

**FALCON MACHINE TOOLS CO., LTD.**  
**2023 Annual General Shareholders' Meeting MINUTES**  
**(Translation)**

**Time** : 11:00 a.m. on Wednesday, June 21, 2023

**Place** : No. 34, Xinggong Rd, Shengang Township, Changhua County, Taiwan

**Means of shareholders' meeting** : physical shareholders' meeting

**Attendants** : All shareholders and their proxy holders, representing 46,604,721 shares (amongst them, 2,311,606 shares voted via electronic transmission), or 60.61% of the total 76,880,300 outstanding shares (0 non-voting shares have been deducted according to the second paragraph of Section 179 in Company Act).

**Board Members Present** : Lin, Tsung-Lin, Tung, Shang-Yu, Lin, Yi-Zhen, Zhang, Yu-Xin, Wu, Zhi-Chi, Chen, Li-Yun

**Attendees** : Chen, Cheng-Chu CPA of Ernst & Young, Taiwan, LIN, PEI-YU Attorney of Hanyu Law Firm.

Chairperson : Lin, Tsung-Lin Chairman

Minute Recorder : Yeh, Yu-Chiao

**I. Chairman announced commencement.**

**II. Chairman's Address (omitted)**

**III. Report Items**

**Report No. 1:**

**Proposed by the Board of Directors**

**Subject: Business Report for 2022**

Explanation: Please refer to Attachment 1 (pp.7-10).

(Acknowledged)

**Report No. 2:**

**Proposed by the Board of Directors**

**Subject: Audit Committee's Review Report for 2022**

Explanation: Please refer to Attachment 2 (pp.11).

(Acknowledged)

**Report No. 3:**

**Proposed by the Board of Directors**

**Subject: Report on the Revision of Some Provisions of the "Rules of Procedure for Board of Directors Meetings"**

Explanation: To follow No. 1110383263 of the Financial Supervisory Commission on August 5, 2022, of which amended some articles of the "Regulations Governing Procedure for Board of Directors Meetings of Public Companies," some articles of the "Rules of Procedure for Board of Directors Meetings" are amended. Please refer to Attachment 3: Comparison Table Illustrating the Original and Amended Text of the "Rules of Procedure for Board of Directors Meetings" (pp.12-13).

(Acknowledged)

#### IV. Ratification Items

**Report No. 1:**

**Proposed by the Board of Directors**

**Subject: Adoption of the 2022 Business Report and Financial Statements**

**Explanation:**

(1)The company's 2022 annual business report, individual financial statements and consolidated financial statements were approved by the company's board of directors on March 21, 2023, and the individual financial statements and consolidated financial statements were audited by the CPAs Chen, Zheng-Chu and Hong, Guo-Sen from the CPA firm of Ernst & Young.

(2)The above-mentioned final accounts were submitted to the Audit Committee for review and completion. Please refer to Attachment 1 (pp.7-10) and Attachment 4 (pp.14-33).

(3)Approval is respectfully requested.

**Voting Results:**

Shares represented at the time of voting: 42,454,721

Voting Results	% of the total represented share present
Votes in favor: 41,137,666 votes(994,551 votes)	96.89%
Votes against: 85,846 votes(85,846 votes)	0.20%
Votes invalid: 0 votes(0 votes)	0.00%
Votes abstained: 1,231,209 votes(1,231,209 votes)	2.90%

\* including votes casted electronically (numbers in brackets)

**Resolution:**

The above proposal be and hereby was approved as proposed.

**Report No. 2:**

**Proposed by the Board of Directors**

**Subject: Proposal for 2022 Allocation of Profits. Approval is respectfully requested.**

**Explanation:**

(1)The company's net loss after tax in 2022 is NT\$22,994,885, and it planned to prepare the table of 2022 allocation of profits. Please refer to Attachment 5 (pp.34).No dividends will be distributed this year.

(2)This proposal was approved by the resolution of the board of directors of the company on March 21, 2023, and has been submitted to the Audit Committee for review and completion.

(3)Approval is respectfully requested.

**Voting Results:**

Shares represented at the time of voting: 42,454,721

Voting Results	% of the total represented share present
Votes in favor: 41,120,636 votes(977,521 votes)	96.85%
Votes against: 101,874 votes(101,874 votes)	0.23%
Votes invalid: 0 votes(0 votes)	0.00%
Votes abstained: 1,232,211 votes(1,232,211 votes)	2.90%

\* including votes casted electronically (numbers in brackets)

**Resolution:**

The above proposal be and hereby was approved as proposed.

## V. Discussion Items

**Report No. 1:** **Proposed by the Board of Directors**  
**Subject: Proposal for the Amendment “Articles of Corporation” and Change of the Company Address. Resolution is respectfully requested.**

### **Explanation:**

- (1) In line with the company’s operating needs and regulations, it is planned to add new business items, change the city of the head office, and according to current circumstances amend some articles of the company’s “Articles of Corporation.” Please refer to Attachment 6 (pp.35-37) for the comparison table illustrating the original and amended text.
- (2) The company disposes of the Daya factory for asset revitalization, which is currently registered at No. 12, Longshan 2nd St., Daya Dist., Taichung City 428006, Taiwan (R.O.C.), and plans to relocate to No. 34, Xinggong Rd., Shengang Township, Changhua County 509004, Taiwan (R.O.C.)
- (3) This proposal was approved by the company’s board of directors on March 21, 2023.
- (4) Resolution is respectfully requested.

### **Voting Results:**

Shares represented at the time of voting: 42,454,721

Voting Results	% of the total represented share present
Votes in favor: 41,141,651 votes(998,536 votes)	96.90%
Votes against: 80,860 votes(80,860 votes)	0.19%
Votes invalid: 0 votes(0 votes)	0.00%
Votes abstained: 1,232,210 votes(1,232,210 votes)	2.90%

\* including votes casted electronically (numbers in brackets)

### **Resolution:**

The above proposal be and hereby was approved as proposed.

**Report No. 2:** **Proposed by the Board of Directors**  
**Subject: Proposal for Reformulation of “Rules and Procedures of Shareholders’ Meeting.” Resolution is respectfully requested.**

### **Explanation:**

- (1) The company’s “Rules and Procedures of Shareholders’ Meeting” was formulated on June 28, 2002. Since there have been many additions, deletions, and amendments by letter orders, which may be out of date, it is proposed to reformulate the “Rules and Procedures of Shareholders’ Meeting” of the company and abolish the original “Rules and Procedures of Shareholders’ Meeting.” Please refer to Attachment 2 (pp.58-59) and Attachment 7 (pp.38-43) for the versions before and after the reformulation of “Rules and Procedures of Shareholders’ Meeting.”
- (2) This proposal was approved by the company’s board of directors on March 21, 2023.
- (3) Resolution is respectfully requested.

### **Voting Results:**

Shares represented at the time of voting: 42,454,721

Voting Results	% of the total represented share present
Votes in favor: 41,141,648 votes(998,533 votes)	96.90%
Votes against: 80,863 votes(80,863 votes)	0.19%
Votes invalid: 0 votes(0 votes)	0.00%
Votes abstained: 1,232,210 votes(1,232,210 votes)	2.90%

\* including votes casted electronically (numbers in brackets)

**Resolution:**

The above proposal be and hereby was approved as proposed.

