	<u>\$ 13,550</u>	
December 31, 2021				
<u>Year incurred</u>	<u>Amount filed/ assessed</u>	<u>Unused amount</u>	<u>Unrecognised deferred tax</u>	<u>Expiry year</u>
2018	Amount filed	\$ 1,418	\$ 1,418	2019~2023
2019	Amount filed	3,176	3,176	2020~2024
2020	Amount filed	2,977	2,977	2021~2025
2021	Estimated filed amount	2,872	2,872	2022~2026
		<u>\$ 10,443</u>	<u>\$ 10,443</u>	

F. The Company's income tax returns through 2020 have been assessed and approved by the Tax Authority. The Group does not have any administrative remedy as of the reporting date.

(25) Earnings per share

	Year ended December 31, 2022		
	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding (share in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	<u>\$265,652</u>	<u>66,347</u>	<u>\$ 4.00</u>
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	265,652	66,347	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	161	
	<u>\$265,652</u>	<u>66,508</u>	<u>\$ 3.99</u>

	Year ended December 31, 2021		
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	<u>\$280,246</u>	<u>61,548</u>	<u>\$ 4.55</u>
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	280,246	61,548	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	<u>-</u>	<u>116</u>	
	<u>\$280,246</u>	<u>61,664</u>	<u>\$ 4.54</u>

(26) Supplemental cash flow information

A. Investing activities with partial cash payments

	Year ended December 31, 2022	Year ended December 31, 2021
Increase in property, plant and equipment	\$ 232,205	\$ 230,667
Add: Opening balance of payable on equipment (Note)	20,973	12,738
Less: Ending balance of payable on equipment (Note)	( 7,156)	( 20,973)
	<u>\$ 246,022</u>	<u>\$ 222,432</u>
	Year ended December 31, 2022	Year ended December 31, 2021
'Prepayments for business facilities' reclassified as 'property, plant and equipment'	\$ 248,656	\$ 260,789
Less: Opening balance of prepayments for business facilities	( 63,215)	( 51,257)
Add: Ending balance of prepayments for business facilities	<u>9,253</u>	<u>63,215</u>
	<u>\$ 194,694</u>	<u>\$ 272,747</u>

Note: Payable on equipment was listed as 'other payables'.

B. Investing activities and financing activities with no cash flow effects

	Year ended December 31, 2022	Year ended December 31, 2021
Increase in right-of-use assets	\$ 5,192	\$ 21,324
Less: Increase in lease liabilities	( 5,192)	( 21,324)
	<u>\$ -</u>	<u>\$ -</u>
(Decrease) increase in lease liabilities due to remeasurement	(\$ 50,436)	\$ 1,438
Less: Decrease (increase) in right-of-use assets due to remeasurement	<u>50,436</u>	<u>( 1,438)</u>
	<u>\$ -</u>	<u>\$ -</u>
Current portion of long-term bank borrowings	<u>\$ 355,824</u>	<u>\$ 204,051</u>

(27) Changes in liabilities from financing activities

	2022				
	Changes in non-cash items				
	Changes in foreign				
	January 1	Cash flows	exchange rate	Others	December 31
Short-term borrowings	\$ -	\$ 300,000	\$ -	\$ -	\$ 300,000
Long-term borrowings (Note 1)	1,604,916	( 420,756)	-	3,449	1,187,609
Lease liability (Notes 2 and 3)	152,042	( 21,647)	1,091	( 45,869)	85,617
Guarantee deposits received	-	420	13	-	433
Liabilities from financing activities-gross	<u>\$ 1,756,958</u>	<u>(\$ 141,983)</u>	<u>\$ 1,104</u>	<u>(\$ 42,420)</u>	<u>\$ 1,573,659</u>
	2021				
	Changes in non-cash items				
	Changes in foreign				
	January 1	Cash flows	exchange rate	Others	December 31
Short-term borrowings	\$ 102,373	(\$ 102,359)	(\$ 14)	\$ -	\$ -
Long-term borrowings (Note 1)	1,522,185	85,168	-	( 2,437)	1,604,916
Lease liability (Notes 2 and 3)	<u>150,282</u>	<u>( 17,554)</u>	<u>( 122)</u>	<u>19,436</u>	<u>152,042</u>
Liabilities from financing activities-gross	<u>\$ 1,774,840</u>	<u>(\$ 34,745)</u>	<u>\$ 136)</u>	<u>\$ 16,999</u>	<u>\$ 1,756,958</u>

