# TSEC Corporation

**Financial Statements for the Years Ended December 31, 2022 and 2021 and Independent Auditors' Report**

**INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Shareholders
TSEC Corporation

**Opinion**

We have audited the accompanying financial statements of TSEC Corporation (the "Company"), which comprise the balance sheets as of December 31, 2022 and 2021 and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies. (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

**Basis for Opinion**

We conducted our 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 Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter of the Company's financial statements for the year ended December 31, 2022 is described as follows:

Validity of Occurrence of Revenue from New Customers in the Top Ten Revenue - Contributing Section

The sales revenue from new customers in the top ten revenue-contributing sections for the year ended December 31, 2022 was $3,091,645 thousand, which accounted for 34.33% of the Company's operating revenue, and is material to the Company's financial statements. Since management may be under pressure to achieve financial goals, there is an increased inherent risk of fraud in revenue recognition. Thus, we identified the risk of revenue recognition related to the actual occurrence of the sales transactions with new customers in the top ten revenue-contributing sections as a key audit matter. For the related accounting policies, refer to Note 4 of the financial statements.

We obtained an understanding of the Company's internal controls over sales transactions with new customers in the top ten revenue-contributing sections and designed the corresponding audit procedures to confirm and assess the operating effectiveness of the related controls. We also performed substantive testing by selecting samples on the transactions with new customers in the top ten revenue-contributing sections and inspecting third-party shipping documents, the customers' receipts of delivery, cash payments and material sales returns after the reporting period. We confirmed that sales revenue from the new customers in the top ten revenue-contributing sections are free from material misstatement.

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

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

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

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

**Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the year ended December 31, 2022 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audits resulting in this independent auditors' report are Hai-Yueh Huang and Chiang-Hsun Chen.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 8, 2023

*Notice to Readers*

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

*For the convenience of readers, the independent 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. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and financial statements shall prevail.*

## TSEC CORPORATION

**BALANCE SHEETS**
**DECEMBER 31, 2022 AND 2021**
**(In Thousands of New Taiwan Dollars)**

| | 2022 | | 2021 | |
|---|---|---|---|---|
| **ASSETS** | **Amount** | **%** | **Amount** | **%** |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 4 and 6) | $ 825,478 | 7 | $ 1,048,598 | 10 |
| Accounts receivable (Notes 4, 8 and 23) | 1,164,930 | 11 | 754,026 | 7 |
| Accounts receivable from related parties (Notes 4, 8, 23 and 31) | 9,498 | - | 88,484 | 1 |
| Other receivables (Notes 4 and 8) | 15,449 | - | 12,418 | - |
| Other receivables from related parties (Notes 4 and 31) | 1,416 | - | 196 | - |
| Current tax assets (Notes 4 and 24) | 382 | - | 55 | - |
| Inventories (Notes 4 and 9) | 1,699,321 | 15 | 1,572,140 | 15 |
| Other current assets (Notes 16 and 32) | 288,595 | 3 | 243,739 | 3 |
| Total current assets | 4,005,069 | 36 | 3,719,656 | 36 |
| NON-CURRENT ASSETS | | | | |
| Financial assets at fair value through other comprehensive income (Notes 4 and 10) | - | - | 6,063 | - |
| Investments accounted for using the equity method (Notes 4, 11 and 32) | 454,054 | 4 | 332,461 | 3 |
| Property, plant and equipment (Notes 4, 12, 17, 28 and 32) | 5,442,722 | 49 | 4,873,104 | 48 |
| Right-of-use assets (Notes 4 and 13) | 10,770 | - | 10,356 | - |
| Investment properties (Notes 4, 14 and 32) | 163,159 | 1 | 175,260 | 2 |
| Other intangible assets (Notes 4 and 15) | 4,708 | - | 4,254 | - |
| Deferred tax assets (Notes 4 and 24) | 236,844 | 2 | 223,392 | 2 |
| Other non-current assets (Notes 16, 28 and 32) | 907,263 | 8 | 885,283 | 9 |
| Total non-current assets | 7,219,520 | 64 | 6,510,173 | 64 |
| TOTAL | $ 11,224,589 | 100 | $ 10,229,829 | 100 |
| **LIABILITIES AND EQUITY** | | | | |
| CURRENT LIABILITIES | | | | |
| Short-term borrowings (Notes 17, 28 and 32) | $ 856,613 | 8 | $ 598,972 | 6 |
| Short-term bills payable (Notes 17, 28 and 32) | 329,513 | 3 | - | - |
| Financial liabilities at fair value through profit or loss (Notes 4 and 7) | 637 | - | 243 | - |
| Financial liabilities for hedging - current (Notes 4 and 30) | 218 | - | - | - |
| Contract liabilities (Notes 4, 23 and 31) | 117,745 | 1 | 294,232 | 3 |
| Notes payable | 24 | - | - | - |
| Accounts payable (Note 18) | 898,218 | 8 | 1,001,106 | 10 |
| Other payables (Notes 19 and 28) | 393,141 | 3 | 327,686 | 3 |
| Lease liabilities - current (Notes 4, 13 and 28) | 5,473 | - | 9,178 | - |
| Current portion of long-term borrowings (Notes 17, 28 and 32) | 218,604 | 2 | 412,623 | 4 |
| Other current liabilities | 7,569 | - | 6,428 | - |
| Total current liabilities | 2,827,755 | 25 | 2,650,468 | 26 |
| NON-CURRENT LIABILITIES | | | | |
| Long-term borrowings (Notes 17, 28 and 32) | 1,931,346 | 17 | 2,140,785 | 21 |
| Provisions (Note 4) | 17,140 | - | 14,695 | - |
| Deferred tax liabilities (Notes 4 and 24) | 628 | - | 1,242 | - |
| Preferred stock liabilities (Notes 4, 21 and 28) | 287,949 | 3 | 287,949 | 3 |
| Lease liabilities - non-current (Notes 4, 13 and 28) | 5,396 | - | 1,533 | - |
| Guarantee deposits received (Note 28) | 3,705 | - | 3,705 | - |
| Total non-current liabilities | 2,246,164 | 20 | 2,449,909 | 24 |
| Total liabilities | 5,073,919 | 45 | 5,100,377 | 50 |
| EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Note 22) | | | | |
| Share capital | 4,762,967 | 42 | 4,457,967 | 44 |
| Capital surplus | 1,325,024 | 12 | 800,321 | 8 |
| Retained earnings | | | | |
| Legal reserve | 4,632 | - | - | - |
| Special reserve | 41,685 | - | - | - |
| Unappropriated earnings | 187,411 | 2 | 46,317 | - |
| Total retained earnings | 233,728 | 2 | 46,317 | - |
| Other equity | (171,049) | (1) | (175,153) | (2) |
| Total equity attributable to owners of the company | 6,150,670 | 55 | 5,129,452 | 50 |
| TOTAL | $ 11,224,589 | 100 | $ 10,229,829 | 100 |

The accompanying notes are an integral part of the financial statements.

# TSEC CORPORATION

**STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| OPERATING REVENUE (Notes 4, 23 and 31) | $ 9,005,063 | 100 | $ 6,253,966 | 100 |
| OPERATING COSTS (Notes 9, 20 and 23) | 8,328,524 | 92 | 5,852,878 | 93 |
| GROSS PROFIT | 676,539 | 8 | 401,088 | 7 |
| UNREALIZED LOSS (GAIN) ON TRANSACTIONS WITH SUBSIDIARIES AND ASSOCIATES | 2,425 | - | (1,418) | - |
| REALIZED GAIN ON TRANSACTIONS WITH SUBSIDIARIES AND ASSOCIATES | 50 | - | 1,018 | - |
| REALIZED GROSS PROFIT | 679,014 | 8 | 400,688 | 7 |
| OPERATING EXPENSES (Notes 20, 23 and 31) | | | | |
| Selling and marketing | 104,289 | 1 | 94,290 | 2 |
| General and administrative | 233,540 | 3 | 197,990 | 3 |
| Research and development | 49,839 | 1 | 44,555 | 1 |
| Expected credit loss reversed (reversal of credit loss) (Note 8) | 18,714 | - | 16,449 | - |
| Total operating expenses | 406,382 | 5 | 353,284 | 6 |
| OTHER OPERATING INCOME AND EXPENSES (Note 23) | (24,541) | - | 1,386 | - |
| GAIN FROM OPERATIONS | 248,091 | 3 | 48,790 | 1 |
| NON-OPERATING EXPENSES | | | | |
| Finance costs (Note 23) | (79,300) | (1) | (79,125) | (1) |
| Share of profit or loss of subsidiaries and associates (Notes 4 and 11) | 256 | - | (5,386) | - |
| Interest income(Note 23) | 6,434 | - | 1,162 | - |
| Rental income (Note 31) | 22,702 | - | 22,702 | - |
| Other income (Note 31) | 13,069 | - | 16,006 | - |
| Loss on disposal of investments, net (Notes 4 and 11) | - | - | (975) | - |
| Foreign exchange (loss) gain, net (Note 23) | (20,382) | - | 45,070 | 1 |
| Gains or losses on financial assets (liabilities) at fair value through profit or loss | (15,445) | - | (4,233) | - |
| Total non-operating expenses | (72,666) | (1) | (4,779) | - |

(Continued)

# TSEC CORPORATION

**STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| GAIN BEFORE INCOME TAX FROM CONTINUING OPERATIONS | $ 175,425 | 2 | $ 44,011 | 1 |
| INCOME TAX BENEFIT (Notes 4 and 24) | 14,225 | - | 2,306 | - |
| NET PROFIT FOR THE YEAR | 189,650 | 2 | 46,317 | 1 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | | |
| Unrealized gain (loss) on investments in equity instruments at fair value through other comprehensive income (Note 22) | 1,404 | - | (392) | - |
| Loss on hedging instruments subject to basis adjustment (Note 22) | (218) | - | - | - |
| Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 24) | 44 | - | - | - |
| Items that may be reclassified subsequently to profit or loss: | | | | |
| Exchange differences on the translation of the financial statements of foreign operations (Note 22) | 794 | - | (211) | - |
| Income tax relating to items that may be reclassified subsequently to profit or loss (Note 24) | (159) | - | 42 | - |
| Other comprehensive income for the year, net of income tax | 1,865 | - | (561) | - |
| TOTAL COMPREHENSIVE INCOME | $ 191,515 | 2 | $ 45,756 | 1 |
| EARNINGS PER SHARE (Note 25) | | | | |
| Basic | $ 0.41 | | $ 0.10 | |
| Diluted | $ 0.41 | | $ 0.10 | |

The accompanying notes are an integral part of the financial statements. (Concluded)

## TSEC CORPORATION

**STATEMENTS OF CHANGES IN EQUITY**
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**
**(In Thousands of New Taiwan Dollars)**

| | Share Capital - Ordinary Shares (Note 22) | | | Retained Earnings (Note 22) | | | Other Equity (Note 22) | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shares (In Thousands) | Amount | Capital Surplus (Notes 22 and 26) | Legal Reserve | Special Reserve | Unappropriated Earnings (Accumulated Deficits) | Exchange Differences on the Translation of the Financial Statements of Foreign Operations | Unrealized Gain (Loss) on Investments in Equity Instruments | Gain or Loss on Hedging Instruments | Total Equity |
| BALANCE AT JANUARY 1, 2021 | 445,797 | $ 4,457,967 | $ 1,154,811 | $ - | $ - | $ (681,541) | $ (700) | $ (173,892) | $ - | $ 4,756,645 |
| Capital surplus used to offset accumulated deficits | - | - | (681,541) | - | - | 681,541 | - | - | - | - |
| Issuance of preferred stock for cash | - | - | 327,051 | - | - | - | - | - | - | 327,051 |
| Net income for the year ended December 31, 2021 | - | - | - | - | - | 46,317 | - | - | - | 46,317 |
| Other comprehensive loss for the year ended December 31, 2021, net of income tax | - | - | - | - | - | - | (169) | (392) | - | (561) |
| Total comprehensive income for the year ended December 31, 2021 | - | - | - | - | - | 46,317 | (169) | (392) | - | 45,756 |
| BALANCE AT DECEMBER 31, 2021 | 445,797 | 4,457,967 | 800,321 | - | - | 46,317 | (869) | (174,284) | - | 5,129,452 |
| Legal reserve | - | - | - | 4,632 | - | (4,632) | - | - | - | - |
| Special reserve | - | - | - | - | 41,685 | (41,685) | - | - | - | - |
| Issuance of ordinary shares for cash | 30,500 | 305,000 | 503,250 | - | - | - | - | - | - | 808,250 |
| Recognition of employee share options by the Company (Notes 22 and 26) | - | - | 21,442 | - | - | - | - | - | - | 21,442 |
| Changes in equities recognition of associates in using equity method (Note 22) | - | - | 11 | - | - | - | - | - | - | 11 |
| Disposal of investments in equity instruments at fair value through other comprehensive income (Notes 10 and 22) | - | - | - | - | - | (2,239) | - | 2,239 | - | - |
| Net income for the year ended December 31, 2022 | - | - | - | - | - | 189,650 | - | - | - | 189,650 |
| Other comprehensive income for the year ended December 31, 2022, net of income tax | - | - | - | - | - | - | 635 | 1,404 | (174) | 1,865 |
| Total comprehensive income for the year ended December 31, 2022 | - | - | - | - | - | 189,650 | 635 | 1,404 | (174) | 191,515 |
| BALANCE AT DECEMBER 31, 2022 | 476,297 | $ 4,762,967 | $ 1,325,024 | $ 4,632 | $ 41,685 | $ 187,411 | $ (234) | $ (170,641) | $ (174) | $ 6,150,670 |

The accompanying notes are an integral part of the financial statements.

# TSEC CORPORATION

## STATEMENTS OF CASH FLOWS
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**
**(In Thousands of New Taiwan Dollars)**

| | 2022 | 2021 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit (loss) before income tax | $ 175,425 | $ 44,011 |
| Adjustments for: | | |
| Depreciation | 591,358 | 513,995 |
| Amortization | 1,855 | 1,499 |
| Expected credit loss reversed | 18,714 | 16,449 |
| Net loss on fair value changes of financial instruments at fair value through profit or loss | 15,445 | 4,233 |
| Finance costs | 79,300 | 79,125 |
| Interest income | (6,434) | (1,162) |
| Shared-based payment expenses recognized | 21,442 | - |
| Share of loss (profit) of subsidiaries and associates | (256) | 5,386 |
| Loss (gain) on disposal of property, plant and equipment | 16,105 | (1,386) |
| Loss on disposal of associates | - | 975 |
| Loss on inventories valuation and obsolescence | 97,900 | 44,629 |
| Unrealized (loss) gain on transactions with subsidiaries and associates | (2,425) | 1,418 |
| Realized gain on transactions with subsidiaries and associates | (50) | (1,018) |
| Net gain on foreign currency exchange | (3,029) | (326) |
| Prepayments for equipment transferred to loss | 8,436 | - |
| Net changes in operating assets and liabilities | | |
| Financial assets mandatorily classified as at fair value through profit or loss | (15,051) | 54,552 |
| Accounts receivable | (429,168) | (88,616) |
| Accounts receivable from related parties | 78,986 | 65,497 |
| Other receivables | (1,546) | (1,922) |
| Other receivables from related parties | (1,220) | 39 |
| Inventories | (225,081) | (810,158) |
| Other current assets | 89,572 | (90,074) |
| Contract liabilities | (176,487) | 247,524 |
| Notes payable | 24 | - |
| Accounts payable | (97,912) | 387,315 |
| Other payables | 38,062 | 97,051 |
| Provisions | 2,445 | 2,321 |
| Other current liabilities | 1,141 | (4,592) |
| Cash generated from operations | 277,551 | 566,765 |
| Interest received | 5,094 | 1,378 |
| Finance costs paid | (98,367) | (64,515) |
| Income tax (paid) refunded | (283) | 53 |
| Net cash generated from operating activities | 183,995 | 503,681 |

(Continued)

# TSEC CORPORATION

**STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**
**(In Thousands of New Taiwan Dollars)**

| | 2022 | 2021 |
|---|---|---|
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale of financial assets at fair value through other comprehensive income | $ 7,504 | $ - |
| Increase in investment in subsidiaries accounted for using the equity method | (120,232) | (182,276) |
| Net cash inflow on disposal of subsidiaries | - | 312 |
| Payments for property, plant and equipment (Note 28) | (1,110,888) | (826,262) |
| Proceeds from disposal of property, plant and equipment | 830 | 1,769 |
| Increase in refundable deposits | (1,981) | (126,047) |
| Decrease in other receivables | - | 17,700 |
| Payments for intangible assets | (2,309) | (4,317) |
| Increase in other financial assets - restricted assets | (156,708) | (17,634) |
| Dividends received | 2,138 | - |
| Net cash used in investing activities | (1,381,646) | (1,136,755) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase in short-term borrowings | 257,641 | 88,673 |
| Increase in short-term bills payable | 329,513 | - |
| Decrease in short-term bills payable | - | (279,366) |
| Proceeds from long-term borrowings | 894,000 | 131,942 |
| Repayments of long-term borrowings | (1,297,458) | (474,403) |
| Proceeds from issuance of preferred stocks | - | 615,000 |
| Increase in guarantee deposits received | - | 1,370 |
| Repayments of the principal portion of lease liabilities | (11,753) | (14,697) |
| Proceeds from issuance of ordinary shares | 808,250 | - |
| Net cash generated from financing activities | 980,193 | 68,519 |
| EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES | (5,662) | (3,517) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (223,120) | (568,072) |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | 1,048,598 | 1,616,670 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | $ 825,478 | $ 1,048,598 |

The accompanying notes are an integral part of the financial statements. (Concluded)

# TSEC CORPORATION

**NOTES TO FINANCIAL STATEMENTS**
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

## 1. GENERAL INFORMATION

TSEC Corporation (the "Company") was incorporated on June 24, 2010. The Company is mainly engaged in the design, manufacture, construction and sale of solar cells, modules and power plants.