**Report No. 3:**

**Proposed by the Board of Directors**

**Subject: Proposal for Conducting Private Placement of Common Shares. Resolution is respectfully requested.**

**Explanation:**

(1) To raise funds to add to operation capital, repay bank loans, improve financial structure, or support other capital needs in response to the company's future diversified business development (including but not limited to reinvestment, adding to new business operation capital), the Company proposed to the shareholders' meeting to authorize the board of directors to conduct private placement of common shares within the limit of 30,000,000 shares at an appropriate time in accordance with the company's articles of corporation or relevant laws and regulations, depending on the market conditions and the company's actual capital needs, with a par value of NT\$10 per share. Pursuant to Article 43-6 of the Securities and Exchange Act, the Company will conduct it once or twice within one year from the date of resolution of the shareholders' meeting.

(2) Types of conducting privately placed securities:

The total number of privately placed common shares does not exceed 30,000,000 shares, and the par value of each share is NT\$10.

(3) The reference and reasonableness of pricing:

1. The issue price of the privately placed common shares shall be determined on the basis that it shall not be lower than 80% of the reference price and shall not be lower than the par value of the shares. The actual pricing date shall be determined by the board of directors authorized by the shareholders' meeting according to the situation of the placee and market conditions.

2. The reference price of privately placed common shares shall be determined according to the higher price of the following two benchmarks:

(1) The simple average closing price of the common shares for either the 1, 3, or 5 business days before the price determination date, after adjustment for any distribution of stock dividends, cash dividends or capital reduction.

(2) The simple average closing price of the common shares for the 30 business days before the price determination date, after adjustment for any distribution of stock dividends, cash dividends, or capital reduction.

3. The reasonableness of pricing:

The conditions for the issuance of privately placed securities are determined in addition to considering the three-year transfer restriction on privately placed securities under the Securities Exchange Act and strict regulations on the qualifications of places, it is in accordance with the relevant provisions of "Directions for Public Companies Conducting Private Placements of Securities." Therefore, when there will be no significant damage to the shareholders' rights and interests, the principle of pricing should be reasonable.

(4) The method for selecting the places:

1. The placee (including but not limited to insiders, related parties, or strategic investors who will directly or indirectly benefit the company's future operations and have a certain understanding of the company) for this private placement is considered in accordance with Article 43-6 of the Securities and Exchange Act and No. 0910003455 issued by the Financial Supervisory Commission on June 13, 2002 (91) and "Directions for Public Companies Conducting Private Placements of Securities."

2.The objective for selecting the places:

No specific person has been selected. It is proposed to the board of directors to authorize the chairman to select those who can directly or indirectly benefit the company's future operations and meet the regulations of the competent authority.

3.If the placees are insiders or related parties:

(1)The method and objective for selecting the places: Those who will directly or indirectly benefit the company's future operations and have a certain understanding of the company.

(2)Necessity: In order to improve the company's profitability, strengthen the financial structure, and maintain the company's sustainable operation, and considering strengthening the stability of the management level and to avoid affecting the usual operation of the company, it is proposed to raise funds from specific people through private placement to improve the company's overall operating system.

(3)Expected benefits: Through the funds from placees, stable long-term funds can be obtained, and the dependence on bank financing and interest expenses can be reduced, so the use of funds can be more flexible.

(4)List of placees: If the places are insiders or related parties, please refer to Attachment 8 (pp.44) for the list of potential placees.

4.If the placees are strategic investors:

(1)The method and objective for selecting the places: Those who will directly or indirectly benefit the company's future operations and have a certain understanding of the company.

(2)Necessity: In order to improve the company's profitability, strengthen the financial structure, and maintain the company's sustainable operation, it is proposed to look for strategic investors, with the expectation to improve the company's overall operating system through their own experience, technology, knowledge or access. Therefore, it is necessary and reasonable for the placees of this private placement to consider the strategic investors who will be beneficial to the company's future business development. However, no strategic investors have been selected yet.

(3)Expected benefits: The introduction of strategic investors through private placement can help to obtain lower capital costs and long-term stable funds. With their own experience, technology, knowledge or access, they can improve the company's overall operating system, and enhance the company's overall shareholders'equity.

(5)Necessary reasons of conducting private placement:

1.Reasons for not adopting public offering: Considering the timeliness and feasibility of raising funds and the uncertainties of the capital market, and to effectively reduce the cost of capital, it is proposed to raise funds from specific people through private placement.

2.Quota for private placement: Within the quota of the total number of shares not exceeding 30,000,000 shares for conducting the private placement of common shares, the par value of each share is NT\$10.

3.Use of private placement funds and expected benefits:

This private placement plan will be handled once or twice within one year from the date of resolution of the shareholders' meeting.

Times	Use of Funds	Expected Benefits
First Time~ Second Time	Add to operation capital, repay bank loans, improve financial structure, or support other capital needs in response to the company's future diversified business development	Obtain long-term stable funds and reduce the dependence on bank financing and interest

Times	Use of Funds	Expected Benefits
	(including but not limited to reinvestment, adding to new business operation capital).	expenses, so the use of funds can be more flexible.

- (6)The company has asked Taichung Bank Securities Co., Ltd. to issue an assessment opinion letter on the necessity and reasonableness of private placement. Please refer to Attachment 9 (pp. 45-53) for the opinion letter.
- (7)The rights and obligations of this private placement of common shares: the same as the issued common shares of the company. However, in accordance with the provisions of the Securities and Exchange Act, the common shares of this private placement shall not be resold within three years from the date of delivery, except under the circumstances provided in Article 43-8 of the Securities and Exchange Act. After three years have elapsed since the delivery date of the common shares in this private placement and the common shares allotted thereafter, the board of directors is authorized to determine whether to first obtain a letter of approval issued by the stock exchange that meets the listing standards, and apply to the competent authority for supplementary issuance and listing complying with the relevant regulations according to the current situation.
- (8)The main content of the securities of this private placement, in addition to the private placement pricing ratio, includes the actual number of private placement shares, actual private placement price, selection of placees, base date, issuance conditions, planned items, raised amount, use of funds and progress, and expected benefits and other related matters, as well as all other matters related to the issuance plan. It is proposed to be submitted to the shareholders' meeting to authorize the board of directors to adjust, formulate and conduct them according to market conditions. In the future, the board of directors will also be authorized to deal with changes due to changes in laws and regulations or required by competent authorities, or based on operational assessments, or changes due to objective circumstances. In addition to the scope of the above-mentioned authorization, it is proposed that the shareholders' meeting authorize the chairman to sign, discuss, and change all matters related to the private placement of securities on behalf of the company.
- (9)This proposal was approved by the company's board of directors on May 2, 2023.
- (10)Resolution is respectfully requested.