Note 1: Including current portion of long-term borrowings.

Note 2: Including current and non-current.

Note 3: Please refer to Note 6(26).



## 7. RELATED PARTY TRANSACTIONS

### (1) Names of related parties and relationship

<u>Names of related parties</u>	<u>Relationship with the Company</u>
Mitsubishi Corporation	Other related party

### (2) Significant related party transactions

#### A. Operating revenue

	<u>Year ended</u> <u>December 31, 2022</u>	<u>Year ended</u> <u>December 31, 2021</u>
Sales of goods:		
Mitsubishi Corporation	\$ <u>9,153</u>	\$ <u>7,634</u>

Goods are sold based on mutual agreements and the price lists in force and terms that would be available to third parties.

#### B. Purchases

	<u>Year ended</u> <u>December 31, 2022</u>	<u>Year ended</u> <u>December 31, 2021</u>
Purchases of goods:		
Mitsubishi Corporation	\$ <u>398,235</u>	\$ <u>512,570</u>

Goods are purchased from the related party on normal commercial terms and conditions based on the price lists in force and terms that would be available to third parties.

#### C. Receivables from related parties

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Accounts receivable		
Mitsubishi Corporation	\$ <u>1,484</u>	\$ <u>668</u>

The receivables from related parties arise mainly from sale transactions. The receivables are due 60 days after monthly billings. The receivables are unsecured in nature and bear no interest. There are no allowances for uncollectible accounts held against receivables from related parties.

#### D. Receivables from related parties

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Accounts receivable		
Mitsubishi Corporation	\$ <u>40,413</u>	\$ <u>55,683</u>

The payables to related parties arise mainly from purchase transactions and are due 60 days after monthly billings. The payables bear no interest.

(3) Key management compensation

	Year ended December 31, 2022	Year ended December 31, 2021
Salaries and other short-term employee benefits	\$ 32,853	\$ 30,780
Post-employment benefits	191	249
	<u>\$ 33,044</u>	<u>\$ 31,029</u>

8. PLEDGED ASSETS

The Group's assets pledged as collateral are as follows:

Pledged asset	Book value		Purpose
	December 31, 2022	December 31, 2021	
Land	\$ 750,807	\$ 750,807	Guarantee for credit line for short-term and long-term borrowings
Buildings and structures, net	1,308,588	880,481	Guarantee for credit line for short-term and long-term borrowings
Guarantee deposits paid	8,299	6,321	Performance guarantee
	<u>\$ 2,067,694</u>	<u>\$ 1,637,609</u>	

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) Contingencies

None.

(2) Commitments

- A. As of December 31, 2022 and 2021, the Group's secured notes payable due to borrowing from bank amounted to \$1,200,000 and \$1,500,000, respectively.
- B. Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	December 31, 2022	December 31, 2021
Property, plant and equipment	<u>\$ 35,971</u>	<u>\$ 295,013</u>

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

The appropriation of 2022 earnings as resolved by the Board of Directors of the Company on March 14, 2023 is provided in Note 6(16).

## 12. Other

### (1) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

As the Group has met the capital requirement to expand and enhance plant and equipment, the Group's capital management is to ensure it has sufficient financial resource and operating plans to meet operational capital for future needs, capital expenditure, research and development expense, obligation repayment and dividend distribution within the next year.