The Company's shares have been listed on the Taiwan Stock Exchange since October 1, 2015.

The financial statements of the Company are presented in the Company's functional currency, the New Taiwan dollar.

## 2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Company's board of directors on March 8, 2023.

## 3. APPLICATION OF NEW, AMENDMENTS AND REVISED STANDARDS AND INTERPRETATIONS

a. Initial application of the amendments to the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) (collectively, the "IFRSs") endorsed and issued into effect by the Financial Supervisory Commission (FSC)

   The initial application of the IFRSs endorsed and issued into effect by the FSC did not have material impact on the Company's accounting policies.

b. The IFRSs endorsed by the FSC for application starting from 2023

| New, Amended and Revised Standards and Interpretations | Effective Date Announced by IASB |
|---|---|
| Amendments to IAS 1 "Disclosure of Accounting Policies" | January 1, 2023 (Note 1) |
| Amendments to IAS 8 "Definition of Accounting Estimates" | January 1, 2023 (Note 2) |
| Amendments to IAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction" | January 1, 2023 (Note 3) |

Note 1: The amendments will be applied prospectively for annual reporting periods beginning on or after January 1, 2023.

Note 2: The amendments will be applicable to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the annual reporting period beginning on or after January 1, 2023.

Note 3: Except for deferred taxes that were recognized on January 1, 2022 for temporary differences associated with leases and decommissioning obligations, the amendments were applied prospectively to transactions that occurred on or after January 1, 2022.

Except for the above impact, as of the date the financial statements were authorized for issue, the Bank has assessed that the application of above standards and interpretations will not have a material impact on the Bank's financial position and financial performance.

c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

| New IFRSs | Effective Date Announced by IASB (Note 1) |
|---|---|
| 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 IASB |
| Amendments to IFRS 16 "Leases Liability in a Sale and Leaseback" | January 1, 2024 (Note 2) |
| IFRS 17 "Insurance Contracts" | January 1, 2023 |
| Amendments to IFRS 17 | January 1, 2023 |
| Amendments to IFRS 17 "Initial Application of IFRS 9 and IFRS 17 - 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 |

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual reporting periods beginning on or after their respective effective dates.

Note 2: A seller-lessee shall apply the Amendments to IFRS 16 retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16.

Except for the above impact, as of the date the individual financial statements were authorized for issue, the Company is continuously assessing the possible impact of the application of other standards and interpretations on the Company's financial position and financial performance and will disclose the relevant impact when the assessment is completed.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The parent company only financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed and issued into effect by the FSC.

b. Basis of preparation

The financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value.

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, are described as follows:

1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

3) Level 3 inputs are unobservable inputs for an asset or liability.

When preparing these parent company only financial statements, the Company used the equity method to account for its investments in subsidiaries, and associates. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements to be the same as the amounts attributable to the owners of the Company in its consolidated financial statements, adjustments arising from the differences in accounting treatments between the parent company only basis and the consolidated basis were made to investments accounted for using the equity method, the share of profit or loss of subsidiaries, associates and joint ventures, the share of other comprehensive income of subsidiaries, and associates and the related equity items, as appropriate, in these parent company only financial statements.

c. Classification of current and non-current assets and liabilities

Current assets include:

1) Assets held primarily for the purpose of trading;

2) Assets expected to be realized within 12 months after the reporting period; and

3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;

2) Liabilities due to be settled within 12 months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorized for issue; and

3) Liabilities for which the Company does not have an unconditional right to defer settlement for at least 12 months after the reporting period. 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.

Assets and liabilities that are not classified as current are classified as non-current.

d. Foreign currencies

In preparing the individual financial statements of the Company, transactions in currencies other than the Company's functional currency (i.e., foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising from the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income; in which cases, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

e. Inventories

Inventories consist of raw materials, supplies, finished goods and work in process and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. The net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at weighted-average cost on the balance sheet date. Inventories are recorded at the weighted-average cost on the balance sheet date.

f. Investments in subsidiaries

The Company uses the equity method to account for its investments in subsidiaries.
The subsidiaries refer to entities controlled by the Company.

Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary. In addition, changes to the Company's other interests in the subsidiary are recognized based on the shareholding ratio.

When the Company's change in the ownership interest in the subsidiary does not result in loss of control, it is treated as an equity transaction. The difference between the carrying amount of the investment and the fair value of the consideration paid or received is recognized directly in equity.

The Company assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the investee's financial statements as a whole. Impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Company recognizes a reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized (net of amortization or depreciation) had no impairment loss been recognized in prior years. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

Profits or losses resulting from downstream transactions are eliminated in full only in the parent company's financial statements. Profits and losses resulting from upstream transactions and transactions between subsidiaries are recognized only in the parent company's financial statements only to the extent of interests in the subsidiaries that are not related to the Company.

g. Investments in associates

An associate is an entity over which the Company has significant influence and which is not a subsidiary.

The Company applies the equity method to its investments in affiliated companies.

Under the equity method, investments in an associate are initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate.

The entire carrying amount of an investment is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill, which forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Company discontinues the use of the equity method from the date on which its investment ceases to be an associate. Any retained investment is measured at fair value at that date, and the fair value is regarded as the investment's fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Company accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required had that associate directly disposed of the related assets or liabilities.

When the Company transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the parent company only financial statements only to the extent that interests in the associate are not related to the Company.

h. Property, plant and equipment

Property, plant and equipment are initially measured at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment loss.

Property, plant and equipment in the course of construction are measured at cost less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for their intended use.

Depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. If the lease term of an item of property, plant and equipment is shorter than its useful life, the asset is depreciated over its lease term. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in the estimates accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

i. Investment properties

Investment properties are properties held to earn rental and/or for capital appreciation.

Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss.

Depreciation is recognized using the straight-line method.

For a transfer of classification from property, plant and equipment to investment properties, the deemed cost of an item of property for subsequent accounting is its carrying amount at the end of owner-occupation.

On derecognition of an investment property, the difference between the net disposal proceeds and the carrying amount of the asset is included in profit or loss.

j. Intangible assets

1) Individually acquired

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful lives, residual values, and amortization methods are reviewed at the end of each reporting period, with the effect of any changes in the estimates accounted for on a prospective basis.

2) Derecognition

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

k. Impairment of property, plant and equipment, right-of-use assets and intangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its property, plant and equipment, right-of-use asset and intangible assets, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the corresponding asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized on the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

l. Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

1) Financial assets

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

a) Measurement categories

Financial assets are classified into the following categories: Financial assets at amortized cost and investments in equity instruments at FVTOCI.

i. Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

i) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, accounts receivable, accounts receivable from related parties, other receivables, other receivables from related parties, refundable deposits and other financial assets at amortized cost, are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of such a financial asset, except for:

i) Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such financial assets; and

ii) Financial assets that are not credit-impaired on purchase or origination but have subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets in subsequent reporting periods.

A financial asset is credit impaired when one or more of the following events have occurred:

i) Significant financial difficulty of the issuer or the borrower;

ii) Breach of contract, such as a default;

iii) It is becoming probable that the borrower will enter bankruptcy or undergo a financial reorganization; or

iv) The disappearance of an active market for that financial asset because of financial difficulties.

Cash equivalents include time deposits and repurchase agreements collateralized by bonds with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

ii. Investments in equity instruments at FVTOCI

On initial recognition, the Company may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, it will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

b) Impairment of financial assets and contract assets

The Company recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including accounts receivable and other receivables) and lease receivables.

The Company always recognizes lifetime expected credit losses (ECLs) for accounts receivable. For all other financial instruments, the Company recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

Expected credit losses reflect the weighted average of credit losses with the respective risks of default occurring as the weights. Lifetime ECLs represent the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECLs represent the portion of lifetime ECLs that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

For internal credit risk management purposes, the Company considers the following situations as indications that a financial asset is in default (without taking into account any collateral held by the Company):

i. Internal or external information shows that the debtor is unlikely to pay its creditors.

ii. The financial asset is more than 120 days past due unless the Company has reasonable and corroborative information to support a more lagged default criterion.

The Company recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amounts through a loss allowance account.

c) Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

2) Equity instruments

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

Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

The repurchase of the Company’s own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of the Company’s own equity instruments.

3) Financial liabilities

a) Subsequent measurement

All financial liabilities are measured at amortized cost using the effective interest method.

b) Derecognition of financial liabilities

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

4) Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts.

Derivatives are initially recognized at fair value at the date on which the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument. When the fair value of a derivative financial instrument is positive, the derivative is recognized as a financial asset; when the fair value of a derivative financial instrument is negative, the derivative is recognized as a financial liability.

m. Hedge accounting

The Company designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

The effective portion of gains or losses on derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gains or losses relating to the ineffective portion are recognized immediately in profit or loss.

The associated gains or losses that were recognized in other comprehensive income are reclassified from equity to profit or loss as reclassification adjustments in the line items relating to the hedged item in the same period in which the hedged item affects profit or loss. If a hedge of a forecasted transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated gains and losses that were recognized in other comprehensive income are removed from equity and included in the initial cost of the non-financial asset or non-financial liability.

The Company discontinues hedge accounting only when the hedging relationship ceases to meet the qualifying criteria; for instance, when the hedging instrument expires or is sold, terminated or exercised. The cumulative gain or loss on the hedging instrument that was previously recognized in other comprehensive income (from the period in which the hedge was effective) remains separately in equity until the forecasted transaction occurs. When a forecasted transaction is no longer expected to occur, the gains or losses accumulated in equity are recognized immediately in profit or loss.

n. Provisions

Provisions for the expected cost of warranty obligations to assure that products comply with agreed-upon specifications are recognized on the date of sale of the relevant products at the best estimate by the management of the Company of the expenditures required to settle the Company's obligations.

o. Revenue recognition

The Company identifies contracts with customers, allocates the transaction price to the performance obligations and recognizes revenue when performance obligations are satisfied.

Revenue from the sale of goods

Revenue from the sale of goods comes from sales of solar modules. Sales of solar modules are recognized as revenue when the goods are delivered to the customer's specific location or when the terms of the delivery have been fulfilled because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility for sales to future customers and bears the risks of obsolescence. Accounts receivable are recognized concurrently. Any amounts previously recognized as contract assets are reclassified to trade receivables when the remaining obligations are performed.

The Company does not recognize revenue on materials delivered to subcontractors because this delivery does not involve a transfer of control.

For contracts where the period between the date on which the Company transfers a promised good or service to a customer and the date on which the customer pays for that good or service is one year or less, the Company does not adjust the promised amount of consideration for the effects of a significant financing component.

Power plant sales

As the power plant is being constructed over time, the Company recognizes revenue over time. The Company measures the progress of completion on the basis of the costs incurred relative to the total expected costs as there is a direct relationship between the costs incurred and the progress of satisfying the performance obligations.

Sale of electricity

Sales of electricity are recognized when the electricity generated is transmitted to a substation of Taiwan Power Company.

p. Leases

At the inception of a contract, the Company assesses whether the contract is, or contains, a lease.

1) The Company as lessor

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

2) The Company as lessee

The Company recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for by applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the consolidated balance sheets.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term, a change in the amounts expected to be payable under a residual value guarantee, a change in the assessment of an option to purchase an underlying asset, or a change in future lease payments resulting from a change in an index or a rate used to determine those payments, the Company remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the consolidated balance sheets.

Variable lease payments that do not depend on an index or a rate are recognized as expenses in the periods in which they are incurred.

q. Borrowing costs

Borrowing costs directly attributable to an acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other than that which is stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

r. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related services.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as expenses when employees have rendered services entitling them to the contributions.

s. Share-based payment arrangements - employee share options

Equity-settled share-based payments granted to employees are measured at the fair value of the equity instruments at the grant date.

The fair value at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. The expense is recognized in full at the grant date if the grants are vested immediately.

t. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

According to the Income Tax Act in the ROC, an additional tax on unappropriated earnings is provided for in the year the shareholders approve to retain earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences and unused loss carryforwards to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liabilities are settled or the assets are realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current and deferred taxes for the year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity; in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively.

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, management is required to make judgments, estimations, and assumptions on the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The Company considers the possible impact of the recent development of the COVID-19 in Taiwan and its economic environment implications/climate change and related government policies and regulations when making its critical accounting estimates on cash flow projections, growth rate, discount rate, profitability, etc. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect both current and future periods.

The management of the Company evaluated that there were no critical accounting judgments or estimation uncertainty on the accounting policies, estimates and basic assumptions that were adopted by the Company.

## 6. CASH AND CASH EQUIVALENTS

| | December 31 | |
|---|---|---|
| | **2022** | **2021** |
| Cash on hand | $ 609 | $ 589 |
| Checking accounts and demand deposits | 674,244 | 851,635 |
| Cash equivalents | | |
| Time deposits with original maturities of 3 months or less | 150,625 | 196,374 |
| | $ 825,478 | $ 1,048,598 |

The market interest rate intervals of demand deposits and time deposits with maturities of 3 months or less at the end of reporting period were as follows:

| | December 31 | |
|---|---|---|
| | **2022** | **2021** |
| Demand deposits | 0.05%-1.05% | 0.001%-0.05% |
| Time deposits with original maturities of 3 months or less | 1.70%-4.70% | 0.20%-0.82% |

## 7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Financial liabilities - held for trading | | |
| Derivative financial instruments (not under hedge accounting) | | |
| Forward exchange contracts | $ 637 | $ 243 |

At the end of the year, outstanding foreign exchange forward contracts not under hedge accounting were as follows:

| | Currency | Maturity Date | Notional Amount (In Thousands) |
|---|---|---|---|
| December 31, 2022 | | | |
| Buy | USD/NTD | 2023.01.10 | USD1,000/NTD31,242 |
| | USD/NTD | 2023.01.10 | USD790/NTD24,447 |
| | USD/NTD | 2023.01.10 | USD1,000/NTD30,532 |
| December 31, 2021 | | | |
| Buy | USD/NTD | 2022.01.28 | USD424/NTD11,813 |
| | USD/NTD | 2022.04.11 | USD892/NTD24,759 |
| | USD/NTD | 2022.04.15 | USD896/NTD24,925 |

The Company entered into foreign exchange forward contracts to manage exposures to exchange rate fluctuations of foreign currency denominated assets and liabilities. The purpose of its financial hedging strategy is to hedge against most of the market price risk.

## 8. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

| | December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Accounts receivable | | |
| At amortized cost | | |
| Gross carrying amount | $ 1,183,321 | $ 783,578 |
| Less: Allowance for impairment loss | (18,391) | (29,552) |
| | $ 1,164,930 | $ 754,026 |
| Account receivable - associates | $ 9,498 | $ 88,484 |
| Other receivables | | |
| Tax rebate | $ 8,415 | $ 7,584 |
| Rent receivables | 5,408 | 3,724 |
| Others | 1,626 | 1,110 |
| | $ 15,449 | $ 12,418 |

a. Accounts receivable/Account receivable from related parties

The average credit period of accounts receivable is 30-75 days. No interest is charged on accounts receivable. In addition, the Company reviews the recoverable amount of each individual trade debt at the end of the year to ensure that adequate allowance is made for possible irrecoverable amounts. In this regard, the management believes the Company's credit risk was significantly reduced. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Company measures the loss allowance for trade receivables at an amount equal to lifetime ECLs. The expected credit losses on trade receivables are estimated using a provision matrix prepared by reference to the past default experience of the customer, the customer's current financial position, economic condition of the industry in which the customer operates, as well as industry outlook. As the Company's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished according to the Company's different customer base.