**Voting Results:**

Shares represented at the time of voting: 42,454,721

Voting Results	% of the total represented share present
Votes in favor: 40,592,612 votes(449,497 votes)	95.61%
Votes against: 629,902 votes(629,902 votes)	1.48%
Votes invalid: 0 votes(0 votes)	0.00%
Votes abstained: 1,232,207 votes(1,232,207 votes)	2.90%

\* including votes casted electronically (numbers in brackets)

**Resolution:**

The above proposal be and hereby was approved as proposed.

**VI. Questions and Motions:**None.

**VII. Other records:**Shareholder's Question:None.

**VIII. Adjournment:**Meeting ended at 11:38 am

## FALCON MACHINE TOOLS CO., LTD.

### Business Report

Welcome to the 2023 annual shareholders' meeting. We extend our gratitude to all shareholders for their support and patronage. We hereby present a summary report on the operating results for the year 2022 and the business plan for the year 2023:

#### Operating Performance in 2022

##### I.Consolidated financial results:

The Ministry of Finance's Customs Administration has released the preliminary import and export trade statistics for Taiwan from January to December 2022. According to the Taiwan Association of Machinery Industry, the cumulative export value of machine tools for the year 2022 was \$3.023 billion, an increase of 8.6% compared to the same period in 2021. Of these exports, the export value of metal cutting machine tools was approximately \$2.543 billion, an increase of 10.4% compared to the same period in 2021, while the export value of metal forming machine tools was \$480 million, a growth of 0.2% compared to the same period in 2021.

Our company's net operating income for the year 2022 was NTD 1.61 billion, which is a 0.22% increase from the net operating income of NTD 1.607 billion in 2021. However, in terms of profit and loss, we had a loss of NTD 22.995 million in 2022, compared to a profit of NTD 33.9 million in 2021, a decrease of 167.83%.

The comparison for operating income and surplus/deficit between 2022 and 2021 is as follows:

Unit:NT\$ Thousands

Item	2022	2021	Increase(Decrease)in amount	Percentage Change (%)
Net Profit	1,610,552	1,607,091	3,461	0.22
Operating Costs	1,206,683	1,217,827	(11,145)	(0.92)
Operating Margin	403,869	389,264	14,605	3.75
Operating Expenses	388,533	343,287	45,246	13.18
Operating Profit (loss)	15,336	45,977	(30,614)	(66.64)
Net income	(2,651)	6,301	(8,952)	(142.07)
Pre-tax income	12,685	52,278	(39,593)	(75.74)
Net income after tax	(22,995)	33,900	(56,895)	(167.83)

##### II.Budget implementation:

Based on the "Guidelines for Processing Public Financial Forecast Information of Publicly Traded Companies," our company is not required to disclose financial forecast information for the fiscal year 2022,so there is no data available regarding the budget execution status for the year 2022.

##### III.Profitability Analysis:

ITEM	2022	2021
Non-operating income and expenses(NT\$)	(2,651)	6,301
Return on total assets (%)	(1.86)	2.23
Return on equity (%)	(2.82)	4.25
Ratio of Operating Income to paid-in capital (%)	1.99	5.98
Ratio of income before tax to paid-in capital (%)	1.65	6.80
Net Profit Margin (%)	(1.43)	2.11
Earnings per share (NT\$)	(0.30)	0.44

#### IV. Research and development status:

1. The ratio of research and development expenses to current year operating income for the past two years of our company is shown below:

Year	2022	2021
R&D Expenses	54,492	62,483
Percentage of Revenue(%)	3.38	3.89

2. Research and development achievements:

Product development is crucial for a company's long-term operations and sustainable growth. Company is committed to continuously developing new products and commercializing them. Regardless of the economic environment, we never stop our pace of product development. In recent years, company have introduced new machine models such as vertical grinding centers, double-sided grinding machines, precision mold processing machines, intelligent automated aluminum wheel production lines, non-circular piston vertical lathes, specialized grinding machines for bolt slots, 5-axis vertical machining centers, large and medium-sized vertical lathes, and continue to optimize existing models to meet the high-precision machining needs of industries such as oil and gas, IT, automotive/electric vehicles, aerospace, mold manufacturing, as well as the sustained growth of industries such as railways and ships, and to develop new trends in high-tech machine tools with high added value such as large-scale, high-speed cutting, high-precision, and intelligent automation. Furthermore, company is continuously improve the existing products and actively provide customized services, manufacturing customized equipment and comprehensive processing (Turn Key) solutions to meet customer needs. In the future, company's main focus will be on the research and develop of intelligent mechanical communication systems (iMCS) and new material processing equipment models, providing customers with material technology solutions and equipment integration solutions to enhance product added value.

The company currently holds 21 patents within the patent term and has one patent pending. The patent layout covers the development of structure, control system, and intelligent automation technology for the milling and grinding of vehicles, as well as the manufacturing technology of fixtures.

### **Business Plan for year 2023**

#### I. Business Objectives

After thorough communication among the management team, Falcon Co., Ltd. has established the following three major operational policies for the year 2023: prioritizing revenue and profitability through effective management, streamlining and optimizing talent cultivation and training, and tracking and controlling profitability. The three operational policies are as follows:

1. Prioritizing revenue and profitability
2. Talent cultivation
3. Operations - Strengthening organizational management and improving efficiency
4. Plans to actively expand into new businesses such as real estate and agency sales

#### II. Important Production and Sales Policies

1. In response to globalization and global marketing, it is crucial to understand and cater to the needs of local market users. This requires not only working closely with distributors, but also actively training international talents to rapidly adopt new technologies and provide support to both distributors and customers, ultimately ensuring the achievement of business objectives.



2. The COVID-19 pandemic has resulted in a greater focus on online marketing and the utilization of social media platforms in advertising and marketing efforts. This will accelerate companies' digital transformation in their marketing strategies.
3. Our goal is to have grinding machine orders account for more than 40% of sales and achieve a multiple-fold growth in sales. To accomplish this, we will share and replicate successful case studies of grinding machines and standardize special attachments.
4. Our objective is to create a more service-oriented manufacturing industry. To achieve this, we will strengthen our sales and service centers, and ensure that pre-sales, during-sales, and after-sales services are in place. We will also enhance our customized production technology to reach our goals. Additionally, we will continue to expand market demand through international Turn Key Solutions
5. To prevent similar issues from recurring in the future, we will propose and implement measures accordingly. We will actively clear out abnormal inventory, establish clearance strategies, and reduce the amount of stagnant inventory.
6. We will establish and maintain a comprehensive sales and service maintenance manual to improve the execution rate of service calls. We will review and adjust the inventory of commonly used sales and service parts for mass production machines every quarter, and ensure effective management of the inventory value. This will improve the delivery efficiency of sales and service parts.
7. We will continue to implement our quality policy by enhancing our intelligent technology, demonstrating stable quality, continuous improvement, and prioritizing service efficiency to meet customer needs. We will also strengthen our international brand and achieve our quality goals for 2023, which includes targets for internal and external failure costs, claims execution rate, and the number of customer complaints.
8. We will implement self-inspection checklists and create standard assembly instructions to prevent defective products from entering the production site. This will help establish basic data for smart manufacturing SOPs and standard work hours.
9. According to the production and sales schedule, we will establish a machine process breakdown and assign specific roles and responsibilities to ensure standardized operating skills and achieve our production goals. We will also ensure the proper execution of the return material process.
10. We will establish a job analysis of production unit work functions and schedule personnel education and training to establish a system for identifying the ability of "basic operational skills/multi-skilled workers who can work independently and possess problem-solving and improvement capabilities.
11. We will capitalize on our management team's expertise and resources to expand our business operations in the real estate sector, including offering real estate agency services, developing self-built properties, and partnering in joint real estate projects.