The Group controls capital by using the debt ratio. The Group's strategy is to maintain a stable debt ratio. The debt ratio is as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Debt ratio	<u>40%</u>	<u>47%</u>

### (2) Financial instruments

#### A. Financial instruments by category

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
<u>Financial assets</u>		
Financial assets at amortised cost/Loans and receivables		
Cash and cash equivalents	\$ 473,773	\$ 382,515
Financial assets at amortised cost	-	55,308
Notes receivable	22,635	21,427
Accounts receivable	323,628	287,576
Other financial assets	487	579
Guarantee deposits paid	<u>8,299</u>	<u>6,321</u>
	<u>\$ 828,822</u>	<u>\$ 753,726</u>

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
<u>Financial liabilities</u>		
Financial liabilities at amortised cost		
Short-term borrowings	\$ 300,000	\$ -
Accounts payable (including related parties)	100,827	86,904
Other payables	185,659	192,652
Long-term borrowings		
(including current portion)	1,187,609	1,604,916
Guarantee deposits received	433	-
	<u>\$ 1,774,528</u>	<u>\$ 1,884,472</u>
Lease liability		
(including current and non-current)	<u>\$ 85,617</u>	<u>\$ 152,042</u>

#### B. Risk management policies

The Group's objective on market risk management are to achieve the optimal risk position, maintain an optimal level of liquidity and centralise risk management operations, with consideration of the economic environment, competitive status and market value risk. For risk management purpose, the Group mostly uses a natural hedge strategy.

#### C. Significant financial risks and degrees of financial risks

##### (a) Market risk

##### Foreign exchange risk

- i. The Group's businesses involve some non-functional currency operations (the Company's functional currency: NTD; other subsidiaries' functional currency: RMB; EUR, USD, and VND). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

December 31, 2022			
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 13,672	30.72	\$ 420,004
EUR:NTD	1,384	32.72	45,284
RMB:NTD	4,577	4.41	20,185
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	\$ 1,998	30.72	\$ 61,379
USD:RMB	1,264	6.97	38,852
December 31, 2021			
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 13,821	27.65	\$ 382,151
EUR:NTD	941	31.39	29,538
RMB:NTD	3,124	4.34	13,558
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	\$ 2,943	27.65	\$ 81,374
EUR:NTD	73	31.39	2,291
USD:RMB	1,473	6.37	40,722

- ii. Total exchange gain (loss), including realised and unrealised arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2022 and 2021, amounted to \$41,105 and (\$5,087), respectively.

iii. Analysis of foreign currency market risk arising from significant foreign exchange variation:

Year ended December 31, 2022				
Sensitivity analysis				
	Degree of variation		Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	1%	\$	4,200	\$ -
EUR:NTD	1%		453	-
RMB:NTD	1%		202	-
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	1%	\$	614	\$ -
EUR:NTD	1%		-	-
USD:RMB	1%		389	-

  

Year ended December 31, 2021				
Sensitivity analysis				
	Degree of variation		Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	1%	\$	3,822	\$ -
EUR:NTD	1%		295	-
RMB:NTD	1%		136	-
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	1%	\$	814	\$ -
EUR:NTD	1%		23	-
USD:RMB	1%		407	-

Price risk

The Group was not exposed to any significant price risk.

### Cash flow and fair value interest rate risk

The Group's interest rate risk arises from short-term and long-term borrowings with floating rate which exposes the Group under cash flow interest rate risk. At December 31, 2022 and 2021, if interest rates had been 1% higher/lower with all other variables held constant, borrowing with floating rate for the years ended December 31, 2022 and 2021 would cause post-tax profit to be \$10,358 and \$12,577 lower/higher, respectively.