The Company writes off a trade receivable when there is evidence indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. For trade receivables that have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of trade receivables based on the Company's provision matrix.

December 31, 2022

| | Not Past Due | Up to 60 Days | 61 to 120 Days | Over 120 Days | Individual Evaluation | Total |
|---|---|---|---|---|---|---|
| Expected credit loss rate | 0.30% | 4.87% | - | - | | |
| Gross carrying amount | $ 1,160,338 | $ 13,458 | $ - | $ - | $ 19,023 | $ 1,192,819 |
| Loss allowance (Lifetime ECLs) | (3,467) | (656) | - | - | (14,268) | (18,391) |
| Amortized cost | $ 1,156,871 | $ 12,802 | $ - | $ - | $ 4,755 | $ 1,174,428 |

December 31, 2021

| | Not Past Due | Up to 60 Days | 61 to 120 Days | Over 120 Days | Total |
|---|---|---|---|---|---|
| Expected credit loss rate | 0.30% | - | - | 100% | |
| Gross carrying amount | $ 844,789 | $ - | $ - | $ 27,273 | $ 872,062 |
| Loss allowance (Lifetime ECLs) | (2,279) | - | - | (27,273) | (29,552) |
| Amortized cost | $ 842,510 | $ - | $ - | $ - | $ 842,510 |

The movements of the loss allowance of accounts receivable were as follows:

| | December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Balance, beginning of year | $ 29,552 | $ 52,283 |
| Add: Amounts recognized | 18,714 | 16,449 |
| Less: Amounts written off | (29,875) | (39,180) |
| Balance, end of year | $ 18,391 | $ 29,552 |

Refer to Note 30. for details of the Company's concentration of credit risk of accounts receivable as of December 31, 2022 and 2021.

b. Other receivables

The Company adopted a policy of dealing only with creditworthy counterparties. The Company determines whether credit risk has increased significantly since initial recognition and measures the loss allowance for other receivables by continuous monitoring of the debtor, with reference to the past default experience of the debtor and an analysis of the debtor's current financial position. As of December 31, 2022 and 2021, the Company assessed that the expected credit loss rate of other receivables was 0%.

## 9. INVENTORIES

| | December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Raw materials | $ 958,385 | $ 1,080,885 |
| Finished goods | 608,353 | 354,926 |
| Work in process | 132,583 | 136,329 |
| | $ 1,699,321 | $ 1,572,140 |

The nature of the cost of goods sold is as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Cost of inventories sold | $ 8,213,221 | $ 5,793,192 |
| Write-downs of inventories | 97,900 | 44,629 |
| Others | 17,403 | 15,057 |
| | $ 8,328,524 | $ 5,852,878 |

## 10. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

**Investments in Equity Instruments at FVTOCI**

| | December 31 | |
|---|---|---|
| | **2022** | **2021** |
| Non-current | | |
| Foreign investments | | |
| Unlisted shares | | |
| Preferred shares - SAGA Heavy Ion Medical Accelerator in Tosu | $ - | $ 6,063 |
| Domestic investments | | |
| Unlisted shares | | |
| Ordinary shares - Eversol Corporation | - | - |
| | $ - | $ 6,063 |

Considering the investment strategy, the Company dissolved the overseas equity investment and received $7,504 thousand in July 2022. Therefore, the unrealized valuation loss on financial assets at fair value through other comprehensive income of $2,239 thousand was transferred to retained earnings.

## 11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

| | December 31 | |
|---|---|---|
| | **2022** | **2021** |
| Investments in subsidiaries | $ 128,432 | $ 9,106 |
| Investments in associates | 325,622 | 323,355 |
| | $ 454,054 | $ 332,461 |

a. Investments in subsidiaries

| | December 31 | |
|---|---|---|
| | **2022** | **2021** |
| Unlisted equity investments | | |
| TSEC America, Inc. | $ 8,071 | $ 7,297 |
| Yunsheng Optoelectronics Corporation | 478 | 477 |
| Yunxing Optoelectronics Corporation | 478 | 477 |
| Houchang Energy Corporation | 118,855 | 453 |
| Changyang Optoelectronics Corporation | 383 | 382 |
| Hengli Energy Corporation | 80 | - |
| TSECPV (HK) Limited | 87 | 20 |
| | $ 128,432 | $ 9,106 |

Proportion of ownership of subsidiaries is as follows:

| | December 31 | |
|---|---|---|
| | **2022** | **2021** |
| TSEC America, Inc. | 100.00% | 100.00% |
| Yunsheng Optoelectronics Corporation | 100.00% | 100.00% |
| Yunxing Optoelectronics Corporation | 100.00% | 100.00% |
| Houchang Energy Corporation | 100.00% | 100.00% |
| Changyang Optoelectronics Corporation | 80.00% | 80.00% |
| Hengli Energy Corporation | 100.00% | - |
| TSECPV (HK) Limited | 100.00% | 100.00% |

Refer to Table 5 of Note 36 for the nature of activities, principal places of business and countries of incorporation of the subsidiaries.

On September 11, 2018, the Company resolved to liquidate and dissolve its subsidiary TSEC America, Inc. On March 8, 2023, TSEC America, Inc. has yet to execute its liquidation process.

On May 7, 2021, the Company resolved to dissolve and liquidate its subsidiaries Houxin Energy Corporation. As of December 31, 2021, the liquidation process had been completed and a gain of $312 thousand had been realized.

The Company established TSECPV (HK) Limited as new subsidiary to engage in electricity research and development, operations, sales and related consulting services of solar energy generation systems. The registration of the new company was completed in February 2021.

In December 2021, the Company subscribed for additional new shares of Holdgood Energy Development Corporation at a percentage different from its existing ownership percentage, which reduced its continuing interest to 45.49%, and lost control of Holdgood Energy Development Corporation, and reclassified the investment to investment in associate; refer to Note 27

In June 2022, the Company increased the capital of its subsidiary, Houchang Energy Development Corporation, by $120,000 thousand, and its shareholding ratio remained unchanged.

In March 2022, the Company purchased all the shares of Hengli Energy Corporation from its subsidiary, Houchang Energy Development Corporation, for $89 thousand in cash, and the Company's shareholding ratio was 100% after the acquisition.

On December 31, 2022 and 2021, the share of income or loss of subsidiaries using the equity method is recognized based on the financial statements of the subsidiaries audited during the same periods.

For the details on changes in investments accounted for using the equity method, refer to Statement 4.

b. Investments in associates

| | December 31 | |
|---|---|---|
| | **2022** | **2021** |
| Material associates | | |
| Holdgood Energy Corporation | $ 231,410 | $ 216,939 |
| Associates that are not individually material | | |
| Yuan-Yu Solar Energy Co., Ltd. | 94,212 | 106,416 |
| | $ 325,622 | $ 323,355 |

1) Aggregate information of material associates

| Name of Associate | Proportion of Ownership and Voting Rights | |
|---|---|---|
| | December 31 | |
| | 2022 | 2021 |
| Holdgood Energy Corporation | 45.49% | 45.49% |

Refer to Note 36, Table 5 “Information on Investees” for the nature of activities, principal place of business and country of incorporation of the associates.

The Company uses equity method to account for the investments in the associates.

The financial information below was based on the associates’ financial statements prepared under IFRSs and adjusted for equity-method accounting purpose.

Holdgood Energy Corporation

| | December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Current assets | $ 23,544 | $ 155,577 |
| Non-current assets | 682,658 | 516,125 |
| Current liabilities | (66,375) | (95,044) |
| Non-current liabilities | (135,999) | (99,766) |
| Equity | $ 503,828 | $ 476,892 |
| Proportion of the Company’s ownership | 45.49% | 45.49% |
| Equity attributable to the Company | $ 229,191 | $ 216,939 |
| Unrealized intercompany transactions | 2,219 | - |
| Carrying amount | $ 231,410 | $ 216,939 |

| | December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Operating revenue | $ 41,122 | $ 20,246 |
| Net gain for the year | $ 31,691 | $ 3,526 |
| Other comprehensive income (loss) | (79) | 128 |
| Total comprehensive income (loss) for the year | $ 31,612 | $ 3,654 |

2) Associates that are not individually material

| Name of Associate | Proportion of Ownership and Voting Rights | |
|---|---|---|
| | December 31 | |
| | 2022 | 2021 |
| Yuan-Yu Solar Energy Co., Ltd. | 20% | 20% |

Aggregate information of associates that are not individually material:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2022 | 2021 |
| The Company's share of: | | |
| Loss from continuing operations | $ (12,460) | $ (7,334) |
| Other comprehensive income | - | - |
| Total comprehensive loss for the year | $ (12,460) | $ (7,334) |

Refer to Table 5 of Note 36 for the nature of activities, principal places of business and countries of incorporation of the associates. For details of investments accounted for using the equity method, refer to Statement 4.

The Company issued the equity of Yuan-Yu Solar Energy Co., Ltd. to a financial institution as collateral for Yuan-Yu Solar Energy Co., Ltd.'s financing. Refer to note 32 for mortgage information.

The share of profit or loss of the Company's associate accounted for using the equity method, Holdgood Energy Development Corporation, for the years ended December 31, 2022 and 2021 was based on the associate's audited financial statements for the same year, and Yuan-Yu Solar Energy Co., Ltd. was based on the financial statements that have not been audited by accountants; the management considered that if the financial statements were audited by accountants, the adjustment amount will not have a significant impact on the financial statements.

## 12. PROPERTY, PLANT AND EQUIPMENT

| | December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Land | $ 1,071,526 | $ 1,071,526 |
| Buildings | 2,228,228 | 2,305,190 |
| Machinery | 1,504,376 | 1,387,558 |
| Office equipment | 144 | 483 |
| Miscellaneous equipment | 107,648 | 43,373 |
| Construction in progress | 530,800 | 64,974 |
| | $ 5,442,722 | $ 4,873,104 |

| | Land | Buildings | Machinery | Office Equipment | Miscellaneous Equipment | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|
| Cost | | | | | | | |
| Balance at January 1, 2022 | $ 1,071,526 | $ 3,414,260 | $ 3,236,862 | $ 24,806 | $ 263,933 | $ 64,974 | $ 8,076,361 |
| Additions | - | 30,149 | 543,612 | 160 | 81,147 | 499,245 | 1,154,313 |
| Disposals | - | - | (587,820) | (49) | (545) | - | (588,414) |
| Reclassification | - | 33,419 | - | - | - | (33,419) | - |
| Balance at December 31, 2022 | 1,071,526 | 3,477,828 | 3,192,654 | 24,917 | 344,535 | 530,800 | 8,642,260 |
| Accumulated depreciation and impairment | | | | | | | |
| Balance at January 1, 2022 | - | 1,109,070 | 1,849,304 | 24,323 | 220,560 | - | 3,203,257 |
| Depreciation expense | - | 140,530 | 409,860 | 499 | 16,871 | - | 567,760 |
| Disposals | - | - | (570,886) | (49) | (544) | - | (571,479) |
| Balance at December 31, 2022 | - | 1,249,600 | 1,688,278 | 24,773 | 236,887 | - | 3,199,538 |
| Carrying amount at December 31, 2022 | $ 1,071,526 | $ 2,228,228 | $ 1,504,376 | $ 144 | $ 107,648 | $ 530,800 | $ 5,442,722 |

(Continued)

| | Land | Buildings | Machinery | Office Equipment | Miscellaneous Equipment | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|
| Cost | | | | | | | |
| Balance at January 1, 2021 | $ 1,071,526 | $ 3,313,352 | $ 3,134,230 | $ 24,806 | $ 249,551 | $ 373 | $ 7,793,838 |
| Additions | - | 56,833 | 327,029 | - | 15,835 | 108,676 | 508,373 |
| Disposals | - | - | (224,397) | - | (1,453) | - | (225,850) |
| Reclassification | - | 44,075 | - | - | - | (44,075) | - |
| Balance at December 31, 2021 | 1,071,526 | 3,414,260 | 3,236,862 | 24,806 | 263,933 | 64,974 | 8,076,361 |
| Accumulated depreciation and impairment | | | | | | | |
| Balance at January 1, 2021 | - | 969,118 | 1,743,124 | 23,383 | 206,362 | - | 2,941,987 |
| Depreciation expense | - | 139,952 | 330,194 | 940 | 15,651 | - | 486,737 |
| Disposals | - | - | (224,014) | - | (1,453) | - | (225,467) |
| Balance at December 31, 2021 | - | 1,109,070 | 1,849,304 | 24,323 | 220,560 | - | 3,203,257 |
| Carrying amount at December 31, 2021 | $ 1,071,526 | $ 2,305,190 | $ 1,387,558 | $ 483 | $ 43,373 | $ 64,974 | $ 4,873,104 |

(Concluded)

No impairment loss was recognized or reversed for the years ended December 31, 2022 and 2021.

The above items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

| | |
|---|---|
| Buildings | |
| Main buildings | 50 years |
| Building improvement | 5-20 years |
| Machinery | 3-20 years |
| Office equipment | 3 years |
| Miscellaneous equipment | 2-15 years |

Refer to Note 33 for details on the purchases of machines required for production and the significant commitments stated in the construction contracts.

Refer to Notes 17 and 32 for the carrying amounts of property, plant and equipment pledged by the Company to secure borrowings.

Refer to Note 23. (h). for capitalized interest for the years ended December 31, 2022 and 2021.

## 13. LEASE ARRANGEMENTS

a. Right-of-use assets

| | December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Carrying amount | | |
| Buildings | $ 10,770 | $ 9,516 |
| Transportation equipment | - | 543 |
| Machinery | - | 297 |
| | $ 10,770 | $ 10,356 |

| | For the Year Ended December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Additions to right-of-use assets | $ 11,911 | $ 14,941 |
| Depreciation charge for right-of-use assets | | |
| Buildings | $ 10,657 | $ 12,514 |
| Transportation equipment | 543 | 1,505 |
| Machinery | 297 | 710 |
| | $ 11,497 | $ 14,729 |

b. Lease liabilities

| | December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Carrying amount | | |
| Current | $ 5,473 | $ 9,178 |
| Non-current | $ 5,396 | $ 1,533 |

Ranges of discount rates for lease liabilities were as follows:

| | December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Buildings | 2.33%-2.43% | 2.43%-2.78% |
| Transportation equipment | - | 2.78% |
| Machinery | - | 2.94% |

c. Material leasing activities and terms

The Company leases certain buildings for the use of offices and employee dormitories with lease terms of 3 years. The Company does not have bargain purchase options to acquire the buildings at the end of the lease terms.

d. Other lease information

| | For the Year Ended December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Expenses relating to short-term leases and low-value asset leases | $ 6,493 | $ 2,380 |
| Total cash outflow for leases | $ (18,733) | $ (17,478) |

The Company's leases of certain parking space and employee dormitory qualify as short-term leases and leases of certain photocopiers qualify as low-value asset leases. The Company has elected to apply the recognition exemption and thus, did not recognize right-of-use assets and lease liabilities for these leases.

## 14. INVESTMENT PROPERTIES

| | Buildings |
|---|---|
| Cost | |
| Balance at January 1, 2021 and December 31, 2021 | $ 295,084 |
| Accumulated depreciation | |
| Balance at January 1, 2021 | 119,824 |
| Depreciation expenses | 12,101 |
| Balance at December 31, 2021 | 131,925 |
| Carrying amount at December 31, 2021 | $ 163,159 |
| Cost | |
| Balance at January 1, 2021 and December 31, 2021 | $ 295,084 |
| Accumulated depreciation | |
| Balance at January 1, 2021 | 107,295 |
| Depreciation expenses | 12,529 |
| Balance at December 31, 2021 | 119,824 |
| Carrying amount at December 31, 2021 | $ 175,260 |

The investment properties are depreciated using the straight-line method over their estimated useful lives as follows:

| | |
|---|---|
| Main building of plant | 50 years |
| Plant improvement | 3-20 years |

The investment properties are leased out for 4 years, and the lessees do not have bargain purchase options to acquire the investment properties at the expiry of the lease periods.

As of December 31, 2022 and 2021, the maturity analysis of lease payments receivable under operating leases of investment properties was as follows:

| | December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Year 1 | $ 43,705 | $ 22,230 |
| Year 2 | 48,000 | 3,705 |
| Year 3 | 48,000 | - |
| Year 4 | 8,000 | - |
| | $ 147,705 | $ 25,935 |

In 2022, the investment properties were not evaluated by an independent valuer but valued by the management of the Company using the valuation model that market participants would use in determining the fair value, and the fair value was measured by using Level 3 inputs. The valuation was arrived at by cash flow analysis.