### III. Business Objectives for Year 2023:

Considering the impact of COVID-19 on our business goals and the overall industry, as well as the global economic recovery, rising raw material prices, supply chain constraints, and the heating up of inflation in major economies, which intensifies the pressure to exit from loose monetary policies, and the possibility of the Fed accelerating the tightening of monetary policy, will affect the global economy. We anticipate selling approximately 1,124 units of our products under the parent company and a total of approximately 1,581 units under the entire group in the fiscal year 2024. We will continue to focus on creating and increasing the added value of our products, such as processing electric vehicles, semiconductor industry, medical, 3C, and 5G industry equipment, and strive to achieve our vision of "becoming the only choice for the best machine tools.

Regarding real estate agency business, the company focuses on cases that are close to consumer needs, with competitive prices and specialty. For cases of construction, the company focuses on grasping the trends of regional development and introducing cases that meet market demand, which creates high added value and increases the company's source of profit.

### **Development Strategy**

- (1) Adhering to the business philosophy of "Steady management, striving for perfection, gaining international recognition, and sharing prosperity," we will strive to achieve our vision of "becoming the only choice for the best machine tools.
- (2) We will deepen our presence in the machine tool industry, embrace AIOT, and continuously innovate and develop high-precision, high-efficiency, high-quality, and highly intelligent machine tool products. We will strengthen our position as a leader in the grinding machine market and achieve industrial upgrading.

- (3) Our marketing, design, application, and sales and service departments should be responsive and understand market demands and changes to provide high-quality customized services. We will enhance machining technology, application technology, fixture design, and manufacturing, and strengthen pre-, during-, and post-sales customer service to improve customer satisfaction, meet their needs, and create favorable brands like "CHEVALIER."
- (4) We will pay attention to and master changes and fluctuations in the market environment and rapidly evolving technology, effectively control risks, adjust the scope of product applications and industries, and improve processing equipment to meet the demand for new materials. We will continue to implement performance management with the spirit of FPS.
- (5) We will promote strategic alliances in the machine tool industry for mutual benefit and actively participate in industry-government-academia-research cooperation to develop key technologies for processing new materials.
- (6) We will cultivate the real estate sales and development business to establish a new source of profit for the company.

### **The Impact of the External Competitive Environment, Regulatory Environment, and Macroeconomic Conditions**

- (1) With the administration of COVID-19 vaccines, there is optimism that market demand for the global manufacturing industry will gradually return to normal. However, the epidemic has had an impact on household income and consumer confidence in China. This, coupled with a stagnant real estate market and weakening external demand, adds obstacles to economic recovery.
- (2) The duration and extent of interest rate hikes by major central banks in Europe and the United States in 2023 will affect the global economic and financial situation.
- (3) Ongoing tensions in the US-China tech war, export controls imposed by Japan and the Netherlands on China, and the development of a polarized global supply chain are creating uncertainties in the global economic environment. In addition, the increasing frequency and severity of climate-related natural disasters around the world, which greatly affect the supply of commodities, may exacerbate price fluctuations.
- (4) The Russia-Ukraine conflict is unlikely to be resolved in the short term. Despite Europe's commitment to diversify its energy sources, an immediate halt in Russia's natural gas supply would severely impact industries and livelihoods, which in turn could affect the global economy.

Falcon is continuously strengthening its management and employee training, and has established a solid foundation. The management team will persist in changing old ways of thinking and practices, improving management efficiency, and devoting themselves to researching and developing new material processing technologies, producing and selling various types of highly competitive processing machines, in order to ensure priority competitiveness in the market and increase profitability. We sincerely hope to receive continued support, care, and guidance from our shareholders.

Sincerely yours,

Falcon Machine Tools CO., LTD.

Chairman:  
Lin Tsung-Lin

Director:  
Tung Shang-Yu

Account Manager:  
Pei Yu Wen

## **Audit Committee's Review Report**

The Board of Directors has prepared the Company's 2021 business report, financial statements, and proposal for allocation of profits. The CPAs Chen, Zheng-Chu and Hong, Guo-Sen from the CPA firm of Ernst & Young were retained to audit FALCON MACHINE TOOLS' financial statements and has issued an audit report relating to the financial statements. The business report, financial statements, and profit allocation proposal have been reviewed by the Audit Committee and no irregularities were found. We hereby report as above according to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act. Please kindly approve.

Sincerely,

2023 Annual General Shareholders' Meeting of Falcon Machine Tools Co., Ltd.

Convener of the Audit Committee

Wu, Zhi-Chi

March 21, 2023

**FALCON MACHINE TOOLS CO., LTD.**  
**Comparison Table Illustrating the Original and Amended Text of the “Rules of Procedure for Board of Directors Meetings”**