### (b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the contract cash flows of debt instruments stated at amortised cost.
- ii. The Group manages their credit risk taking into consideration the entire group's concern. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors.
- iii. The following indicators are used to determine whether the credit impairment of debt instruments has occurred:
  - (i) It becomes probable that the issuer will enter bankruptcy or other financial reorganization due to their financial difficulties;
  - (ii) The disappearance of an active market for that financial asset because of financial difficulties;
  - (iii) Default or delinquency in interest or principal repayments;
  - (iv) Adverse changes in national or regional economic conditions that are expected to cause a default.
- iv. In line with credit risk management, when the contract payments were past due within 180 days, the payments are within normal collection period. However, the default occurs when the contract payments are past due over 181 days.
- v. The Group applies the simplified approach to estimate the impairment losses of notes and accounts receivable under the provision matrix basis.
- vi. The Group wrote-off the financial assets, which cannot be reasonably expected to be recovered, after initiating recourse procedures. However, the Group will continue executing the recourse procedures to secure their rights.

vii. The Group's provision matrix used the forecastability of the economic condition in the next one year to adjust historical credit loss experience and the time value of money to assess the default possibility of notes and accounts receivable. The provision matrix is as follows:

	Not past due	Up to 90 days past due	91~180 days past due	Over 181 days past due
Expected loss rate	0.1%	3%	10%	100%

viii. Movements in relation to the Group applying the simplified approach to provide loss allowance for notes and accounts receivable are as follows:

	Year ended December 31, 2022	Year ended December 31, 2021
At January 1	\$ 10,244	\$ 2,432
Provision for impairment	( 2,711)	8,075
Write-offs	-	( 295)
Effect of exchange rate changes	137	32
At December 31	<u>\$ 7,670</u>	<u>\$ 10,244</u>

For the years ended December 31, 2022 and 2021, the impairment (losses) gains arising from customers' contracts amounts to \$2,711 and (\$8,075), respectively.

(c) Liquidity risk

- i. The Group's treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs.
- ii. The table below analyses the Group's non-derivative financial liabilities based on the remaining period at the balance sheet date to the expected maturity date. The contractual cash flow are not discounted.

Non-derivative financial liabilities:

	Less than 1 year	Between 1 and 3 years	Over 3 years
<u>December 31, 2022</u>			
Short-term borrowings	\$ 300,340	\$ -	\$ -
Accounts payable (including related parties)	100,827	-	-
Other payables	185,659	-	-
Lease liability (including current and non-current)	14,901	23,692	56,047
Long-term borrowings (including current portion)	366,934	525,027	340,843



Non-derivative financial liabilities:

	Less than 1 year	Between 1 and 3 years	Over 3 years
<u>December 31, 2021</u>			
Accounts payable (including related parties)	\$ 86,904	\$ -	\$ -
Other payables	192,652	-	-
Lease liability (including current and non-current)	17,815	17,140	154,906
Long-term borrowings (including current portion)	213,475	721,307	823,606

Derivative financial liabilities:

As of December 31, 2022 and 2021, the Group has no derivative financial liabilities.

- iii. As of December 31, 2021, the principal of the borrowings which is due ‘between 1 and 3 years’ and ‘over 3 years’ amounted to \$400,000 (in addition, interest amounted to \$24,073). The Group has continually repaid principal and interest amounting to \$400,288 in advance on May, 2022. Except for the aforementioned, the Group does not expect the timing of occurrence of the cash flows estimated through the maturity date analysis will be significantly earlier, nor expect the actual cash flow amount will be significantly different.

(3) Fair value information

A. The carrying amounts of the Group’s financial instruments not measured at fair value including cash and cash equivalents, financial assets at amortised cost, notes receivable, accounts receivable, other current financial assets, refundable deposits, short-term borrowings, notes payable, accounts payable (including related parties), other payables, lease liabilities (including current and non-current), long-term borrowings (including current portion) and guarantee deposits received are approximate to their fair values.

B. The Group has no financial and non-financial instruments that were measured at fair value.

(4) Other matter

Due to Covid-19 pandemic and various prevention measures imposed by the government, the Group has followed the measures and regulations announced by the government to reduce the risk of personal contact and cross-infection. The Covid-19 pandemic had no significant impact on the Group's overall operations and financial condition.