The determination of fair value was performed by the management of the Company, which used the valuation model that market participants would use in determining the fair value, and the fair value was measured using Level 3 inputs. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in 2021.

The fair value as appraised was as follows:

| | December 31 | |
|---|---|---|
| | **2022** | **2021** |
| Fair value | $ 441,246 | $ 194,348 |

All of the Company's investment properties were held under freehold interests. The investment properties pledged as collateral for bank borrowings are set out in Note 32.

There was no capitalized interest for the investment properties for the years ended December 31, 2022 and 2021.

## 15. OTHER INTANGIBLE ASSETS

| | December 31 | |
|---|---|---|
| | **2022** | **2021** |
| Carrying amount | | |
| Computer software | $ 4,708 | $ 4,254 |

| | For the Year Ended December 31 | |
|---|---|---|
| | **2022** | **2021** |
| Cost | | |
| Balance at January 1 | $ 51,695 | $ 47,378 |
| Additions | 2,309 | 4,317 |
| Balance at December 31 | 54,004 | 51,695 |
| Accumulated amortization | | |
| Balance at January 1 | 47,441 | 45,942 |
| Amortization expense | 1,855 | 1,499 |
| Balance at December 31 | 49,296 | 47,441 |
| Carrying amount at December 31 | $ 4,708 | $ 4,254 |

Computer software is amortized on a straight-line basis over 3-4 years.

## 16. OTHER ASSETS

| | December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Current | | |
| Prepayments | $ 114,485 | $ 215,894 |
| Prepayments expenses | 35,718 | 24,571 |
| Other financial assets | | |
| Restricted assets | 10,000 | 501 |
| Time deposit with initial duration of more than 3 months | 124,929 | - |
| Others | 3,463 | 2,773 |
| | $ 288,595 | $ 243,739 |
| Non-current | | |
| Prepayments for equipment (capitalized interest included) | $ 601,930 | $ 604,211 |
| Other financial assets - restricted assets | 123,282 | 101,002 |
| Refundable deposits | 182,051 | 180,070 |
| | $ 907,263 | $ 885,283 |

Other financial assets - restricted assets (current and non-current) were used as pledged deposits and reserve accounts for secured borrowings from performance guarantee and borrowings for purchases. As of December 31, 2022 and 2021, the interest rate range was 0.2%-3.5% and 0.01%-0.82%, respectively; refer to Note 32 for the details.

## 17. BORROWINGS

a. Short-term borrowings

| | December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Bank credit loans | $ 856,613 | $ 598,972 |
| Interest rate interval | | |
| Bank credit loans | 2.21%-2.87% | 1.59%-2.25% |

b. Short-term bills payable

Outstanding short-term bills payable were as follows:

December 31, 2022

| Promissory Institution | Nominal Amount | Discount Amount | Carrying Amount | Interest Rate | Collateral |
|---|---|---|---|---|---|
| Commercial paper | | | | | |
| Mega Bills Finance Co., Ltd. | $ 50,000 | $ 103 | $ 49,897 | 2.218% | Machinery |
| Mega Bills Finance Co., Ltd. | 50,000 | 60 | 49,940 | 2.288% | Machinery |
| Taiwan Cooperative Bills Finance Corporation | 50,000 | 103 | 49,897 | 2.218% | Machinery |
| Taiwan Cooperative Bills Finance Corporation | 50,000 | 60 | 49,940 | 2.288% | Machinery |
| International Bills Finance Corporation | 30,000 | 32 | 29,968 | 2.288% | None |
| China Bills Finance Corporation | 50,000 | 38 | 49,962 | 2.138% | None |
| China Bills Finance Corporation | 50,000 | 91 | 49,909 | 2.138% | None |
| | $ 330,000 | $ 487 | $ 329,513 | | |

December 31, 2021: None.

Guarantees provided for the above-mentioned Short-term bills payable are disclosed in Note 32.

c. Long-term borrowings

| | December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Secured borrowings | | |
| Syndicated loans | $ 1,344,000 | $ 2,462,890 |
| Less: Syndicated borrowing administration fee | (9,846) | (14,439) |
| | 1,334,154 | 2,448,451 |
| Bank mortgage loans | 815,796 | 104,957 |
| | 2,149,950 | 2,553,408 |
| Less: Current portion | (218,604) | (412,623) |
| Long-term borrowings | $ 1,931,346 | $ 2,140,785 |

1) Syndicated loans

a) In November 2020, the Company signed a syndicated loan contract led by Taiwan Cooperative Bank. The main purpose of the credit agreement is to restructure the borrowings and replenish the working capital of the syndicate of banks hosted by the Company with Chang Hwa Commercial Bank in September 2015 and the syndicate of banks hosted by the Taiwan Cooperative Bank and Taiwan Small and Medium Enterprises Bank in August 2016. The total loan amount was $2,000,000 thousand, and the loan period is till November 2025. The first repayment is made 3 months after the date of initial drawdown (1st period), and subsequent repayments of the principal are made once every period (three months = 1 period), for a total of 20 periods. In the first to twelfth periods, 2% of the principal should be repaid, in the thirteenth to nineteenth periods, 4% of the principal should be repaid, and the remaining amount should be repaid in the last period. As of December 31, 2022 and 2021, the balance was $1,344,000 thousand and $1,472,000 thousand and the interest rate was 3.098% and 2.39%; as of December 31, 2020 the balance of short-term bills payable was $200,000 thousand and the interest rate was 2.218%-2.288%.

   During the loan period, the Company should maintain the current ratio, net debt ratio, interest coverage ratio, and net value of tangible assets in accordance with the contract. If any of the aforementioned ratios was not fulfilled per the contract, the Company should try to improve the ratios by increasing cash capital through the issuance of shares or through other means, and should make a one-time payment of the utilized but unpaid loan amount to the managing bank. If from the date the financial statements were issued till the date the next semi-annual or annual financial statements were issued, improvements were made such that the required ratios are attained, the Company would be viewed as not in breach of the financial commitments of the contract.

b) In February 2018, the Company signed a syndicated loan contract led by Chang Hwa Bank. The syndicated loan is mainly used for financing the construction of the solar module factory and the purchase of equipment. The total loan amount was $1,250,000 thousand, and the loan period is till February 2023. The first repayment is made 24 months after the date of initial drawdown (1st period), and subsequent repayments of the principal are made once every period (six months = 1 period), for a total of 7 periods. In the first to fourth periods, 5% of the principal should be repaid, in the fifth and sixth periods, 10% of the principal should be repaid, and the remaining amount should be repaid in the last period. As of December 31, 2021, the balance was $990,890 thousand, respectively, and the interest rate was 2.30%. The joint credit facility was repaid early in December 2022.

   During the loan period, the Company should maintain the current ratio, debt ratio, interest coverage ratio, net value of tangible assets and actual revenue according to the contract. If any of the aforementioned ratios were not fulfilled according to the contract, in addition to compensating Chang Hwa Bank, the Company should provide documents that show concrete evidence of improvements being made to the financial ratios to the managing bank immediately. If from the date the financial statements were issued till the date the next semi-annual or annual financial statements were issued, improvements were made such that the required ratios are attained, the Company would be viewed as not in breach of the financial commitments of the contract.

   The managing banks of the loan had sent document No. 1090075 to the Company, where it was agreed that the Company would be exempt from compliance with the financial commitments and the aforementioned required ratios for their 2020 semi-annual report, and no additional supplementary contract was signed.

2) The contract period of the bank mortgage loan is from 3 years to 6 years and 6 months and the principal and interest are repaid monthly

| | December 31 | |
|---|---|---|
| | **2022** | **2021** |
| Interest rate | 1.35%-2.88% | 1.35%-2.41% |

For guarantees provided by the Company for long-term borrowings, refer to Note 32.

## 18. ACCOUNTS PAYABLE

| | December 31 | |
|---|---|---|
| | **2022** | **2021** |
| Accounts payable - operating | $ 898,218 | $ 1,001,106 |

The average credit period for purchases was 60 to 90 days. The Company has established financial risk management policies to ensure that all payables are repaid within the pre-agreed credit periods.

## 19. OTHER PAYABLES

| | December 31 | |
|---|---|---|
| | **2022** | **2021** |
| Current | | |
| Other payables | | |
| Payables for salaries or bonuses | $ 151,828 | $ 114,445 |
| Payables for purchases of equipment | 55,577 | 40,320 |
| Payables for transportation and customs clearance | 37,403 | 48,388 |
| Payables for labor and health insurance | 12,340 | 15,531 |
| Payables for sales tax | 11,123 | 17,376 |
| Payables for environmental cost | 9,232 | 1,135 |
| Payables for labor costs | 7,655 | 7,030 |
| Others | 107,983 | 83,461 |
| | $ 393,141 | $ 327,686 |

## 20. RETIREMENT BENEFIT PLANS

### Defined Contribution Plan

The Company adopted a pension plan under the Labor Pension Act (LPA), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees’ individual pension accounts at 6% of monthly salaries and wages.

Pension expenses for these defined contribution plans are classified under the following accounts:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Operating costs | $ 34,103 | $ 27,181 |
| Operating expenses | 5,720 | 5,476 |
| | $ 39,823 | $ 32,657 |

## 21. CONVERTIBLE PREFERRED STOCK

The Company issued 75,000 thousand shares of private cash capital increase proved by shareholders' meeting with a par value of $10, and the Company issued 25,895 thousand shares with $23.75 per share, which was resolved by Corporation's board of directors on November 18, 2021. The share capital has received $615,000 thousand, and finish registration. According to the issuance conditions of the preferred stock, split the preferred stock into preferred stock liability $287,949 thousand, and conversion option $327,051 thousand. The right and obligations of this private cash capital of preferred stock are as follow:

a. The distribution of earnings was based on the Company's Articles of Incorporation, current year or current quarter and accumulated undistributable dividend shall be appropriated to class A preferred shares in the first priority. If there were no earnings or earnings were not sufficient to be appropriated to class B preferred shares, the distributable earnings shall be appropriated to class A preferred shares. The dividend deficiency shall be made up in a profitable year or quarter subsequently in the first priority.

b. The annual dividend rate of class A preferred shares was 2% which was calculated at the issuance price per share and paid in cash, the ex-dividend date of the preferred dividend was authorized to be determined by the board of directors. The issuance number in issuance year or quarter and recovered year or quarter were calculated at the actual issuance number of days.

c. If the expected dividend distribution amount of common share exceeds the dividend amount of class A preferred shares in the current year, the shareholders of class A preferred shares can participate in the distribution.

d. Except for the aforementioned dividend, the shareholders of class A preferred shares can participate in the appropriation of earnings and reserves to shareholders of common shares of preference shares

e. Class B preferred shares were promised to be transferred to common shares on the day following the third anniversary of the issue.

f. Preferred Stock is non-voting, except during the Preferred Stock shareholders' meetings and on matters regarding the shareholders' rights and obligations.

g. When it comes to appropriate over common share s residual assets of company, class B preferred shares have priority preferred shares. However, the amount was limited to the issuance price plus the total amount of unpaid dividends.

h. The issuance period of class A preferred shares was no period, shareholders of class A preferred shares did not have the right to demand the Company call back class A preferred shares. However, on the date after years of the issuance date, the Company can call back all or some of class A preferred shares at the actual issuance price in cash or other ways which were permitted by regulations. The rights and obligations of class A preferred shares which have not been called will continue until the Company calls back. In the current year of calling back the class A preferred shares, if the Company's shareholders resolve to appropriate dividends, the number of dividends which have to be the number of actual distribute d as of the date of call back will be calculated according to issuance days in the current year.

i. The preemptive rights for stockholders of Class A preferred stocks are the same as those of common stocks when the Company increases its capital by issuing shares.

j. When class A preferred shares meet the condition of call back or mature in the issuance period, if the Company cannot call back all or some class A preferred shares due to force majeure or inscrutable fault of the Company, the rights of class A preferred shares which have not been called back will continue according to aforementioned issuance conditions until the Company calls back all the class A preferred shares. The dividends will be calculated according to the original annual rate and actual extension period, and the rights of class A preferred shares shall not be diminished according to the Company's Articles of Incorporation.

The company will not issue 49,105 thousand shares in the remaining period which is resolved by Board of director in March 7, 2022.

## 22. EQUITY

a. Share capital - ordinary shares

| | December 31 | |
|---|---|---|
| | **2022** | **2021** |
| Shares authorized (in thousands of shares) | 700,000 | 700,000 |
| Shares authorized (in thousands of dollars) | $ 7,000,000 | $ 7,000,000 |
| Shares issued and fully paid (in thousands of shares) | 476,297 | 445,797 |
| Shares issued and fully paid (in thousands of dollars) | $ 4,762,967 | $ 4,457,967 |

The par value of the issued ordinary shares is NT$10. Each share entitles its holder to the right to vote and to receive dividends. In addition, 25,895 thousand shares of The par value of the issued class A preferred share were issued. Please refer to Note 21.

The Company issued 30,500 thousand ordinary shares with a par value of $10, for a consideration of $26.50 per share resulting in the receipt of $808,250 thousand which increased the share capital issued and fully paid amount of $476,297 thousand on July 13, 2022. The Company completed its registration on August 4, 2022.

Of the authorized capital, a total of 5,000 thousand shares should be reserved for employee share option certificates, which should be issued in batches in accordance with the resolution of the board of directors.

b. Capital surplus

| | December 31 | |
|---|---|---|
| | 2022 | 2021 |
| <u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital</u> | | |
| Issuance of ordinary shares | $ 991,729 | $ 473,270 |
| Expired employee share options | 6,233 | - |
| <u>May be used to offset a deficit only</u> | | |
| Changes in percentage of ownership interest in equity-method investees | 11 | - |
| <u>May not be used for any purpose</u> | | |
| Preferred stock share options (Note 21) | 327,051 | 327,051 |
| | $ 1,325,024 | $ 800,321 |

The capital surplus from shares issued in excess of par and donations could be used to offset deficits; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to capital (limited to a certain percentage of the Company's paid-in capital and once a year).

The movements in capital surplus for the years ended December 31, 2022 and 2021 are as follows:

| | Capital Surplus | Employee Share Options | Preferred Stock Share Options | Other | Changes in Percentage of Ownership Interest in Equity-method Investees | Total |
|---|---|---|---|---|---|---|
| Balance at January 1, 2021 | $ 1,103,781 | $ 49,503 | $ - | $ 1,527 | $ - | $ 1,154,811 |
| Capital surplus used to offset accumulated deficits | (630,511) | (49,503) | - | (1,527) | - | (681,541) |
| Issuance of convertible preferred stock | - | - | 327,051 | - | - | 327,051 |
| Balance at December 31, 2021 | 473,270 | - | 327,051 | - | - | 800,321 |
| Issuance of ordinary shares | 503,250 | - | - | - | - | 503,250 |
| Recognized as cost of employee share options | 15,209 | 6,233 | - | - | - | 21,442 |
| Changes in capital surplus from investments in associates accounted for using the equity method | - | - | - | - | 11 | 11 |
| Balance at December 31, 2022 | $ 991,729 | $ 6,233 | $ 327,051 | $ - | $ 11 | $ 1,325,024 |

c. Retained earnings and dividend policy

Under the dividend policy as set forth in the Company’s amended Articles of Incorporation (the “Articles”), where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company’s board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders’ meeting for the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees’ compensation and remuneration of directors and supervisors after the amendment, refer to employees’ compensation and remuneration of directors and supervisors in Note 23.(g).

In addition, in accordance with the dividend policy as stated in the Company’s Articles, dividends shall be distributed in an appropriate manner based on the Company’s future capital budget and funding needs. Dividends shall be distributed in the form of cash or shares, with the percentage of cash dividends not less than 10% of the total dividends distributed.

Appropriation of earnings to the legal reserve shall be made until the legal reserve equals the Company’s paid-in capital. The legal reserve may be used to offset deficits. If the Company has no deficit and the legal reserve has exceeded 25% of the Company’s paid-in capital, the excess may be transferred to capital or distributed in cash.

The additional paid in capital of $681,541 thousand used to offset deficits in 2020 was approved in the shareholders’ meeting on April 7, 2021.