Amended Text	Original Text	Explanation
<p>Article 3:                      The board of directors shall meet at least once a quarter.                      A written notice of the reasons for convening a board meeting shall be given to each director and supervisor before 7 days before the meeting is convened. In emergency circumstances, however, a board meeting may be called on shorter notice.                      The notice to be given under the preceding paragraph may be affected by means of writing or electronic transmission (e-mail or fax) with the prior consent of the recipients.                      All matters set forth under Article 12, paragraph 1 of these Rules shall be specified in the notice of the reasons for convening a board meeting. None of those matters may be raised by an extraordinary motion.</p>	<p>Article 3:                      The board of directors convenes at least once a quarter.                      A written notice of the reasons for a board meeting shall be given to each director and supervisor before 7 days before the meeting is convened. In emergency circumstances, however, a board meeting may be called on shorter notice.                      The notice to be given under the preceding paragraph may be affected by means of writing or electronic transmission (e-mail or fax) with the prior consent of the recipients.                      All matters set forth under Article 12, paragraph 1 of these Rules shall be specified in the notice of the reasons for convening a board meeting. None of those matters may be raised by an extraordinary motion <u>except in the case of an emergency or for other legitimate reason.</u></p>	<p>Amended according to laws and regulations and actual needs of the company.</p>
<p>Article 12:                      The matters listed below as they relate to this Corporation shall be raised for discussion at a board meeting:                      1. The Corporation’s business plan.                      2. Annual financial reports and the second quarter financial reports that must be audited and certified by a certified public accountant (CPA).                      3. Adoption or amendment of an internal control system pursuant to Article 14-1 of the Securities and Exchange Act and assessment of the effectiveness of the internal control system.                      4. Adoption or amendment, pursuant to Article 36-1 of the Securities and Exchange Act of any handling procedures for material financial or business transactions, such as the acquisition or disposal of assets, derivatives trading, loans of funds to others, and endorsements or guarantees for others.                      5. The offering, issuance, or private placement of equity-type securities.  <u>6. If the board of directors does not have a managing director, the chairman shall be elected or dismissed.</u>                      7. The appointment or discharge of a financial, accounting, or internal audit officer.                      8. A donation to a related party or a major donation to a non-related party, provided that a public-interest donation of disaster relief that is made for a major natural disaster may be submitted to the following board of directors meeting for retroactive recognition.                      9. Any matter that, under Article 14-3 of the Securities and Exchange Act or any other law,</p>	<p>Article 12:                      The matters listed below as they relate to this Corporation shall be raised for discussion at a board meeting:                      1. The Corporation’s business plan.                      2. Annual financial reports and the second quarter financial reports that must be audited and certified by a certified public accountant (CPA).                      3. Adoption or amendment of an internal control system pursuant to Article 14-1 of the Securities and Exchange Act and assessment of the effectiveness of the internal control system.                      4. Adoption or amendment, pursuant to Article 36-1 of the Securities and Exchange Act of any handling procedures for material financial or business transactions, such as the acquisition or disposal of assets, derivatives trading, loans of funds to others, and endorsements or guarantees for others.                      5. The offering, issuance, or private placement of equity-type securities.                      6. The appointment or discharge of a financial, accounting, or internal audit officer.                      7. A donation to a related party or a major donation to a non-related party, provided that a public-interest donation of disaster relief that is made for a major natural disaster may be submitted to the following board of directors meeting for retroactive recognition.                      8. Any matter that, under Article 14-3 of the Securities and Exchange Act or any other law, regulation, or bylaw, must be approved by resolution at a shareholders’ meeting or board meeting, or any material matter as may be</p>	<p>Amended according to laws and regulations.</p>

Amended Text	Original Text	Explanation
<p>regulation, or bylaw, must be approved by resolution at a shareholders' meeting or board meeting, or any material matter as may be prescribed by the competent authority.</p> <p>The term "related party" in subparagraph 8 of the preceding paragraph means a related party as defined in the Regulations Governing the Preparation of Financial Reports by Securities Issuers. The term "major donation to a non-related party" means an individual donation, or cumulative donations within a 1-year period to a single recipient, at an amount of NTD100 million or more, or at an amount equal to or greater than 1 percent of net operating revenue or 5 percent of paid-in capital as stated in the CPA-attested financial report for the most recent year.</p> <p>The term "within a 1-year period" in the preceding paragraph means a period of 1 year calculated retroactively from the date on which the current board of directors meeting is convened. Amounts already submitted to and passed by a resolution of the board are exempted from inclusion in the calculation.</p> <p>If the company has independent directors, they shall attend in person or entrust other independent directors to attend the matters that should be resolved by the board of directors under Article 14-3 of the Securities and Exchange Act. If an independent director objects to or expresses reservations about such a matter, it shall be recorded in the board meeting minutes; if an independent director intends to express an objection or reservation but is unable to attend the meeting in person, then unless there is a legitimate reason to do otherwise, that director shall issue a written opinion in advance, which shall be recorded in the board meeting minutes.</p>	<p>prescribed by the competent authority.</p> <p>The term "related party" in subparagraph 7 of the preceding paragraph means a related party as defined in the Regulations Governing the Preparation of Financial Reports by Securities Issuers. The term "major donation to a non-related party" means an individual donation, or cumulative donations within a 1-year period to a single recipient, at an amount of NTD100 million or more, or at an amount equal to or greater than 1 percent of net operating revenue or 5 percent of paid-in capital as stated in the CPA-attested financial report for the most recent year.</p> <p>The term "within a 1-year period" in the preceding paragraph means a period of 1 year calculated retroactively from the date on which the current board of directors meeting is convened. Amounts already submitted to and passed by a resolution of the board are exempted from inclusion in the calculation.</p> <p>If the company has independent directors, they shall attend in person or entrust other independent directors to attend the matters that should be resolved by the board of directors under Article 14-3 of the Securities and Exchange Act. If an independent director objects to or expresses reservations about such a matter, it shall be recorded in the board meeting minutes; if an independent director intends to express an objection or reservation but is unable to attend the meeting in person, then unless there is a legitimate reason to do otherwise, that director shall issue a written opinion in advance, which shall be recorded in the board meeting minutes.</p>	
<p>Article 18: If the Corporation has a managing director, its meeting procedures shall apply mutatis mutandis to the provisions of Article 2, Article 3, paragraph 2, Articles 4 to 6, Articles 8 to 11, and Articles 13 to 16; <u>the election or dismissal of the chairman shall apply mutatis mutandis to the provisions of Paragraph 4, Article 3. However, if the regular board meeting is convened within seven days regularly, the managing directors shall be notified two days in advance.</u></p>	<p>Article 18: If the Corporation has a managing director, its meeting procedures shall apply mutatis mutandis to the provisions of Article 2, Article 3, paragraph 2, Articles 4 to 6, Articles 8 to 11, and Articles 13 to 16.</p>	<p>Amended according to laws and regulations.</p>
<p>These Rules are resolved on March 16, 2006. The first amendment was on October 26, 2006. The second amendment was on April 03, 2008. The third amendment was on March 30, 2009. The fourth amendment was on August 25, 2011. The fifth amendment was on October 29, 2012. The sixth amendment was on November 9, 2020. <u>The seventh amendment was on November 8, 2022</u></p>	<p>These Rules are resolved on March 16, 2006. The first amendment was on October 26, 2006. The second amendment was on April 03, 2008. The third amendment was on March 30, 2009. The fourth amendment was on August 25, 2011. The fifth amendment was on October 29, 2012. The sixth amendment was on November 9, 2020.</p>	<p>Added the number and date of this amendment; unified the writing.</p>

## Audit Report of Independent Accountants

Falcon Machine Tools Company Limited

### **Opinion**

We have audited the accompanying consolidated balance sheets of Falcon Machine Tools Company Limited and its subsidiaries (the “Company”), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements (including a summary of significant accounting policies).

In our opinion, based on our audit evidence and the audits of component auditors. The accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### **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’ 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 and the evidence of the audits of component auditors 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 consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter for the Company’s consolidated financial statements for the year ended December 31, 2022 is stated as follows:

## Receivable Impairment

As of December 31, 2022, the account receivable (including related parties) of the Company was NT\$283,411 thousand that stands for 11% of the total consolidated assets, which considered to be a significant proportion to the company. Given the recoverable of the receivables is a key factor to the company's working capital, the Company's judgements, analyses and estimations as well as the subsequent result could have impact on the account receivable. We therefore considered the receivable impairment a key audit matter.

Our audit procedure includes, but not limited to, assess the effectiveness of the Company's internal control on clients' credit risk management, its management on receivables by assessing the reasonability of the periods of the receivables' age on all groups, assess the accuracy of the original vouchers by random audit; assess the accuracy by recalculating the periods of the receivables' age according to the trading terms, judge the reasonability of allowing the individual clients to have large past due amount or long term past due, and assess the reasonability of non-individual clients' (group assess) allowance by recalculating it in accordance with allowance policy. Random audit the receivable confirmations and review the past due subsequent receivables to evaluate the possibility of recoverable.