### 13. SUPPLEMENTARY DISCLOSURES

#### (1) Significant transactions information

- A. Loans to others: None.
- B. Provision of endorsements and guarantees to others: Please refer to table 1.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): None.
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: None.
- E. Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more: Please refer to table 2.
- F. Disposal of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more: Please refer to table 3.
- H. Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more: Please refer to table 4.
- I. Trading in derivative instruments undertaken during the reporting periods: None.
- J. Significant inter-company transactions during the reporting periods: Please refer to table 5.

#### (2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China) : Please refer to table 6.

#### (3) Information on investments in Mainland China

- A. Basic information: Please refer to table 7.
- B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 8.

#### (4) Major Shareholders information

Major shareholders information: Please refer to table 9.

### 14. SEGMENT INFORMATION

#### (1) Measurement of general and segment information

The Group primarily engages in the manufacture, development and sales of high-tech polyurethane (Thermoplastic Polyurethane, abbreviation: "TPU"). The Chief Operating Decision-Maker considers the Group as one reportable operating segment, and allocates resources and assesses performance of the Group as a whole. Because the measuring information used is the same as the

financial statements, the income, assets and liability of operating segments are not disclosed.

(2) Information on products and services

The Group's external revenue are all derived from sales of high-tech polyurethane.

The Group primarily engages in the manufacture, development and sales of high-tech polyurethane (Thermoplastic Polyurethane, abbreviation: "TPU"). The Chief Operating Decision-Maker considers the Group as one reportable operating segment, and allocates resources and assesses performance of the Group as a whole. Because the measuring information used is the same as the financial statements, the income, assets and liability of operating segments are not disclosed.

(3) Geographical information

Geographical information for the years ended December 31, 2022 and 2021 is as follows:

	<u>Year ended December 31, 2022</u>		<u>Year ended December 31, 2021</u>	
	<u>Revenue (Note)</u>	<u>Non-current assets</u>	<u>Revenue (Note)</u>	<u>Non-current assets</u>
China	\$ 1,064,287	\$ 23,153	\$ 1,303,827	\$ 20,235
Taiwan	358,015	3,257,786	421,254	3,080,265
U.S.A	597,024	1,685	141,501	8,234
Others	587,886	1,432	673,161	3,438
	<u>\$ 2,607,212</u>	<u>\$ 3,284,056</u>	<u>\$ 2,539,743</u>	<u>\$ 3,112,172</u>

Note: Revenue was classified based on the country the customer is located.

(4) Major customer information

Major customer information of the Group for the years ended December 31, 2022 and 2021 is as follow:

	<u>Year ended December 31</u>			
	<u>2022</u>		<u>2021</u>	
<u>Clients</u>	<u>Revenue</u>	<u>Percentage of total sales</u>	<u>Revenue</u>	<u>Percentage of total sales</u>
Client P	<u>\$ 345,596</u>	13.26%	<u>\$ 7,765</u>	0.31%

Dingzing Advanced Materials Incorporated  
Provision of endorsements and guarantees to others  
Year ended December 31, 2022

Table 1

Expressed in thousands of NTD  
(Except as otherwise indicated)

Number	Endorser/ guarantor	Company name	Party being endorsed/guaranteed	Relationship with the endorser/guarantor	Limit on endorsements/		Outstanding endorsement/ guarantee amount at December 31, 2022	Actual amount drawn down	Amount of endorsements/ guarantees secured with collateral	Ratio of accumulated endorsement/guarantee amount to net asset value of asset value of the endorser/guarantor guarantor company	Ceiling on total amount	Provision of endorsements/ guarantees by parent company to subsidiary	Provision of endorsements/ guarantees by subsidiary to parent company	Provision of endorsements/ guarantees to the party in Mainland China	Footnote
					guarantees provided for a single party ( Note 2 )	Maximum outstanding endorsement/guarantee amount as of December 31, 2022									
0	Dingzing Advanced Materials Incorporated	Dingzing Advanced Materials USA LLC		Note 1	\$ 1,182,389	\$ 31,803	\$ 31,803	\$ 629	\$ -	1.08%	1,477,987	Y	N	N	Note 3

Note 1: The Company owned directly or indirectly 50% shares with voting rights of the endorsed/guaranteed party.