The appropriations of earnings for 2021, which were proposed by the Company’s board of directors on June 9, 2022, were as follows:

| | **For the Year Ended December 31, 2021** |
|---|---|
| Legal reserve | $ 4,632 |
| Special reserve | $ 41,685 |

The appropriations of earnings for 2022, which were proposed by the Company’s board of directors on March 8, 2023, were as follows:

| | **For the Year Ended December 31, 2022** |
|---|---|
| Legal reserve | $ 18,741 |
| Special reserve | $ 129,364 |
| Cash dividends | $ 37,664 |
| Cash dividends per share (NT$) | $ 0.075 |

The appropriation of earnings for 2022 will be resolved by the shareholders meeting to be held on May 2023.

The board of directors held a meeting on March 8, 2023 and proposed the distribution of cash dividends (NT$0.025 per share) from capital surplus - stock issuance premium of NT$12,555 thousand. The distribution of cash dividends is subject to the resolution of the shareholders to be held in their meeting scheduled in May 2023.

d. Other equity items

1) Exchange differences on the translation of foreign operations

| | For the Year Ended December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Balance at January 1 | $ (869) | $ (700) |
| Recognized for the year | | |
| Exchange differences on the translation of the financial statements of foreign operations | 794 | (211) |
| Income tax relating to items that may be reclassified subsequently to profit or loss | (159) | 42 |
| Balance at December 31 | $ (234) | $ (869) |

2) Unrealized gain on financial assets at FVTOCI

| | For the Year Ended December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Balance at January 1 | $ (174,284) | $ (173,892) |
| Recognized for the year | | |
| Unrealized gain - equity instruments | 1,404 | (392) |
| Cumulative unrealized gain on equity instruments transferred to retained earnings due to disposal | 2,239 | - |
| Share from associates accounted for using the equity method | - | 78 |
| Empact of loss of subsidiary control | - | (78) |
| Balance at December 31 | $ (170,641) | $ (174,284) |

3) Gain or loss on hedging instruments

| | For the Year Ended December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Balance at January 1 | $ - | $ - |
| Recognized for the year | | |
| Gain (loss) on changes in the fair value of hedging instruments | | |
| Exchange rate risk - foreign exchange forward contracts | (218) | - |
| Related income tax | 44 | - |
| Balance at December 31 | $ (174) | $ - |

## 23. NET INCOME

a. Operating revenue

1) Contract balance

| | December 31, 2022 | December 31, 2021 | January 1, 2021 |
|---|---|---|---|
| Accounts receivable (Note 8) | $ 1,164,930 | $ 754,026 | $ 685,147 |
| Accounts receivable from related parties (Note 31) | $ 9,498 | $ 88,484 | $ 153,981 |
| Contract liabilities | | | |
| Module sales | $ 117,745 | $ 294,232 | $ 46,708 |

Refer to Note 8 for the explanation of accounts receivable generated from contracts.

The changes in the balance of contract liabilities primarily resulted from the timing difference between the Company's satisfaction of performance obligations and the respective customer's payment.

Revenue recognized in the current year from the satisfaction of performance obligations of contract liabilities at the beginning of the year was summarized as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2022 | 2021 |
| From contract liabilities at the beginning of the year | | |
| Sale of goods | $ 293,400 | $ 35,817 |

2) Details of revenue from contracts with customers

Refer to Statement 11 for further information about the details of revenue.

3) Partially completed contracts

| | December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Module sales | | |
| From January 1, 2022 to December 31, 2022 | $ - | $ 294,232 |
| From January 1, 2023 to December 31, 2023 | 117,745 | - |
| | $ 117,745 | $ 294,232 |

b. Interest income

| | For the Year Ended December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Cash in banks | $ 2,021 | $ 1,098 |
| Other current financial assets - current | 837 | 11 |
| Other current financial assets - non-current | 3,034 | 39 |
| Others | 542 | 14 |
| | $ 6,434 | $ 1,162 |

c. Other operating income and expenses

| | For the Year Ended December 31 | |
|---|---|---|
| | 2022 | 2021 |
| (Loss) gain on disposal of property, plant and equipment | $ (16,105) | $ 1,386 |
| Others | (8,436) | - |
| | $ (24,541) | $ 1,386 |

d. Depreciation and amortization expenses

| | For the Year Ended December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Property, plant and equipment | $ 567,760 | $ 486,737 |
| Right-of-use assets | 11,497 | 14,729 |
| Investment properties | 12,101 | 12,529 |
| Intangible assets | 1,855 | 1,499 |
| | $ 593,213 | $ 515,494 |
| An analysis of depreciation by function | | |
| Operating costs | $ 565,085 | $ 483,177 |
| Operating expenses | 26,273 | 30,818 |
| | $ 591,358 | $ 513,995 |
| An analysis of amortization by function | | |
| Operating costs | $ 1,048 | $ 187 |
| Selling and marketing expenses | 524 | 29 |
| General and administrative expenses | 268 | 1,282 |
| Research and development expenses | 15 | 1 |
| | $ 1,855 | $ 1,499 |

e. Operating expenses directly related to investment properties

| | For the Year Ended December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Generating rental income | | |
| Depreciation expense | $ 12,101 | $ 12,529 |
| Tax expense | 398 | 359 |
| | $ 12,499 | $ 12,888 |

f. Employee benefit expenses

| | For the Year Ended December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Post-employment benefits | | |
| Defined contribution plans (Note 20) | $ 39,823 | $ 32,657 |
| Share-based payments (Note 26) | 21,442 | - |
| Payroll expenses | 965,852 | 758,296 |
| Labor and health insurance expenses | 100,500 | 78,817 |
| Remuneration of directors and supervisors | 16,023 | 11,546 |
| Other employee benefits | 86,383 | 69,486 |
| Total employee benefit expenses | $ 1,230,023 | $ 950,802 |
| An analysis of employee benefit expense by function | | |
| Operating costs | $ 1,029,214 | $ 773,936 |
| Operating expenses | 200,809 | 176,866 |
| | $ 1,230,023 | $ 950,802 |

g. Compensation of employees and remuneration of directors and supervisors

The Company accrued compensation of employees and remuneration of directors at rates of no less than 5% and no higher than 5%, respectively, of net profit before income tax, compensation of employees, and remuneration of directors, after offsetting accumulated deficits, if any.

The compensation of employees and remuneration of directors for the years ended December 31, 2022 and 2021 respectively, which were approved in the board of directors' meeting held on March 8, 2023 and March 14, 2022, were as follows:

Accrual rate

| | For the Year Ended December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Compensation of employees | 5.0% | 5.0% |
| Remuneration of directors and supervisors | 3.5% | 3.0% |

Amount

| | For the Year Ended December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Compensation of employees | $ 9,586 | $ 2,392 |
| Remuneration of directors and supervisors | $ 6,710 | $ 1,440 |

Information on the compensation of employees and remuneration of directors resolved by the Company's board of directors in 2022 and 2021 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

h. Gain or loss on foreign currency exchange

| | For the Year Ended December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Foreign currency exchange gains | $ 61,293 | $ 65,100 |
| Foreign currency exchange losses | (81,675) | (20,030) |
| Net (loss) gain | $ (20,382) | $ 45,070 |

i. Finance costs

| | For the Year Ended December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Interest expense | $ 87,031 | $ 83,319 |
| Interest on special share liabilities | 12,300 | - |
| Finance costs | 9,996 | 9,394 |
| Interest on lease liabilities | 487 | 401 |
| Others | 165 | 983 |
| Less: Capitalized interest | (30,679) | (14,972) |
| | $ 79,300 | $ 79,125 |

Information about capitalized interest is as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Capitalized interest | $ 30,679 | $ 14,972 |
| Capitalization rate | 2.64% | 2.48% |

## 24. INCOME TAXES

a. Major components of income tax benefit recognized in profit or loss

| | For the Year Ended December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Current tax | | |
| Adjustments for prior periods | $ (44) | $ - |
| Deferred tax | | |
| In respect of the current year | (14,181) | (2,306) |
| Income tax benefit recognized in profit or loss | $ (14,225) | $ (2,306) |

A reconciliation of accounting profit and income tax benefit is as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Gain before tax from continuing operations | $ 175,425 | $ 44,011 |
| Income tax expense calculated at the statutory rate | $ 35,085 | $ 8,802 |
| Nondeductible expenses in determining taxable income | 926 | 1,108 |
| Realized deductible temporary differences | (42,717) | (12,197) |
| Unrecognized loss carryforwards | (7,475) | - |
| Current income tax expense for prior years adjustments in the current year | (44) | - |
| Deferred income tax expense for prior years adjustments in the current year | - | (19) |
| Income tax benefit recognized in profit or loss | $ (14,225) | $ (2,306) |

b. Income tax recognized in other comprehensive income

| | For the Year Ended December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Deferred tax | | |
| In respect of the current year | | |
| Translation of foreign operations | $ (159) | $ 42 |
| Cash flow hedge | 44 | - |
| | $ (115) | $ 42 |

c. Current tax assets

| | December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Current tax assets | | |
| Tax refund receivable | $ 382 | $ 55 |

d. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities are as follows:

For the year ended December 31, 2022

| **Deferred Tax Assets** | **Opening Balance** | **Recognized in Profit or Loss** | **Recognized in Other Compre-hensive Income** | **Closing Balance** |
|---|---|---|---|---|
| Temporary differences | | | | |
| Loss carryforwards | $ 180,534 | $ 7,475 | $ - | $ 188,009 |
| Impairment loss of property, plant and equipment | 17,569 | 19,580 | - | 37,149 |
| Allowance for bad debts | 12,737 | (10,706) | - | 2,031 |
| Allowance for inventory valuation losses | 4,555 | 19 | - | 4,574 |
| Loss on investments in subsidiaries and associates accounted for using the equity method | 4,167 | (2,873) | - | 1,294 |
| Refund liabilities | 2,939 | 489 | - | 3,428 |
| Unrealized gain on transactions with associates | 625 | (495) | - | 130 |
| Unrealized loss on financial instruments | 217 | - | (159) | 58 |
| Exchange differences on the translation of the financial statements of foreign operations | 49 | 78 | - | 127 |
| Hedging instruments evaluation loss | - | - | 44 | 44 |
| | $ 223,392 | $ 13,567 | $ (115) | $ 236,844 |

| **Deferred Tax Liabilities** | **Opening Balance** | **Recognized in Profit or Loss** | **Recognized in Other Compre-hensive Income** | **Closing Balance** |
|---|---|---|---|---|
| Temporary differences | | | | |
| Unrealized foreign exchange gain | $ 1,242 | $ (614) | $ - | $ 628 |

For the year ended December 31, 2021

| Deferred Tax Assets | Opening Balance | Recognized in Profit or Loss | Recognized in Other Compre-hensive Income | Closing Balance |
|---|---|---|---|---|
| Temporary differences | | | | |
| Loss carryforwards | $ 179,589 | $ 945 | $ - | $ 180,534 |
| Impairment loss of property, plant and equipment | 8,643 | 8,926 | - | 17,569 |
| Allowance for bad debts | 15,322 | (2,585) | - | 12,737 |
| Allowance for inventory valuation losses | 4,542 | 13 | - | 4,555 |
| Loss on investments in subsidiaries and associates accounted for using the equity method | 8,675 | (4,508) | - | 4,167 |
| Refund liabilities | 2,475 | 464 | - | 2,939 |
| Unrealized gain on transactions with associates | 336 | 289 | - | 625 |
| Unrealized loss on financial instruments | 175 | - | 42 | 217 |
| Exchange differences on the translation of the financial statements of foreign operations | 293 | (244) | - | 49 |
| | $ 220,050 | $ 3,300 | $ 42 | $ 223,392 |

| Deferred Tax Liabilities | Opening Balance | Recognized in Profit or Loss | Recognized in Other Compre-hensive Income | Closing Balance |
|---|---|---|---|---|
| Temporary differences | | | | |
| Unrealized foreign exchange gain | $ 248 | $ 994 | $ - | $ 1,242 |

e. Deductible temporary differences and unused loss carryforwards for which no deferred tax assets have been recognized in the balance sheets

| | December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Loss carryforwards | $ 2,001,878 | $ 2,374,711 |
| Deductible temporary differences | | |
| Impairment loss of financial assets | $ 1,705 | $ 1,705 |

f. Information about unused loss carryforwards

Loss carryforwards as of December 31, 2022 comprised:

| **Unused Amount** | **Expiry Year** |
|---|---|
| $ 133,526 | 2027 |
| 238,290 | 2028 |
| 89,609 | 2029 |
| 126,960 | 2030 |
| $ 588,385 | |

Information on the above-mentioned unused loss carryforwards includes unused loss carryforwards which are not recognized in deferred income tax assets, which are as follows:

| | **December 31** | |
|---|---|---|
| | **2022** | **2021** |
| Loss carryforwards | | |
| Expiry in 2027 | $ - | $ 92,062 |
| Expiry in 2028 | 183,807 | 238,290 |
| Expiry in 2029 | 89,609 | 89,609 |
| Expiry in 2030 | 126,960 | 126,960 |
| | $ 400,376 | $ 546,921 |

g. Income tax assessments

The Company, Changyang Optoelectronics Corporation, Yunsheng Optoelectronics Corporation, Yunxing Optoelectronics Corporation, Houchang Energy Corporation, Hengyong Energy Corporation, Hengli Energy Corporation and Yongli Energy Corporation income tax returns through 2020 have been assessed by the tax authorities. There was no material difference between the approved and reported amounts.

## 25. EARNINGS PER SHARE

The gain and weighted average number of ordinary shares outstanding that were used in the computation of earnings per share were as follows:

**Net Earnings for the Year**

| | **For the Year Ended December 31** | |
|---|---|---|
| | **2022** | **2021** |
| Earnings used in the computation of basic and diluted earnings per share | $ 189,650 | $ 46,317 |

Weighted average number of ordinary shares outstanding (in thousands of shares):

| | For the Year Ended December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Weighted average number of ordinary shares used in the computation of diluted earnings per share | 460,169 | 445,797 |
| Effect of potentially dilutive ordinary shares | | |
| Employee share options | 289 | 58 |
| Weighted average number of ordinary shares used in the computation of diluted earnings per share | 460,458 | 445,855 |

The Company may settle the compensation of employees in cash or shares; therefore, the Company assumes that the entire amount of the compensation will be settled in shares, and the resulting potential shares are included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

As of December 31, 2022, the Company's outstanding preferred shares were not included in the calculation of weighted average number of ordinary shares used in the computation of diluted earnings per share, because the preferred stocks were not yet convertible to ordinary shares.

## 26. SHARE-BASED PAYMENT ARRANGEMENTS

The Company issued ordinary shares for a capital increase in cash in June 2022, in which a portion of the shares is reserved for employees' subscription, and shared-based payment expenses calculated according to the Black-Scholes model amounted to $21,442 thousand. An increase in the same amount was recognized for capital surplus.

The employee share options were priced using the Black-Scholes model, and the inputs to the model are disclosed as follows:

| | Grant Date |
|---|---|
| | June 14, 2022 |
| Fair value of options | $7.03 per share |
| Exercise price | $26.5 per share |
| Expected life | 12 days |
| Share price volatility rate | 44.08% |
| Risk-free interest rate | 0.6624% |

## 27. PARTIALLY OWNED SUBSIDIARIES - NOT AFFECTING CONTROL

In December 2021, the Company subscribed for additional new shares of Holdgood Energy Corporation at percentage different from its existing ownership percentage, which reduced its continuing interest from 60.74% to 45.49%, and lost control. The investment was accounted for as associate.