We considered Note 5 and 6 to the consolidated financial statements regarding the related disclosure of the account receivables.

## Inventory Valuation

As of December 31, 2022, the company's net inventory was NT\$977,318 thousand, which stands for 40% of the consolidated asset. Given the Group is primarily engaged in manufacturing and processing of grinder and lathe products. And the products are tailor-made, high unit price and for long duration. The judgement on slow-moving or expired inventory valuation would be a significant factor. We therefore considered the inventory valuation a key audit matter.

Our audit procedure includes, but not limited to, understand and assess the effectiveness of the internal control on inventory, evaluate the appropriateness of the account policy on slow-moving and expired inventory, assess the accuracy of the periods of the inventories' age, evaluate and observe the age of inventory variables in order to judge the reasonability of the slow-moving and expired inventory's reserve.

We considered Note 5 and 6 to the consolidated financial statements regarding the related disclosure of the inventory.

## **Other Matter - Making Reference to the Audits of Component Auditors**

Part of the subsidiaries' financial statements in the Company's consolidated financial statements were audited by component auditors and have not been audited by us. Thus the amounts stated in the consolidated financial statements regarding the subsidiaries were according to the audits of the component auditors. As of December 31, 2022 and 2021, the subsidiaries' total assets were NT\$412,897 thousand and NT\$379,733 thousand respectively, which stand for 17% and 15% of the consolidated total assets. The net operating revenues generated for the years then ended were NT\$445,315 thousand and NT\$392,611 thousand respectively, which stand for 28% and 24% of the consolidated net operating revenue. Part of the investees' financial statements in the consolidated financial statements were audited by component auditors and have not been audited by us. Thus the amounts stated in the consolidated financial statements regarding the investees were according to the audits of the component auditors. As of December 31, 2022 and 2021, the investees' investment for using Equity Method were NT\$24,758 thousand and NT\$24,433 thousand respectively, which each stands for 1% of the consolidated net assets. The comprehensive income shares of the investments in associates and joint ventures for using Equity Method for the years then ended were NT\$815 thousand and 3,440 thousand respectively, which stand for 6% and 7% of the consolidated net income before tax.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the 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 members of the Audit Committee) are responsible for overseeing the Company's financial reporting process.



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

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

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

- 1.** Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 2.** Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- 5.** Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 6.** Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the individual financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements 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 Chen, Cheng-Chu and Hung, Kuo-Sen.

## **Others**

### **The Unconsolidated Financial Statements 2022 and 2021**

We have also audited the individual financial statements of Falcon Machine Tools Company Limited as of and for the years ended December 31, 2022 and 2021 on which we have issued an unmodified opinion.

Ernst & Young  
Taipei, Taiwan  
Republic of China

March 21, 2023  
No. Financial-Supervisory-Securities-Auditing-1100352201  
No. Taiwan-Financial-Securities-VI-0970038990

#### Notice to Readers

*The accompany consolidated financial statements are intended only to present the consolidated 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 consolidated financial statements are those generally applied in the Republic of China.*

*For the convenience of readers, the independent auditors' report and the accompanying consolidated 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 version, the Chinese-language independent auditors' report and consolidated financial statements shall prevail.*

Falcon Machine Tools Company Limited and Subsidiaries

Consolidated Balance Sheets

For the years then ended 2022 and 2021

Unit: NT\$ '000

Asset			December 31, 2022		December 31, 2021	
Code	Contents	Notes	Amount	%	Amount	%
	Current Asset					
1100	Cash and cash equivalents	4 & 6.1	\$340,277	14	\$304,853	12
1136	Financial assets carried at amortized cost - current	4, 6.2 & 8	1,986	-	9,918	-
1150	Notes receivable	4, 6.3 & 6.15	25,517	1	54,738	2
1160	Notes receivable - related parties	4, 6.3, 6.15 & 7	1,075	-	2,071	-
1170	Accounts receivable	4, 6.4, 6.15 & 8	283,297	11	260,265	11
1180	Accounts receivable - related parties	4, 6.4, 6.15 & 7	144	-	1,197	-
1200	Other receivables	4	11,975	1	19,158	1
1220	Tax assets	4	24,098	1	-	-
130X	Inventories	4, 6.5	977,318	40	1,010,785	40
1410	Prepayments		34,854	1	55,982	2
1461	Noncurrent assets held for sale	4, 6.6 & 8	78,898	3	-	-
1470	Other current assets		10,658	-	18,842	1
11XX	Total current assets		1,790,097	72	1,737,809	69
	Noncurrent assets					
	Financial assets at fair value through other consolidated profit or loss - noncurrent	4	22,630	1	3,760	-
1517						
1535	Financial assets carried at amortized cost - noncurrent	4, 6.2 & 8	38,413	2	34,640	2
1550	Investment accounted for using equity method	4 & 6.7	162,716	7	146,433	6
1600	Net property, plant and equipment	4, 6.8 & 8	293,688	12	408,086	16
1755	Right-of-use assets	4, 6.16 & 8	56,423	2	74,867	3
1760	Investment property	4, 6.9 & 8	10,462	1	22,915	1
1780	Intangible assets	4	10,960	-	9,588	-
1840	Net deferred tax assets	4 & 6.20	82,789	3	81,839	3
1900	Other noncurrent assets	4	5,046	-	10,669	-
15XX	Total noncurrent assets		683,127	28	792,797	31
IXXX	Asset Grand Total		\$2,473,224	100	\$2,530,606	100

(Please refer to the Notes in Consolidated Financial Statements)