Note 2: In accordance with the Company’s “Regulations Governing Endorsements and Guarantees to Others”, the endosed/guaranteed amount provided to individual entity shall not exceed 40% of net assets disclosed on the Company’s latest financial statements whereas the total endosed/guaranteed amount provided to others shall not exceed 50% of net assets disclosed on the Group’s consolidated financial statements.

Note 3: The actual amount drawn down was converted into NTD with the exchange rate of US\$1 to NT\$30.72 at the balance sheet date.

Dingzing Advanced Materials Incorporated  
Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more  
Year ended December 31, 2022

Table 2

Expressed in thousands of NTD  
(Except as otherwise indicated)

<p style="text-align: center;">If the counterparty is a related party, information as to the last transaction of the real estate is disclosed below:</p>													
Real estate acquired by	Real estate acquired	Date of the event	Transaction amount	Status of payment	Counterparty	Relationship with the counterparty	Original owner who sold the real estate to the counterparty	Relationship between the original owner and the acquirer	Date of the original transaction	Amount	Basis or reference used in setting the price	Reason for acquisition of real estate and status of the real estate	Other commitments
Dingzing Advanced Materials Incorporated	Buildings and structures	2020/9/23	\$ 146,470	Note 1	Ren Bao Construction Company Limited.	None	N/A	N/A	N/A	N/A	Price comparison, and negotiation	Business production	-
Dingzing Advanced Materials Incorporated	Buildings and structures	2021/2/2	264,500	Note 2	Ren Bao Construction Company Limited.	None	N/A	N/A	N/A	N/A	Price comparison, and negotiation	Business production	-

Note 1: The Board of Directors during its meeting on April 13, 2018 resolved the plant establishment plan. Additionally, on September 23, 2020, the Company obtained a use permit in May 2022 and the payment was reclassified to buildings and structures after inspection.

Note 2: The Board of Directors during its meeting on April 13, 2018 resolved the plant establishment plan. Additionally, on February 2, 2021, the Company obtained a use permit in September 2022 and the payment was reclassified to buildings and structures after inspection.

Dingzing Advanced Materials Incorporated  
Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more  
Year ended December 31, 2022

Table 3

Expressed in thousands of NTD  
(Except as otherwise indicated)

							Differences in transaction terms compared to third party transactions				
			Transaction								
Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	Footnote
Dingzing Advanced Materials Incorporated	DINGZING ADVANCED MATERIALS USA LLC	Subsidiary	(Sales)	(\$ 441,703)	(18%)	Based on mutual agreement	Note	Note	\$ 156,343	43%	
Dingzing Advanced Materials Incorporated	Ding Li Polyurethane Co., Ltd.	Subsidiary	(Sales)	( 387,081)	(16%)	Based on mutual agreement	Note	Note	15,569	4%	
Dingzing Advanced Materials Incorporated	Shanghai Dintex Trading Co., Ltd	Subsidiary	(Sales)	( 159,488)	(6%)	Based on mutual agreement	Note	Note	23,258	6%	
Dingzing Advanced Materials Incorporated	Mitsubishi Corporation	Other related party	Purchases	398,235	35%	Based on mutual agreement	Note	Note	( 40,413)	(40%)	
Ding Li Polyurethane Co., Ltd.	Dingzing Advanced Materials Incorporated	Parent company	Purchases	387,081	99%	Based on mutual agreement	Note	Note	( 15,569)	(100%)	
Shanghai Dintex Trading Co., Ltd	Dingzing Advanced Materials Incorporated	Parent company	Purchases	159,488	85%	Based on mutual agreement	Note	Note	( 23,258)	(93%)	
DINGZING ADVANCED MATERIALS USA LLC	Dingzing Advanced Materials Incorporated	Parent company	Purchases	441,703	100%	Based on mutual agreement	Note	Note	( 156,343)	(100%)	

Note: Based on mutual agreement, terms of related party transactions are not different from third-party transactions.