## 28. CASH FLOW INFORMATION

a. Non-cash transactions

For the years ended December 31, 2022 and 2021, the Company entered into the following non-cash investing and financing activities:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Cash paid for part of the cost of acquisition of property, plant and equipment | | |
| Acquisition of property, plant and equipment | $ 1,154,313 | $ 508,373 |
| Net increase in prepayments for equipment | (24,524) | 326,807 |
| Net increase in payables for purchase of equipment | (15,257) | (8,591) |
| Effect of foreign currency exchange differences | (3,644) | (327) |
| Cash paid | $ 1,110,888 | $ 826,262 |

b. Changes in liabilities arising from financing activities

For the year ended December 31, 2022

| | Balance as of January 1, 2022 | Cash Flows | Non-cash Changes: New Leases | Non-cash Changes: Long-term Borrowings - Current Portion | Non-cash Changes: Amortization of Interest Expenses | Non-cash Changes: Effect of Foreign Currency Exchange Differences | Others | Balance as of December 31, 2022 |
|---|---|---|---|---|---|---|---|---|
| Short-term borrowings | $ 598,972 | $ 257,641 | $ - | $ - | $ - | $ - | $ - | $ 856,613 |
| Short-term bills payable | - | 329,513 | - | - | - | - | - | 329,513 |
| Long-term borrowings - current portion | 412,623 | (1,297,458) | - | 1,103,439 | - | - | - | 218,604 |
| Long-term borrowings | 2,140,785 | 894,000 | - | (1,103,439) | - | - | - | 1,931,346 |
| Guarantee deposits | 3,705 | - | - | - | - | - | - | 3,705 |
| Lease liabilities | 10,711 | (11,753) | 11,911 | - | 487 | - | (487) | 10,869 |
| Preferred stock liabilities | 287,949 | - | - | - | - | - | - | 287,949 |
| | $ 3,454,745 | $ 171,943 | $ 11,911 | $ - | $ 487 | $ - | $ (487) | $ 3,638,599 |

For the year ended December 31, 2021

| | Balance as of January 1, 2021 | Cash Flows | Non-cash Changes: New Leases | Non-cash Changes: Long-term Borrowings - Current Portion | Non-cash Changes: Amortization of Interest Expenses | Non-cash Changes: Effect of Foreign Currency Exchange Differences | Others | Balance as of December 31, 2021 |
|---|---|---|---|---|---|---|---|---|
| Short-term borrowings | $ 514,431 | $ 88,673 | $ - | $ - | $ - | $ (4,132) | $ - | $ 598,972 |
| Short-term bills payable | 279,366 | (279,366) | - | - | 2,505 | - | (2,505) | - |
| Long-term borrowings - current portion | 379,434 | (474,403) | - | 507,592 | - | - | - | 412,623 |
| Long-term borrowings | 2,516,435 | 131,942 | - | (507,592) | - | - | - | 2,140,785 |
| Guarantee deposits | 2,335 | 1,370 | - | - | - | - | - | 3,705 |
| Lease liabilities | 10,467 | (14,697) | 14,941 | - | 401 | - | (401) | 10,711 |
| Preferred stock liabilities | - | 287,949 | - | - | - | - | - | 287,949 |
| | $ 3,702,468 | $ (258,532) | $ 14,941 | $ - | $ 2,906 | $ (4,132) | $ (2,906) | $ 3,454,745 |

## 29. CAPITAL MANAGEMENT

The Company manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to shareholders through the optimization of the debt and equity balance.

The Company will review the capital structure periodically according to the economic environment and business considerations. Based on the recommendations of the management, the Company will adjust the number of new shares issued or the amount of new debt issued in order to balance the overall capital structure.

## 30. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments that are not measured at fair value

The management believes the carrying amounts of financial assets and financial liabilities recognized in the financial statements approximate their fair values (or their fair values cannot be reliably measured).

b. Fair value of financial instruments that are measured at fair value on a recurring basis

1) Fair value hierarchy

December 31, 2022

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial liabilities at FVTPL | | | | |
| Derivatives | $ - | $ 637 | $ - | $ 637 |
| Hedging of financial liabilities | | | | |
| Derivatives | $ - | $ 218 | $ - | $ 218 |

December 31, 2021

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets at FVTOCI | | | | |
| Investments in equity instruments | | | | |
| Overseas corporate unlisted shares | $ - | $ - | $ 6,063 | $ 6,063 |
| Financial liabilities at FVTPL | | | | |
| Derivatives | $ - | $ 243 | $ - | $ 243 |

There were no transfers between Levels 1 and 2 in 2022 and 2021.

2) Valuation techniques and inputs applied for Level 2 fair value measurement

| Financial Instrument | Valuation Technique and Inputs |
|---|---|
| Derivatives - foreign exchange forward contracts | Discounted cash flow.<br><br>Future cash flows are estimated based on observable forward exchange rates at the end of the year and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties. |

3) Reconciliation of Level 3 fair value measurements of financial instruments

For the year ended December 31, 2022

| Financial Assets | Financial Assets at FVTOCI Equity Instruments |
|---|---|
| Balance at January 1 | $ 6,063 |
| Recognized in other comprehensive income (included in unrealized gain of financial assets at FVTOCI) | 1,441 |
| Disposal | (7,504) |
| Balance at December 31 | $ - |
| Recognized in other gains and losses - unrealized | $ - |

For the year ended December 31, 2021

| Financial Assets | Financial Assets at FVTOCI Equity Instruments |
|---|---|
| Balance at January 1 | $ 6,455 |
| Recognized in other comprehensive income (included in unrealized gain of financial assets at FVTOCI) | (392) |
| Balance at December 31 | $ 6,063 |
| Recognized in other gains and losses - unrealized | $ (392) |

4) Valuation techniques and assumption applied for Level 3 fair value measurement

The fair values of overseas unlisted corporate equity investments are estimated using the market approach with reference to the net value stated in the most recent financial statements of the investee company and based on the evaluation of similar companies and the operations of the investee company.

c. Categories of financial instruments

| | December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Financial assets | | |
| Financial assets at amortized cost (1) | $ 2,448,618 | $ 2,177,711 |
| Financial assets at FVTOCI | | |
| Equity instruments | - | 6,063 |
| Financial liabilities | | |
| Financial liabilities at FVTPL | 637 | 243 |
| Hedging instruments of financial liabilities | 218 | - |
| Financial liabilities at amortized cost (2) | 4,726,866 | 4,619,480 |

1) The balances include financial assets at amortized cost, which comprise cash, accounts receivable, accounts receivable - related parties, other accounts receivable (excluding tax refund receivable), refundable deposits (as other non-current assets) and other financial assets (recognized as other current and non-current assets).

2) The balances include financial liabilities at amortized cost, which comprise short-term and long-term loans, short-term bills payable, trade payables, note payables and other payables (excluding wage payable, labor and medical insurance, pension and sales tax) and bonds issued.

d. Financial risk management objectives and policies

The Company's major financial instruments include financial assets at FVTPL, financial assets measured at FVTOCI, accounts receivable, accounts payable, short-term, long-term debt and lease liabilities etc. The Company's corporate treasury function coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

The Company seeks to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Company's policies approved by the board of directors. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The Company did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

1) Market risk

The Company's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

There had been no change to the Company's exposure to market risks or the manner in which these risks were managed and measured.

a) Foreign currency risk

For the carrying amounts of monetary assets and monetary liabilities denominated in the non-functional currency at the balance sheet date (including monetary items denominated in non-functional currencies in the financial statements), refer to Note 35.

<u>Sensitivity analysis</u>

The Company is mainly exposed to the U.S. dollar.

The following table details the Company's sensitivity to a 5% increase and decrease in the New Taiwan dollar (the functional currency) against the relevant foreign currency (U.S. dollar). 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items and foreign currency forward contracts designated as cash flow hedges, and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates an increase in pre-tax profit associated with New Taiwan dollar strengthening 5% against the relevant currency. For a 5% weakening of the New Taiwan dollar against the relevant currency, there would be an equal and opposite impact on pre-tax profit and the balances below would be negative.

| | U.S. Dollar | |
|---|---|---|
| | USD:NTD | |
| | For the Year Ended December 31 | |
| | 2022 | 2021 |
| Profit | $ 2,191 | $ 26,796 |

The sensitivity of the Company to the U.S. dollar decreased during the current period, mainly due to the decrease in short-term borrowings denominated in U.S. dollars during the current period.

Hedge accounting

The Company's hedging strategy is to enter into forward foreign exchange contracts to hedge the risk of exchange rate changes on foreign currency machine purchase contracts that are expected to occur in the future and are designated as cash flow hedges. When the forecasted purchases actually occur, a basis adjustment is made to the initial carrying amount of the hedged item.

For the hedges of highly probable forecast sales and purchases, as the critical terms (i.e., the notional amount, life and underlying) of the forward foreign exchange contracts and their corresponding hedged items are the same, the Company performs a qualitative assessment of effectiveness and it is expected that the value of the forward contracts and the value of the corresponding hedged items will systematically change in opposite direction in response to movements in the underlying exchange rates. The Company compares changes in the fair value of forward foreign exchange contracts with changes in purchase costs to assess the effectiveness of the hedge.

The main source of hedge ineffectiveness in these hedging relationships is the effect of credit risks of the Company and the counterparty on the fair value of the forward exchange contracts. Such credit risks do not impact the fair value of the hedged item attributable to changes in foreign exchange rates. No other sources of ineffectiveness emerged from these hedging relationships.

The Company's exchange rate risk hedge information is summarized as follows:

December 31, 2022

| Hedging Instruments | Currency | Notional Amount (In Thousands) | Maturity | Forward Rate (NTD1:USD) | Line Item | Carrying Amount Liabilities |
|---|---|---|---|---|---|---|
| Cash flow hedge | | | | | | |
| Forecast purchases - forward foreign exchange contracts | USD/NTD | USD867/NTD26,795 | 2023.1.18 | $ 30.905 | Financial liabilities for hedging | $ 218 |

| Hedged Items | Carrying Amount of Other Equity Continuing Application of Hedge Accounting |
|---|---|
| Cash flow hedge | |
| Forecast purchases (i) | $ (174) |

| Comprehensive Income | Hedging Losses Recognized in OCI |
|---|---|
| Cash flow hedge | |
| Forecast purchases (i) (ii) | $ (174) |

i. The Company has entered into a forward exchange contract for the purchase of machinery and equipment to hedge the risk of exchange rate fluctuations from anticipated future purchase transactions, at which time the amount previously deferred in equity will be included in the carrying amount of machinery and equipment.

ii. For a reconciliation of hedge-related other equity, Note 22.

b) Interest rate risk

The carrying amounts of the Company's financial assets and financial liabilities with exposure to interest rate risk at the end of the reporting period were as follows:

| | December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Fair value interest rate risk | | |
| Financial liabilities | $ 628,331 | $ 298,660 |
| Cash flow interest rate risk | | |
| Financial assets | 1,081,613 | 1,148,855 |
| Financial liabilities | 3,006,563 | 3,152,380 |

Sensitivity analysis

The sensitivity analysis below was determined based on the Company's exposure to interest rates for non-derivative instruments at the end of the reporting period. A 25 basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

Had interest rates been 25 basis points higher/lower and all other variables been held constant, the Company's pretax profit for the years ended December 31, 2022 and 2021 would have decreased/increased by $4,812 thousand and $5,009 thousand, respectively, which was mainly attributable to the Company's exposure to interest rate risks on its long-term borrowings.

The Company's interest rate sensitivity decreased during the period, which was mainly due to an decrease in bank borrowings with variable interest rates.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company. As of the end of the reporting period, the Company's maximum exposure to credit risk, which will cause a financial loss to the Company due to the failure of the counterparty to discharge its obligation, is primarily equal to the carrying amount of the respective recognized financial assets as stated in the balance sheets.

The Company's concentration of credit risk of 88.42% and 66.31% in total trade receivables as of December 31, 2022 and 2021, respectively, was related to the Company's ten largest customers.

3) Liquidity risk

The Company managed and maintained sufficient cash and cash equivalents to support the operations of the Company and mitigate the impact of fluctuations in cash flows with long-term borrowings of $894,000 thousand and $131,942 thousand in 2022 and 2021, respectively, and increased capital by $808,250 thousand and $615,000 thousand, respectively. The Company's management supervised the use of bank financing quotas and ensures compliance with the terms of the loan contract.

a) Liquidity and interest rate risk tables for non-derivative financial liabilities

The following tables detail the Company's remaining contractual maturities for its borrowings with agreed-upon repayment periods. The tables had been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Company can be required to pay.

December 31, 2022

| | On Demand or Less than 1 Month | 1 Month - 3 Months | Over 3 Months to 1 Year | Over 1 Year |
|---|---|---|---|---|
| Non-derivative financial liabilities | | | | |
| Variable interest rate liabilities | $ 281,155 | $ 68,364 | $ 842,648 | $ 2,237,696 |
| Fixed interest rate liabilities | 229,720 | 99,793 | - | 287,949 |
| Non-interest bearing liabilities | 737,795 | 306,880 | 51,811 | 6,355 |
| Lease liabilities | 600 | 1,200 | 4,116 | 5,486 |
| | $ 1,249,270 | $ 476,237 | $ 898,575 | $ 2,537,486 |

Additional information about the maturity analysis for lease liabilities:

| | Less than 1 Year | 1-5 Years | 5 -10 Years | 10-15 Years | 15-20 Years |
|---|---|---|---|---|---|
| Lease liabilities | $ 5,916 | $ 5,486 | $ - | $ - | $ - |

December 31, 2021

| | On Demand or Less than 1 Month | 1 Month - 3 Months | Over 3 Months to 1 Year | Over 1 Year |
|---|---|---|---|---|
| Non-derivative financial liabilities | | | | |
| Variable interest rate liabilities | $ 30,158 | $ 328,287 | $ 714,292 | $ 2,288,536 |
| Fixed interest rate liabilities | - | - | - | 287,949 |
| Non-interest bearing liabilities | 375,409 | 361,469 | 442,273 | - |
| Lease liabilities | 1,238 | 2,475 | 5,335 | 1,544 |
| | $ 406,805 | $ 692,231 | $ 1,161,900 | $ 2,578,029 |

Additional information about the maturity analysis for lease liabilities:

| | Less than 1 Year | 1-5 Years | 5 -10 Years | 10-15 Years | 15-20 Years |
|---|---|---|---|---|---|
| Lease liabilities | $ 9,048 | $ 1,544 | $ - | $ - | $ - |

b) Liquidity and interest rate risk for derivative financial liabilities

The following table details the Company’s liquidity analysis of its derivative financial instruments. The table is based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement.

December 31, 2022

| | On Demand or Less than 1 Month | 1-3 Months | 3 Months to 1 Year | Over 1 Year |
|---|---|---|---|---|
| Gross settled | | | | |
| Foreign exchange forward contracts | | | | |
| Inflows | $ 113,014 | $ - | $ - | $ - |
| Outflows | (113,869) | - | - | - |
| | $ (855) | $ - | $ - | $ - |

December 31, 2021

| | On Demand or Less than 1 Month | 1-3 Months | 3 Months to 1 Year | Over 1 Year |
|---|---|---|---|---|
| Gross settled | | | | |
| Foreign exchange forward contracts | | | | |
| Inflows | $ 11,813 | $ - | $ 49,684 | $ - |
| Outflows | (11,895) | - | (49,845) | - |
| | $ (82) | $ - | $ (161) | $ - |

c) Financing facilities

| | December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Unsecured bank overdraft facilities, reviewed annually and payable on demand: | | |
| Amount used | $ 1,297,409 | $ 854,949 |
| Amount unused | 394,292 | 400,585 |
| | $ 1,691,701 | $ 1,255,534 |
| Secured bank overdraft facilities: | | |
| Amount used | $ 1,975,000 | $ 2,977,200 |
| Amount unused | 1,270,505 | 771,600 |
| | $ 3,245,505 | $ 3,748,800 |

## 31. TRANSACTIONS WITH RELATED PARTIES

The terms of the transactions and the prices are negotiated separately, details of the transactions are disclosed below:

a. The Company's related parties

| Related Party | Relationship with the Company |
|---|---|
| Holdgood Energy Corporation | Subsidiary before December 2021, associate after December 2021 |
| Yuan-Yu Solar Energy Co., Ltd | Associate |

b. Operating revenue

| | | For the Year Ended December 31 | |
|---|---|---|---|
| Line Item | Related Party Category/Name | 2022 | 2021 |
| Sales | Associate | $ 188,155 | $ 255,638 |

The prices and collection period of sales transactions are based on the contract, which are similar to those of other companies in general.

c. Rental revenue

| Line Item | Related Party Category/Name | For the Year Ended December 31 | |
|---|---|---|---|
| | | 2022 | 2021 |
| Rental revenue | Associate | $ 465 | $ 472 |

The rental amount is determined by negotiations and collected on a monthly basis.

d. Other revenue

| Line Item | Related Party Category/Name | For the Year Ended December 31 | |
|---|---|---|---|
| | | 2022 | 2021 |
| Other revenue | Associate - Yuan-Yu | $ 1,972 | $ 1,540 |
| | Associate - Holdgood | 1,277 | 773 |
| | | $ 3,249 | $ 2,313 |

Other revenue refers to amounts charged to associates and power plant maintenance cleaning costs.

e. Accounts receivable - associates

| Line Item | Related Party Category/Name | For the Year Ended December 31 | |
|---|---|---|---|
| | | 2022 | 2021 |
| Accounts receivable - associates | Associate - Holdgood | $ 9,498 | $ 64,886 |
| | Associate - Yuan-Yu | - | 23,598 |
| | | $ 9,498 | $ 88,484 |

No collateral was received for outstanding accounts receivable - related parties. No allowance for bad debt was required for accounts receivable - related parties as of December 31, 2022. The Company provided allowance for bad debt of $16,053 thousand in 2021 because of the low possibility of receiving outstanding accounts receivable - related party Yuan-Yu Solar Energy Co., Ltd.

f. Other receivables

| Line Item | Related Party Category/Name | For the Year Ended December 31 | |
|---|---|---|---|
| | | 2022 | 2021 |
| Other receivables | Associate - Yuan-Yu | $ 120 | $ 120 |
| | Associate - Holdgood | 1,296 | 76 |
| | | $ 1,416 | $ 196 |

Receivables for general service fees and rent.

g. Contract liabilities

| Line Item | Related Party Category/Name | For the Year Ended December 31 2022 | 2021 |
|---|---|---|---|
| Contract liabilities | Associate - Yuan-Yu | $ - | $ 10,647 |
| | Associate - Holdgood | 685 | - |
| | | $ 685 | $ 10,647 |

h. Remuneration of key management personnel

| | For the Year Ended December 31 2022 | 2021 |
|---|---|---|
| Short-term employee benefits | $ 42,773 | $ 33,485 |
| Post-employment benefits | 575 | 432 |
| Share-based payment | 886 | - |
| | $ 44,234 | $ 33,917 |

The remuneration of directors and key executives was determined by the remuneration committee based on the performance of individuals and market trends.