Chairman : LIN, TSUNG-LIN

General Manager : TUNG, SHANG-YU

Account Supervisor : PEI, YU-WEN

## Falcon Machine Tools Company Limited and Subsidiaries

## Consolidated Balance Sheets (con.)

For the years then ended 2022 and 2021

Unit: NT\$ '000

Liabilities & Equities			December 31, 2022		December 31, 2021	
Code	Content	Note	Amount	%	Amount	%
	Current liabilities					
2100	Short-term borrowings	4 & 6.10	\$450,940	18	\$273,493	11
2110	Short-term notes payable		-	-	29,955	1
2130	Current contract liabilities	6.14	68,272	3	98,741	4
2150	Notes payable		16,742	1	19,666	1
2160	Notes payable - related parties	7	18	-	348	-
2170	Accounts payable		224,183	9	352,188	14
2180	Accounts payable - related parties	7	21,141	1	24,429	1
2200	Other payables		84,803	3	85,820	3
2230	Tax liabilities		683	-	8,998	-
2280	Lease liabilities - current	4 & 6.16	14,707	1	16,417	1
2320	Long-term liabilities due within one year or within one business cycle	4 & 6.11	243,339	10	126,257	5
2399	Other current liabilities - other		18,723	1	22,412	1
21XX	Total current liabilities		1,143,551	47	1,058,724	42
	Noncurrent liabilities					
2540	Long-term borrowings	4 & 6.11	405,753	17	548,811	22
2570	Net deferred tax liabilities	4 & 6.20	71,272	3	44,332	2
2580	Lease liabilities - noncurrent	4 & 6.16	21,156	1	37,889	1
2640	Accrued pension liabilities - noncurrent	4 & 6.12	4,289	-	22,914	1
2670	Other noncurrent liabilities - other		6,230	-	6,805	-
25XX	Total noncurrent liabilities		508,700	21	660,751	26
2XXX	Total liabilities		1,652,251	68	1,719,475	68
31XX	Interests attributable to parent company owner	6.13				
3100	Capital					
3110	Common stock capital		768,803	31	768,803	30
3200	Capital reserve		11,460	-	11,460	-
3300	Retained earnings					
3310	Legal reserve		22,474	1	21,054	1
3320	Special reserve		53,916	2	49,531	2
3350	Undistributed earnings (Deficit to be offset)		(11,829)	1	14,199	1
	Total retained earnings		64,561	4	84,784	4
3400	Other equity interests					
3410	Exchange differences resulting from translating the financial statements of foreign operations		(26,729)	(1)	(57,657)	(2)
3420	Financial assets at fair value through other consolidated profit or loss		2,878	-	3,741	-
	Unrealised gains/losses					
34XX	Total of other equity interests		(23,851)	(1)	(53,916)	(2)
3XXX	Grand total for equities		820,973	33	811,131	32
	Liabilities & Equities Grand Total		\$2,473,224	101	\$2,530,606	100

(Please refer to the Notes in Consolidated Financial Statements)

(Chairman : LIN, TSUNG-LIN

General Manager : TUNG, SHANG-YU

Account Supervisor : PEI, YU-WEN

## Falcon Machine Tools Company Limited and Subsidiaries

## Consolidated Statements of Comprehensive Income

For the years then ended 2022 and 2021

Unit: NTS '000

Code	Content	Note	Year 2022		Year 2021	
			Amount	%	Amount	%
4000	Operating revenues	4, 6.14 & 7	\$1,610,552	100	\$1,607,091	100
5000	Operating costs	6.5, 6.12, 6.16, 6.17 & 7	(1,206,683)	(75)	(1,217,827)	(76)
5900	Operating margin		403,869	25	389,264	24
6000	Operating expenses	6.12, 6.16 & 6.17				
6100	Sales and marketing expenses		(141,973)	(9)	(120,317)	(7)
6200	General and administrative expenses		(175,480)	(11)	(160,684)	(10)
6300	Research and development		(54,492)	(3)	(62,483)	(4)
6450	Expected credit impairment (losses) gains	6.15	(16,588)	(1)	197	-
	Total operating expenses		(388,533)	(24)	(343,287)	(21)
6900	Operating income		15,336	1	45,977	3
7000	Non-operating income and expenses	6.18 & 7				
7100	Interest income from bank deposits		820	-	225	-
7100	Interest income from bank deposits		820	-	225	-
7010	Other income		8,747	1	23,146	1
7020	Other gains and losses		(37)	-	(3,878)	-
7050	Finance costs		(29,272)	(2)	(25,136)	(2)
7060	Share of profit or loss of associates & joint ventures accounted for using equity method	4 & 6.6	17,091	1	11,944	1
	Total non-operating income and expenses		(2,651)	-	6,301	-
7900	Net income before tax		12,685	1	52,278	3
7950	Income tax expenses	4 & 6.20	(35,680)	(2)	(18,378)	(1)
8200	Net income (loss)		(22,995)	(1)	33,900	2
8300	Other comprehensive net income	6.19				
8310	Not reclassified to profit or loss					
	Measure on defined benefit plans - parent company		3,465	-	713	-
8316	Equity instrument investment at fair value through other		(2,579)	-	-	-
	Income tax related to items that may not be reclassified subsequently to profit or loss		(693)	-	(143)	-
8349	Items that may be reclassified subsequently to profit or loss					
8360	Exchange differences resulting from translating the financial statements of foreign operations		41,229	3	(11,040)	-
8361	Other comprehensive income of associates & joint ventures accounted for using equity method - items that may be reclassified subsequently to income tax	6.7	1,716	-	5,261	-
8370	Items that may be reclassified subsequently to income tax		(10,301)	(1)	-	-
8399	Other comprehensive income, net of tax		32,837	2	(5,209)	-
8500	Total comprehensive income		\$9,842	1	\$28,691	2
8600	Net income (loss) attributable to:					
8610	Stock holders of the parent company	4 & 6.21	\$(22,995)		\$33,900	
8620	Non-controlling interests		-		-	
			\$(22,995)		\$33,900	
8700	Total comprehensive income attributable to:					
8710	Stock holders of the parent company		\$9,842		\$28,691	
8720	Non-controlling interests		-		-	
			\$9,842		\$28,691	
	Earnings per share (NTS)	4 & 6.21				
9750	Basic earnings per share		\$ -		\$0.44	
9850	Diluted earnings per share		\$ -		\$0.44	

(Please refer to the Notes in Consolidated Financial Statements)

Chairman : LIN, TSUNG-LIN

General Manager : TUNG, SHANG-YU

Account Supervisor : PEI, YU-WEN

Falcon Machine Tools Company Limited and Subsidiaries

Consolidated Statements of Changes in Equity

For the years then ended 2022 and 2021

Unit: NT\$ '000

Content	Interests attributable to parent company owner							Total Equity
	Common Stock	Capital Reserve	Retained Earnings			Other Equity Interests		
			Legal Reserve	Special Reserve	Undistributed Earnings (Deficit to be offset)	Exchange Differences Resulting from Translating the Financial Statements of Foreign Operations	Unrealised Gains/Losses of Financial Assets at Fair Value through other Consolidated Profit or Loss	
Balance as of January 1, 2021	\$768,803	\$11,460	\$21,054	\$49,531	\$(20,271)	\$(46,617)	\$(1,520)	\$782,440
Appropriations of prior year's earnings 2020:								
Profit 2021					33,900			33,900
Other comprehensive income 2021					570	(11,040)	5,261	(5,209)
Total comprehensive income					34,470	(11,040)	5,261	28,691
Balance as of December 31, 2021	\$768,803	\$11,460	\$21,054	\$49,531	\$14,199	\$(57,657)	\$3,741	\$811,131
Balance as of January 1, 2022	\$768,803	\$11,460	\$21,054	\$49,531	\$14,199	\$(57,657)	\$3,741	\$811,131
Appropriations of prior year's earnings 2021:								
Legal reserve			1,420		(1,420)			-
Special reserve				4,385	(4,385)			-
Loss 2022					(22,995)			(22,995)
Other comprehensive income 2022					2,772	30,928	(863)	32,837
Total comprehensive income					(20,223)	30,928	(863)	9,842
Balance as of December 31, 2022	\$768,803	\$11,460	\$22,474	\$53,916	\$(11,829)	\$(26,729)	\$2,878	\$820,973

(Please refer to the Notes in Consolidated Financial Statements)