Dingzing Advanced Materials Incorporated  
Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more  
December 31, 2022

Table 4

Expressed in thousands of NTD

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2022	Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts
					Amount	Action taken		
Dingzing Advanced Materials Incorporated	DINGZING ADVANCED MATERIALS USA LLC	Subsidiary	\$ 156,343	4.99	\$ -	-	\$ 66,367	-

Dingzing Advanced Materials Incorporated  
Significant inter-company transactions during the reporting periods  
Year ended December 31, 2022

Table 5  
Significant inter-company transactions reaching NTD 10 million are listed and disclosed as described in Note 2 as follows, counterparty transactions will not be disclosed again.

Expressed in thousands of NTD  
(Except as otherwise indicated)

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets (Note 3)
				General ledger account	Amount	Transaction terms	
0	Dingzing Advanced Materials Incorporated	Dingzing Advanced Materials USA LLC	1	Sale	\$ 441,703	Based on mutual agreement	17.00%
0	"	Ding Li Polyurethane Co., Ltd.	1	Sale	387,081	Based on mutual agreement	15.00%
0	"	Shanghai Dintex Trading Co., Ltd.	1	Sale	159,488	Based on mutual agreement	6.00%
0	"	Dingzing Advanced Materials USA LLC	1	Account receivable to related parties	156,343	Based on mutual agreement	3.00%
0	"	Shanghai Dintex Trading Co., Ltd.	1	Account receivable to related parties	23,258	Based on mutual agreement	-
0	"	Ding Li Polyurethane Co., Ltd.	1	Account receivable to related parties	15,569	Based on mutual agreement	-
0	"	Ding Li Polyurethane Co., Ltd.	1	Other receivable	15,872	Based on mutual agreement	-

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

- (1)Parent company is '0';
- (2)The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship between transaction company and counterparty is classified into the following three categories; fill in the number of category each case belongs to (If transactions between parent company and subsidiaries or between subsidiaries refer to the same transaction, it is not required to disclose twice. For example, if the parent company has already disclosed its transaction with a subsidiary, then the subsidiary is not required to disclose the transaction; for transactions between two subsidiaries, if one of the subsidiaries has disclosed the transaction, then the other is not required to disclose the transaction.)

- (1)Parent company to subsidiary;
- (2)Subsidiary to parent company;
- (3)Subsidiary to subsidiary.

Note 3: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.



## Dingzing Advanced Materials Incorporated

## Information on investees

Year ended December 31, 2022

Table 6

Expressed in thousands of NTD  
(Except as otherwise indicated)

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2022			Net profit (loss)	Investment income(loss)	Footnote
				Balance as at	Balance as at	Number of shares	Ownership (%)	Book value	of the investee for	recognised by the Company	
				December 31, 2022	December 31, 2021				the year ended	for the year ended	
									December 31, 2022	December 31, 2022	
DINGZING ADVANCED MATERIALS INCORPORATED	DINGZING ADVANCED MATERIALS INCORPORATED	Cayman	Reinvests in various businesses	\$ 89,738	\$ 89,738	3,000,000	100	\$ 75,966	\$ 36,676	\$ 36,676	
DINGZING ADVANCED MATERIALS INCORPORATED	DING ZING POLYURETHANE EUROPE B.V.	Netherlands	Marketing	787	787	-	100	16,695	820	820	Note 1
DINGZING ADVANCED MATERIALS INCORPORATED	DINGZING ADVANCED MATERIALS VIETNAM COMPANY LIMITED	Vietnam	Marketing	18,910	15,598	-	100	3,886 (	3,123) (	3,123)	Note 1
DINGZING ADVANCED MATERIALS INCORPORATED	DINGZING ADVANCED MATERIALS USA, INC.	U.S.A.	Reinvests in various businesses	89,738	89,738	100	100	76,035	36,675	-	Note 2
DINGZING ADVANCED MATERIALS USA, INC.	DINGZING ADVANCED MATERIALS USA LLC	U.S.A.	Marketing	89,738	89,738	-	100	74,946	43,051	-	Notes 1 and 2