## 32. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for import duties, bank borrowings, borrowings for the purchase of material, power plant business and other credit facilities:

| | December 31 2022 | 2021 |
|---|---|---|
| Land | $ 425,279 | $ 1,071,526 |
| Buildings | 758,252 | 233,878 |
| Machinery | 319,266 | 494,300 |
| Investment properties | 92,093 | 149,155 |
| Investments accounted for using the equity method | 94,212 | - |
| Other financial assets - restricted assets (recognized as other current and non-current assets) | 133,282 | 101,503 |
| | $ 1,822,384 | $ 2,050,362 |

## 33. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

As of December 31, 2022 and 2021, significant commitments of the Company were as follows:

a. Commitments for construction contracts

| | December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Purchased | $ 458,897 | $ 60,255 |
| To be purchased in the future | 140,303 | 374,895 |
| | $ 599,200 | $ 435,150 |

b. Commitments for material purchasing contracts

| | December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Purchased | $ 586,901 | $ 440,117 |
| To be purchased in the future | 1,101,911 | 1,276,532 |
| | $ 1,688,812 | $ 1,716,649 |

c. Commitments for equipment purchasing contracts

| | December 31 | |
|---|---|---|
| | 2022 | 2021 |
| Purchased | $ 386,646 | $ 647,154 |
| To be purchased in the future | 457,954 | 383,884 |
| | $ 844,600 | $ 1,031,038 |

## 34. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

On March 8, 2023 the board of directors of the Company resolved to appoint Mega International Commercial Bank Co., Ltd. to host a 5-year Syndicated Loans and to provide land and buildings as collateral for the Syndicated Credit Facility, with the total credit facility amounting to NT$1,736 million (including partial equivalent in U.S. dollars), subject to a 10% adjustment depending on the circumstances of the syndicate. The total amount of the loan will be adjusted within 10% depending on the circumstances of the credit syndicate.

## 35. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Company's significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currencies (including monetary items that have been written off in a non-functional currency in the financial statements) and the related exchange rates between the foreign currencies and the respective functional currencies were as follows:

December 31, 2022

| | Foreign Currency | Exchange Rate | Carrying Amount |
|---|---|---|---|
| Financial assets | | | |
| Monetary items | | | |
| USD | $ 17,928 | 30.71 (USD:NTD) | $ 550,569 |
| Non-monetary items | | | |
| USD | 263 | 30.71 (USD:NTD) | 8,071 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD | 19,355 | 30.71 (USD:NTD) | 594,392 |

December 31, 2021

| | Foreign Currency | Exchange Rate | Carrying Amount |
|---|---|---|---|
| Financial assets | | | |
| Monetary items | | | |
| USD | $ 20,668 | 27.68 (USD:NTD) | $ 572,090 |
| Non-monetary items | | | |
| USD | 264 | 27.68 (USD:NTD) | 7,298 |
| JPY | 25,210 | 0.2405 (JPY:NTD) | 6,063 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD | 40,029 | 27.68 (USD:NTD) | 1,108,003 |

The significant unrealized foreign exchange gains were as follows:

| | For the Year Ended December 31 | | | |
|---|---|---|---|---|
| | 2022 | | 2021 | |
| Foreign Currency | Exchange Rate | Unrealized Foreign Exchange Gains | Exchange Rate | Unrealized Foreign Exchange Gains |
| USD | 29.805 (USD:NTD) | $ 2,919 | 28.0090 (USD:NTD) | $ 5,421 |

## 36. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

1) Financing provided to others: None

2) Endorsements/guarantees provided: Table 1 (attached)

3) Marketable securities held (excluding investments in subsidiaries): Table 2 (attached)

4) Marketable securities acquired or disposed of at costs or prices at least NT$300 million or 20% of the paid-in capital: None

5) Acquisition of individual real estate at costs of at least NT$300 million or 20% of the paid-in capital: Table 3

6) Disposal of individual real estate at prices of at least NT$300 million or 20% of the paid-in capital: None

7) Total purchases from or sales to related parties amounting to at least NT$100 million or 20% of the paid-in capital: Table 4 (attached)

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: None

9) Trading in derivative instruments: Notes 7 and 30

10) Information on investees (excluding investees in mainland China): Table 5 (attached)

b. Information on investments in mainland China: None

c. Information of major shareholders: Table 6 (attached)

## TSEC CORPORATION

**GUARANTEES PROVIDED**
**FOR THE YEAR ENDED DECEMBER 31, 2022**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| No. | Guarantor | Guarantee | | Limit on Guarantee Given on Behalf of Each Party (Note 2) | Maximum Amount Guaranteed During the Period (Note 4) | Outstanding Guarantee at the End of the Period (Note 4) | Actual Amount Borrowed | Amount Guaranteed by Collateral (Note 5) | Ratio of Accumulated Guarantee to Net Equity in Latest Financial Statements (%) (Note 3) | Aggregate Guarantee Limit (Note 2) | Guarantee Given by Parent on Behalf of Subsidiaries (Note 6) | Guarantee Given by Subsidiaries on Behalf of Parent (Note 6) | Guarantee Given on Behalf of Companies in Mainland China (Note 6) | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Name | Relationship (Note 1) | | | | | | | | | | | |
| 0 | TSEC Corporation (the “Company”) | Yuan-Yu Solar Energy Co., Ltd. | Associate | $ 138,617 | $ 120,000 | $ 120,000 | $ 120,000 | $ 120,000 | 1.95 | $ 138,167 | N | N | N | |

Note 1: Associates in which the Company holds 20% of ordinary shares directly.

Note 2: As for the amount of the Company's endorsement/guarantee provided to a single enterprise due to business dealings, the upper limit of the endorsement/guarantee provided shall be the same as the amount of the Company's purchases from or sales to said enterprises, whichever is higher, in the most recent year or the year before the endorsement/guarantee is provided.

Note 3: It is calculated according to the financial data of the company providing the endorsements/guarantees.

Note 4: The maximum balance of endorsements/guarantees for the current period and the balance of endorsement/guarantee, end of period, are the amounts approved by the board of directors.

Note 5: The guarantee amounted to NT$120,000,000 and was backed by 12,000 thousand shares of Yuan-Yu Solar Energy Co. with NT$10 per share.

Note 6: “Y” shall be entered only in the cases of endorsement/guarantee by the publicly listed parent to subsidiary; endorsement/guarantee by subsidiary to the publicly listed parent; endorsement/guarantee to entity in mainland China.

# TSEC CORPORATION

**MARKETABLE SECURITIES HELD**
**DECEMBER 31, 2022**
**(In Thousands of New Taiwan Dollars)**

| Holding Company Name | Type and Name of Marketable Securities | Relationship with the Holding Company | Financial Statement Account | December 31, 2022 | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | Number of Shares | Carrying Amount | Percentage of Ownership (%) | Fair Value | Note |
| TSEC Corporation (the "Company") | Domestic unlisted ordinary shares<br>Eversol Corporation | - | Financial assets at fair value through other comprehensive income (FVTOCI) | 62,591 | $ - | 2.23 | $ - | - |

Note: None of the marketable securities held at the end of the period listed in the table above were pledged as collateral.

# TSEC CORPORATION

**ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT$300 MILLION OR 20% OF THE PAID-IN CAPITAL**
**FOR THE YEAR ENDED DECEMBER 31, 2022**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Buyer | Property | Event Date | Transaction Amount | Payment Status | Counterparty | Relationship | Information on Previous Title Transfer If Counterparty Is A Related Party | | | | Pricing Reference | Purpose of Acquisition | Other Terms |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Property Owner | Relationship | Transaction Date | Amount | | | |
| TSEC Corporation (the "Company") | Land and buildings | August 26, 2021 (Note 1) | $ 323,000 | $ 274,550 | Engtown Construction Corporation | NA | - | - | - | $ - | Engineering contracts | Factory | NA |

Note 1: Depending on the date of the transaction

Note 2: As of December 31, 2022, the outstanding work has not been recorded because it has not yet been completed and accepted.

**TABLE 4**

## TSEC CORPORATION

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL**
**FOR THE YEAR ENDED DECEMBER 31, 2022**
**(In Thousands of New Taiwan Dollars)**

| Buyer/Seller | Related Party | Relationship | Transaction Details | | | | Transaction with Terms Different from Others | | Notes/Accounts Receivable (Payable) | | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Purchase/ Sale | Amount | % of Total | Credit Period | Unit Price | Credit Period | Ending Balance | % of Total | |
| TSEC Corporation | Holdgood Energy Development Corporation | Associate | Sale | $ 125,990 | 1.40 | 30-75 days | $ - | - | $ 9,498 | 0.79 | Note |

Note: The Company transacts with Holdgood Energy Development Corporation directly and the relevant price and credit period are based on either the contract or by negotiations.

## TSEC CORPORATION

**NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE**
**FOR THE YEAR ENDED DECEMBER 31, 2022**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Investor Company | Investee Company | Location | Main Business and Products | Investment Amount | | December 31, 2022 | | | Net Income (Loss) of the Investee | Share of Profit | Other Items |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | December 31, 2022 | December 31, 2021 | Number of Shares | % | Carrying Amount | | | |
| TSEC Corporation | TSEC AMERICA, INC. | 1235 N Harbor Blvd Ste 240, Fullerton, CA 92832, U.S.A. | Sales of solar related products | $ 31,129<br>(US$ 1,000,000) | $ 31,129<br>(US$ 1,000,000) | 100 | 100.00 | $ 8,071 | $ (24) | $ (24) | (Notes 1, 4 and 6) |
| | Houchang Energy Corporation | No. 335-12, Daxi Rd., Pingtung City, Pingtung County 900053, Taiwan (R.O.C.) | Self-usage power generation equipment utilizing renewable energy industry | 120,500 | 500 | 12,050 | 100.00 | 118,855 | (1,589) | (1,589) | (Notes 1 and 6) |
| | Changyang Optoelectronics Corporation | No. 335-12, Daxi Rd., Pingtung City, Pingtung County 900053, Taiwan (R.O.C.) | Self-usage power generation equipment utilizing renewable energy industry | 400 | 400 | 40 | 80.00 | 383 | 1 | 1 | (Notes 1 and 6) |
| | Yunsheng Optoelectronics Corporation | No. 335-12, Daxi Rd., Pingtung City, Pingtung County 900053, Taiwan (R.O.C.) | Self-usage power generation equipment utilizing renewable energy industry | 500 | 500 | 50 | 100.00 | 478 | 1 | 1 | (Notes 1 and 6) |
| | Yunxing Optoelectronics Corporation | No. 335-12, Daxi Rd., Pingtung City, Pingtung County 900053, Taiwan (R.O.C.) | Self-usage power generation equipment utilizing renewable energy industry | 500 | 500 | 50 | 100.00 | 478 | 1 | 1 | (Notes 1 and 6) |
| | TSECPV (HK) LIMITED | 806-807, 8/F, One Pacific Place, 88 Queensway, Hong Kong | Sales of solar related products | 200<br>(US$ 6,500) | 56<br>(US$ 2,000) | - | 100.00 | 87 | (72) | (72) | (Notes 1 and 6) |
| | Hengli Energy Corporation | No. 335-12, Daxi Rd., Pingtung City, Pingtung County 900053, Taiwan (R.O.C.) | Self-usage power generation equipment utilizing renewable energy industry | 89 | - | 10 | 100.00 | 80 | (9) | (9) | (Notes 1, 6 and 7) |
| | Holdgood Energy Corporation | 8F., No. 225, Sec. 3, Beixin Rd., Xindian Dist., New Taipei City 231, Taiwan (R.O.C.) | Self-usage power generation equipment utilizing renewable energy industry | 213,804 | 213,804 | 21,380 | 45.49 | 231,410<br>(Note 5) | 31,691 | 14,416 | (Note 2) |
| | Yuan-Yu Solar Energy Co., Ltd. | No. 335-12, Daxi Rd., Pingtung City, Pingtung County 900053, Taiwan (R.O.C.) | Self-usage power generation equipment utilizing renewable energy industry | 120,000 | 120,000 | 12,000 | 20.00 | 94,212<br>(Notes 5 and 8) | (53,144) | (12,460) | (Note 3) |
| Houchang Energy Corporation | Hengyong Energy Corporation | No. 335-12, Daxi Rd., Pingtung City, Pingtung County 900053, Taiwan (R.O.C.) | Self-usage power generation equipment utilizing renewable energy industry | 100 | 100 | 10 | 100.00 | 89 | - | - | (Notes 1 and 6) |
| | Hengli Energy Corporation | No. 335-12, Daxi Rd., Pingtung City, Pingtung County 900053, Taiwan (R.O.C.) | Self-usage power generation equipment utilizing renewable energy industry | - | 100 | - | - | - | - | - | (Notes 1, 6 and 7) |
| | Yongli Energy Corporation | No. 335-12, Daxi Rd., Pingtung City, Pingtung County 900053, Taiwan (R.O.C.) | Self-usage power generation equipment utilizing renewable energy industry | 100 | 100 | 10 | 100.00 | 89 | - | - | (Notes 1 and 6) |

Note 1: The investment gains and losses of the subsidiaries accounted for using the equity method are calculated based on the financial statements that have been audited.

Note 2: The investment gains and losses of the associates accounted for using the equity method are calculated based on the financial statements that have been audited.

Note 3: The share of profit or loss of associate accounted for using the equity method are calculated based on the financial statements that have not been audited. The management consider that if the financial statements are audited by accountants, the adjustment amount will not have a significant impact.

Note 4: The board of directors resolved to liquidate and dissolve the subsidiary TSEC America, Inc. on September 11, 2018. As of March 8, 2023, TSEC America, Inc. has not completed the liquidation procedures.

Note 5: Carrying amount includes unrealized gross margin.

Note 6: Eliminated from the consolidated financial statements.

Note 7: In March 2022, the Company purchased all the shares of Hengli Energy Corporation from its subsidiary, Houchang Energy Corporation, for $89 thousand in cash, and the percentage of ownership was 100% after the acquisition.

Note 8: The Company has issued the equity of Yuan-Yu Solar Energy Co., Ltd. to a financial institution as collateral for Yuan-Yu Solar Energy Co., Ltd.'s financing. Refer to Note 32 for mortgage information.

**TABLE 6**

# TSEC CORPORATION

**INFORMATION OF MAJOR SHAREHOLDERS**
**DECEMBER 31, 2022**

| Name of Major Shareholder | Shares | |
|---|---|---|
| | Number of Shares | Percentage of Ownership (%) |
| None | - | - |

Note: The information of major shareholders presented in this table is provided by the Taiwan Depository & Clearing Corporation based on the number of ordinary shares and preferred shares held by shareholders with ownership of 5% or greater, that have been issued without physical registration by the Company as of the last business day for the current quarter.

# TSEC CORPORATION

## STATEMENTS OF MAJOR ACCOUNTING ITEMS

| Item | Statement Index |
|---|---|
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| Statement of changes in right-of-use assets | 5 |
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# TSEC CORPORATION

**STATEMENT OF CASH**
**DECEMBER 31, 2022**
**(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

| Item | Description | Amount |
|---|---|---|
| Petty cash | | $ 609 |
| Checking accounts | | 1,467 |
| Demand deposits | | |
| NTD | | 500,772 |
| USD | US$5,594 thousand @30.71 | 171,794 |
| EUR | EUR5 thousand @32.72 | 171 |
| CNY | CNY9 thousand @4.4080 | 40 |
| Cash equivalents | | |
| Time deposits | | 150,625 |
| | | $ 825,478 |

# TSEC CORPORATION

**STATEMENT OF ACCOUNTS RECEIVABLE, NET**
**DECEMBER 31, 2022**
**(In Thousands of New Taiwan Dollars)**

| Client Name | Amount |
|---|---|
| Non-related party | |
| Client D | $ 182,341 |
| Client H | 294,689 |
| Client M | 273,650 |
| Client N | 125,652 |
| Others (Note) | 306,989 |
| | 1,183,321 |
| Less: Allowance for doubtful accounts | (18,391) |
| | $ 1,164,930 |
| Related party | |
| Hou Gu Energy Development Corporation | $ 9,498 |
| Yuan-Yu Solar Energy Co., Ltd. | - |
| | $ 9,498 |

Note: The amount from each individual client included under “others” does not exceed 5% of the total account balance.

# TSEC CORPORATION

**STATEMENT OF INVENTORIES**
**DECEMBER 31, 2022**
**(In Thousands of New Taiwan Dollars)**

| Item | Amount: Cost | Amount: Net Realizable Value |
|---|---|---|
| Raw materials | $ 995,537 | $ 958,386 |
| Finished goods | 752,108 | 608,353 |
| Work in process | 137,415 | 132,582 |
| | 1,885,060 | $ 1,699,321 |
| Less: Allowance for inventory valuation and obsolescence losses | (185,739) | |
| | $ 1,699,321 | |

Note: Net realizable value.

# TSEC CORPORATION

**STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD**
**FOR THE YEAR ENDED DECEMBER 31, 2022**
**(In Thousands of New Taiwan Dollars)**

| Investee | Balance, January 1, 2022 | | Increase in Investment (Note 1) | | Decrease in Investment (Note 2) | | Profit or Loss from Investments (Notes 3 and 4) | Exchange Differences from Translation of Financial Statements of Associates Accounted for Using the Equity Method | Unrealized Gain (Loss) on Investment in Equity Instruments | Deferred Realized (Unrealized) Gross Profit | Balance, December 31, 2022 | | | Net Asset Value | Collateral |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number of Shares | Amount | Number of Shares | Amount | Number of Shares | Amount | | | | | Number of Shares | % | Amount | | |
| Subsidiaries | | | | | | | | | | | | | | | |
| TSEC America, Inc. | 100,000 | $ 7,297 | - | $ - | - | $ - | $ (24) | $ 798 | $ - | $ - | 100,000 | 100.00 | $ 8,071 | $ 8,071 | NA |
| Yunsheng Optoelectronics Corporation | 50,000 | 477 | - | - | - | - | 1 | - | - | - | 50,000 | 100.00 | 478 | 478 | NA |
| Yunxing Optoelectronics Corporation | 50,000 | 477 | - | - | - | - | 1 | - | - | - | 50,000 | 100.00 | 478 | 478 | NA |
| Houchang Energy Corporation | 50,000 | 453 | 12,000,000 | 120,000 | - | - | (1,598) | - | - | - | 12,050,000 | 100.00 | 118,855 | 118,855 | NA |
| Changyang Optoelectronics Corporation | 40,000 | 382 | - | - | - | - | 1 | - | - | - | 40,000 | 80.00 | 383 | 383 | NA |
| Hengli Energy Development Corporation | - | - | 100,000 | 89 | - | - | (9) | - | - | - | 100,000 | 100.00 | 80 | 80 | NA |
| TSECPV (HK) LIMITED | - | 20 | - | 143 | - | - | (72) | (4) | - | - | - | 100.00 | 87 | 87 | NA |
| Associates | | | | | | | | | | | | | | | |
| Holdgood Energy Corporation | 21,380,350 | 216,939 | - | 11 | - | (2,138) | 14,416 | - | (37) | 2,219 | 21,380,350 | 45.49 | 231,410 | 229,191 | NA |
| Yuan-Yu Solar Energy Co., Ltd. | 12,000,000 | 106,416 | - | - | - | - | (12,460) | - | - | 256 | 12,000,000 | 20.00 | 94,212 | 96,040 | Y |
| | | $ 332,461 | | $ 120,243 | | $ (2,138) | $ 256 | $ 794 | $ 78 | $ 2,475 | | | $ 454,054 | $ 453,663 | |

Note 1: The increase was due to a new investment of 12,000,000 shares ($120,000 thousand) in a subsidiary, Houchang Energy Corporation. Subsidiary TSECPV (HK) LIMITED added an investment of $143 thousand, purchased $89 thousand of shares from subsidiary Hengli Energy Development Corporation and recognized a change in the ownership interest of $11 thousand in the equity-method investee company by a related party, Holdgood Energy Corporation.

Note 2: The decrease was due to the cash dividends of $2,138 thousand from a related company, Holdgood Energy Corporation.

Note 3: The subsidiary and associate Holdgood Energy Corporation was recognized based on the audited financial statements.

Note 4: The associate Yuan-Yu Solar Energy Co., Ltd. was recognized based on unaudited financial statements.

# TSEC CORPORATION

**STATEMENT OF RIGHT-OF-USE ASSETS**
**FOR THE YEAR ENDED DECEMBER 31, 2022**
**(In Thousands of New Taiwan Dollars)**

| Name | Balance at January 1 | Increase During the Year (Note 1) | Decrease During the Year (Note 2) | Balance at December 31 |
|---|---|---|---|---|
| Cost | | | | |
| Buildings | $ 18,853 | $ 11,911 | $ 12,830 | $ 17,934 |
| Transportation equipment | 2,611 | - | 2,611 | - |
| Machinery | 2,131 | - | 2,131 | - |
| | $ 23,595 | $ 11,911 | $ 17,572 | $ 17,934 |

Note 1: The increase in right-of-use assets was due to the new leases.

Note 2: The decrease in right-of-use assets was due to the leases that have expired or were terminated early.

# TSEC CORPORATION

### STATEMENT OF ACCUMULATED DEPRECIATION OF RIGHT-OF-USE ASSETS
### FOR THE YEAR ENDED DECEMBER 31, 2022
### (In Thousands of New Taiwan Dollars)

| Name | Balance at January 1 | Increase During the Year | Decrease During the Year (Note) | Balance at December 31 |
|---|---|---|---|---|
| Accumulated depreciation | | | | |
| Buildings | $ 9,337 | $ 10,657 | $ 12,830 | $ 7,164 |
| Transportation equipment | 2,068 | 543 | 2,611 | - |
| Machinery | 1,834 | 297 | 2,131 | - |
| | $ 13,239 | $ 11,497 | $ 17,572 | $ 7,164 |

Note: For the reason for the decrease during the year, refer to Statement 5 of Note 2.

# TSEC CORPORATION

**STATEMENT OF CONTRACT LIABILITIES**
**DECEMBER 31, 2022**
**(In Thousands of New Taiwan Dollars)**

| Vendor Name | Amount |
|---|---|
| Non-related party | |
| Client O | $ 15,976 |
| Client P | 11,139 |
| Client Q | 7,939 |
| Client R | 7,003 |
| Client S | 5,915 |
| Others (Note) | 69,088 |
| | 117,060 |
| Related party | |
| Holdgood Energy Development Corporation | 685 |
| | $ 117,745 |

Note: The amount of contract liabilities due to each individual under "others" does not exceed 5% of total account balance.

# TSEC CORPORATION

## STATEMENT OF ACCOUNTS PAYABLE
**DECEMBER 31, 2022**
**(In Thousands of New Taiwan Dollars)**

| Vendor Name | Amount |
|---|---|
| Vendor I | $ 185,572 |
| Vendor J | 134,739 |
| Vendor T | 58,540 |
| Vendor U | 62,739 |
| Others (Note) | 456,628 |
| | $ 898,218 |

Note: The amount of accounts payable due to each individual vendor under "others" does not exceed 5% of the total account balance.

**STATEMENT 9**

# TSEC CORPORATION

**STATEMENT OF LEASE LIABILITIES**
**DECEMBER 31, 2022**
**(In Thousands of New Taiwan Dollars)**

| Item Category | Item | Lease Term | Discount Rate (%) | Balance, End of Year | Note |
|---|---|---|---|---|---|
| Buildings | Office and staff dormitory | 2018.1.1-2025.4.30 | 2.33-2.43 | $ 10,869 | |

# TSEC CORPORATION

**STATEMENT OF LONG-TERM BORROWINGS**
**DECEMBER 31, 2022**
**(In Thousands of New Taiwan Dollars)**

| Name | Creditor | Repayment Method | Annual Rate (%) | Amount Current Portion | Amount Non-current Portion | Collateral |
|---|---|---|---|---|---|---|
| Syndicated loan | Syndicated loan led by Taiwan Cooperative Bank | Note | 3.98 | $ 128,000 | $ 1,216,000 | Land, buildings and other financial assets - restricted assets |
| Less: Syndicated borrowing administration fee | | | | (973) | (8,873) | |
| | | | | 127,027 | 1,207,127 | |
| Loan for the financing of machinery | EnTie Commercial Bank | Term of contract is three years from March 2021, repayment of principal and interest on a monthly basis | 2.88 | 35,422 | 29,239 | Machines |
| Loan for the financing of machinery | Chang Hwa commercial bank | Term of contract is six years from September 2022, repayment of principal and interest on a monthly basis | 1.35 | 10,000 | 190,000 | Machines |
| Loan for the financing of machinery | Taiwan Cooperative Financial Holding Co., Ltd. | Term of contract is six years from October 2022, repayment of principal and interest on a monthly basis | 1.47 | 3,000 | 14,250 | Machines |
| Loan for the financing of machinery | Land Bank of Taiwan | Term of contract is six and a half years from October 2021, repayment of principal and interest on a monthly basis | 1.85 | 36,977 | 163,308 | Machines |
| Loan for the financing of machinery | Land Bank of Taiwan | Term of contract is five and a half years from November 2022, repayment of principal and interest on a monthly basis | 1.85 | 6,178 | 327,422 | Machines |
| | | | | 91,577 | 724,219 | |
| | | | | $ 218,604 | $ 1,931,346 | |

Note: The first repayment should be made after 3 months from November 16, 2020, and the repayment of the loan should be made once every period for a total of 20 periods, where 1 period is equivalent to 3 months. In the first to twelfth periods, 2% of the principal should be repaid every period, in the thirteenth to nineteenth periods, 4% of the principal should be repaid, and the remaining amount is to be repaid in full on the maturity date of the loan.

# TSEC CORPORATION

**STATEMENT OF OPERATING REVENUE**
**FOR THE YEAR ENDED DECEMBER 31, 2022**
**(In Thousands of New Taiwan Dollars)**

| Item | Description | Amount |
|---|---|---|
| Sales revenue | | |
| Total sales revenue | Solar module sales | $ 8,991,352 |
| | Power plant sales | 154,052 |
| | Sale of electricity | 7,928 |
| | | 9,153,332 |
| Less: Sales returns and allowances | | (148,269) |
| Operating revenue | | $ 9,005,063 |

# TSEC CORPORATION

## STATEMENT OF OPERATING COSTS
## FOR THE YEAR ENDED DECEMBER 31, 2022
## (In Thousands of New Taiwan Dollars)

| Item | Amount |
|---|---|
| Raw material cost | |
| Balance, beginning of year | $ 1,105,904 |
| Raw materials purchased | 6,203,009 |
| Raw materials, end of year | 995,537 |
| Transferred to manufacturing expenses | 524,660 |
| Transferred to operating expenses | 4,082 |
| | 5,784,634 |
| Direct labor | 895,095 |
| Manufacturing expenses | 1,818,807 |
| Manufacturing cost | 8,498,536 |
| Work in process, beginning of year | 137,687 |
| Work in process, end of year | 137,415 |
| Cost of finished goods | 8,498,808 |
| Finished goods, beginning of year | 416,389 |
| Allowance for inventory valuation loss | 97,900 |
| Finished goods, end of year | 752,108 |
| Transferred to manufacturing expenses | 51,501 |
| Transferred to operating expenses | 432 |
| Transferred to power plant cost | 7,390 |
| | 8,201,666 |
| Module cost transferred to power plant cost | 7,390 |
| Power plant engineering cost | 114,610 |
| | 122,000 |
| Cost of sale of electricity | 4,858 |
| | $ 8,328,524 |

# TSEC CORPORATION

**STATEMENT OF MANUFACTURING EXPENSES**
**DECEMBER 31, 2022**
**(In Thousands of New Taiwan Dollars)**

| Item | Amount |
|---|---|
| Depreciation expense | $ 565,085 |
| Indirect material cost | 313,070 |
| Hydroelectric gas fees | 217,609 |
| Employees' wages | 204,628 |
| Consumables | 145,608 |
| Others (Note) | 372,807 |
| | $ 1,818,807 |

Note: The amount of each item under "others" does not exceed 5% of the total account balance.

# TSEC CORPORATION

**STATEMENT OF OPERATING EXPENSES**
**DECEMBER 31, 2022**
**(In Thousands of New Taiwan Dollars)**

| Item | Selling Expenses | General and Administrative Expenses | Research and Development Expenses | Expected Credit Loss Reversed | Total |
|---|---|---|---|---|---|
| Employees' wages | $ 33,304 | $ 148,022 | $ 19,483 | $ - | $ 200,809 |
| Depreciation expense | 4,948 | 19,103 | 2,222 | - | 26,273 |
| Delivery fee | 40,897 | 9 | 104 | - | 41,010 |
| Expected credit loss reversed | - | - | - | 18,714 | 18,714 |
| Others (Note) | 25,140 | 66,406 | 28,030 | - | 119,576 |
| | $ 104,289 | $ 233,540 | $ 49,839 | $ 18,714 | $ 406,382 |

Note: The amount of each item under "others" does not exceed 5% of the total account balance.

# TSEC CORPORATION

**STATEMENT OF EMPLOYEES' BENEFITS, DEPRECIATION AND AMORTIZATION BY FUNCTION**
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**
**(In Thousands of New Taiwan Dollars)**

| | Classified as Cost of Revenue | Classified as Operating Expenses | Total | Classified as Cost of Revenue | Classified as Operating Expenses | Total |
|---|---|---|---|---|---|---|
| Labor cost (Note) | | | | | | |
| Payroll expenses | $ 835,276 | $ 130,576 | $ 965,852 | $ 624,849 | $ 133,447 | $ 758,296 |
| Labor and health insurance expenses | 86,948 | 13,552 | 100,500 | 66,079 | 12,738 | 78,817 |
| Pension | 34,103 | 5,720 | 39,823 | 27,181 | 5,476 | 32,657 |
| Remuneration of directors and supervisors | - | 16,023 | 16,023 | - | 11,546 | 11,546 |
| Share-based payments | - | 21,442 | 21,442 | - | - | - |
| Others | 72,887 | 13,496 | 86,383 | 55,827 | 13,659 | 69,486 |
| | $ 1,029,214 | $ 200,809 | $ 1,230,023 | $ 773,936 | $ 176,866 | $ 950,802 |
| Depreciation | $ 565,085 | $ 26,273 | $ 591,358 | $ 483,177 | $ 30,818 | $ 513,995 |
| Amortization | $ 1,048 | $ 807 | $ 1,855 | $ 187 | $ 1,312 | $ 1,499 |

Note 1: As of December 31, 2022 and 2021, the Company had 1,930 and 1,411 employees, respectively. There were 6 non-employee directors for both years.

Note 2: a) Average labor costs for the years ended December 31, 2022 and 2021 were $631 thousand and $669 thousand, respectively.

b) Average salary and bonus for the years ended December 31, 2022 and 2021 were $502 thousand and $540 thousand, respectively.

Note 3: The average salary and bonus decreased by 7.04% year over year.

Note 4: The Company's compensation policies

Principles of the formulation of the Company's compensation policies

a) Employees' compensation: Employees' compensation mainly includes basic salary (including base salary and meal allowance), performance bonus, personal performance annual salary adjustment and year-end bonus, etc. Salaries are determined based on the market rate, job category, academic experience, professional knowledge and skills, and professional years of experience; salaries offered are better than the average market salary in the same industry.

b) Remuneration of managers is determined based on the Company's profitability and business strategy as well as the performance and contribution of the managers with reference to the market salary, and is reviewed by the compensation committee and submitted to the board of directors for approval.

c) Employees' bonuses: Bonuses are issued based on the Company's operating performance and the individual performance of the employees.

d) Annual salary adjustments: The Company conducts salary adjustments once a year to motivate the long-term development of employees, taking into consideration the overall economic environment, operating profit, employee performance appraisal results, with reference to the average market salary and overall salary adjustment situation of other companies in the same industry.

Employees' compensation and remuneration of directors and supervisors

The Company accrued employees' compensation and remuneration of directors and supervisors at rates of no less than 5% and no higher than 5%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors, after offsetting accumulated deficits, if any.