Note 1: Shares have not yet been issued and therefore not applicable.

Note 2:The investee accounted for using equity method was included in the profit or loss of the Company and investment income (loss) was calculated and recognised by the Company.

Dingzing Advanced Materials Incorporated  
Information on investments in Mainland China  
Year ended December 31, 2022

Table 7

Expressed in thousands of NTD  
(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2022	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2022	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2022	Net income of investee as of December 31, 2022	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2022	Book value of investments in Mainland China as of December 31, 2022	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2022	Footnote
Ding Li Polyurethane Co., Ltd.	Sale of high-tech polyurethane relative products	\$ 91,746	Note 1	\$ 91,746	\$ - \$ -	\$ 91,746	(\$ 8,153)	100	(\$ 8,153)	\$ 77,444	\$ 17,800	Note 2
Shanghai Dintex Trading Co., Ltd	Sale of high-tech polyurethane relative products	58,712	Note1	70,455	- -	70,455	( 1,079)	100	( 1,079)	65,962	17,848	Note 2
Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2022	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA (Note 3)									
Dingzing Advanced Materials Incorporated	\$ 162,201	\$ 162,201	\$ 1,773,584									

Note1: Investment methods are classified into the following three categories; fill in the number of category each case belongs to:

1. Directly invest in a company in Mainland China
2. Through investing in an existing company in the third area, which then invested in the investee in Mainland China.
3. Through investing in an existing company in the Mainland China, which then invested in the investee in Mainland China.

Note 2: The 'Investment income (loss) recognised by the Company for the year ended December 31, 2022' in the financial statements are audited and attested by R.O.C. parent company's CPA.

Note 3: The amount disclosed was 60% of net assets and based on Investment Commission, MOEA Regulation No. 09704604680 announced on August 29, 2008.

Dingzing Advanced Materials Incorporated  
Significant transactions , either directly or indirectly through a third area, with investee companies in the Mainland Area  
Year ended December 31, 2022

Table 8

Expressed in thousands of NTD  
(Except as otherwise indicated)

Investee in Mainland China	Provision of										
	Accounts receivable		endorsements/guarantees		Financing						
	Sale (purchase)	(payable)		or collaterals							
	Amount	%	Balance at December 31, 2022	%	Balance at December 31, 2022	Purpose	Maximum balance during the year ended December 31, 2022	Balance at December 31, 2022	Interest rate	Interest during the year ended December 31, 2022	Other
Ding Li Polyurethane Co., Ltd.	\$ 387,081	16%	\$ 15,569	4%	\$ -	-	\$ -	\$ -	-	\$ -	-
Shanghai Dintex Trading Co., Ltd	159,488	6%	23,258	6%	-	-	-	-	-	-	-

Dingzing Advanced Materials Incorporated  
Major shareholders information  
December 31, 2022

Table 9

Creditor	Number of shares held	Shares	Ownership (%)
Ding-ER Investments Co., Ltd.		20,097,300	29.02%
Ding-YU Investments Co., Ltd.		18,557,000	26.79%
Lin, Hsin-Tai		5,734,600	8.28%
SANLIN Investment Ltd. Account in Trust by Mega International Commercial		4,208,000	6.07%