Chairman : LIN, TSUNG-LIN

General Manager : TUNG, SHANG-YU

Account Supervisor : PEI, YU-WEN

Falcon Machine Tools Company Limited and Subsidiaries

Consolidated Statements of Cash Flows

For the years then ended 2022 and 2021

Unit: NTS '000

Content	Year 2022	Year 2021	Content	Year 2022	Year 2021
Cash flows from operating activities:			Cash flow of investment activities:		
Net income before tax	\$12,685	\$52,278	Financial assets measured at fair value through other comprehensive income	(25,020)	-
Adjustments to reconcile net income (loss) before tax to net cash:			Financial assets measured at amortized cost	-	(7,611)
Provided by (used in) operating activities:			Disposal of financial assets measured at amortized cost	7,932	-
Depreciation	58,703	60,262	Property, plant and equipment	(8,031)	(8,422)
Amortization	2,748	4,746	Disposal of property, plant and equipment	1,499	2,444
Expected credit loss (gain)	16,588	(197)	Intangible assets	(362)	(8,965)
Interest expenses	29,272	25,136	Prepayment for equipments	2,278	7,278
Interest income from bank deposits	(820)	(225)	Dividend received (cash dividend of the year of investments accounted for using equity method)	2,501	-
Dividend revenue	(10)	-	Repayment of reduction of capital from investees for using equity method	23	-
Share of profit of associates & joint ventures accounted for using equity method	(17,091)	(11,944)	Loss (gain) of other noncurrent assets	18	(8,405)
Gain from disposal of property, plant and equipment	(289)	(1,933)	Investment activities - net cash outflow	(19,162)	(23,681)
Non-financial asset impairment loss	785	-	Cash flow of financing activities		
Loss for market price decline and obsolete and slow-moving inventories	60,031	20,619	Increase in short-term borrowings	1,059,983	1,042,759
Profit from lease modification	(103)	-	Decrease in short-term borrowings	(884,777)	(1,146,695)
Unrealized foreign currency exchange (gains) losses	(3,773)	871	Increase in short-term notes payable	120,430	120,360
Changes in operating assets and liabilities:			Decrease in short-term notes payable	(150,385)	(120,331)
Reduce in notes receivables	29,221	12,722	Long-term loans	505,419	227,090
Reduce in notes receivables - related parties	996	404	Long-term loans payments	(541,475)	(143,128)
Increase in account receivables	(40,024)	(65,358)	Lease liabilities payments	(20,002)	(18,756)
Reduce in account receivables - related parties	1,053	-	Net cash flow of financing activities	89,193	(38,701)
Other receivables	7,183	(1,500)	Effect of exchange rate at cash and cash equivalents	54,217	(9,402)
Inventories	(9,278)	(198,129)	Increase in cash and cash equivalents	35,424	4,655
Prepayments	21,128	(21,017)	Beginning balance of cash and cash equivalents	304,853	300,198
Other current assets	8,184	(2,091)	Ending balance of cash and cash equivalents	\$340,277	\$304,853
Reduce in notes payable	(2,924)	(746)			
Reduce in notes payable - related parties	(330)	(1)			
Account payable	(128,005)	162,196			
Account payables - related parties	(3,288)	842			
Other payables	(4,710)	23,408			
Contract liabilities - current	(30,469)	51,328			
Other current liabilities	(3,689)	(223)			
Accrued pension liabilities - noncurrent	(15,160)	(9,283)			
Other noncurrent liabilities	(575)	(1,069)			
Cash generated from operations	(11,961)	101,096			
Interest received	820	225			
Interest paid	(24,596)	(23,456)			
Interest received	10	-			
Income tax paid	(53,097)	(1,426)			
Net cash provided by (used in) operating activities	(88,824)	76,439			

(Please refer to the Notes in Consolidated Financial Statements)

Chairman : LIN, TSUNG-LIN

General Manager : TUNG, SHANG-YU

Account Supervisor : PEI, YU-WEN

## Audit Report of Independent Accountants

Falcon Machine Tools Company Limited

### **Opinion**

We have audited the accompanying individual balance sheets of Falcon Machine Tools Company Limited (the “Company”), which comprises the individual balance sheets as of December 31, 2022 and 2021, and the individual statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the individual financial statements (including a summary of significant accounting policies).

In our opinion, based on our audit evidence and the audits of component auditors. The accompanying individual financial statements present fairly, in all material respects, the individual financial position of the Company as of December 31, 2022 and 2021, and its individual financial performance and its individual 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’ 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 and the evidence of the audit of a component auditor 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 individual financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the individual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter for the Company’s individual financial statements for the year ended December 31, 2022 is stated as follows:



### Receivable Impairment (including receivables of the subsidiaries invested by using Equity Method)

The account receivables of the Company and its subsidiaries invested by using Equity Method is significant to the financial statements. Given the recoverable of the receivables is a key factor to the company's working capital, the Company's judgements, analyses and estimations as well as the subsequent result could have impact on the account receivable. We therefore considered the receivable impairment a key audit matter.

Our audit procedure includes, but not limited to, assess the effectiveness of the Company's internal control on clients' credit risk management, its management on receivables by assessing the reasonability of the periods of the receivables' age on all groups, assess the accuracy of the original vouchers by random audit; assess the accuracy by recalculating the periods of the receivables' age according to the trading terms, judge the reasonability of allowing the individual clients to have large past due amount or long term past due, and assess the reasonability of non-individual clients' (group assess) allowance by recalculating it in accordance with allowance policy. Random audit the receivable confirmations and review the past due subsequent receivables to evaluate the possibility of recoverable.

We considered Note 5 and 6 to the individual financial statements regarding the related disclosure of the account receivables

### Inventory Valuation (including inventory valuation of the subsidiaries invested by using Equity Method)

The net inventory of the Company and its subsidiaries invested by using Equity Method is significant to the financial statements. Given the Group is primarily engaged in manufacturing and processing of grinder and lathe products. And the products are tailor-made, high unit price and for long duration. The judgement on slow-moving or expired inventory valuation would be a significant factor. We therefore considered the inventory valuation a key audit matter.

Our audit procedure includes, but not limited to, understand and assess the effectiveness of the internal control on inventory, evaluate the appropriateness of the account policy on slow-moving and expired inventory, assess the accuracy of the periods of the inventories' age, evaluate and observe the age of inventory variables in order to judge the reasonability of the slow-moving and expired inventory's reserve.

We considered Note 5 and 6 to the individual financial statements regarding the related disclosure of the inventory.

## **Other Matter - Making Reference to the Audits of a Component Auditors**

Part of the investees' financial statements in the Company's individual financial statements were audited by component auditors and have not been audited by us. Thus the amounts stated in the individual financial statements regarding the investees were according to the audits of the component auditors. As of December 31, 2022 and 2021, the investees' investment for using Equity Method were NT\$255,173 thousand and NT\$314,489 thousand respectively, which stand for 12% and 15% of the total assets. The comprehensive income shares of investees' investments in subsidiaries, associates and joint ventures for using Equity Method for the years then ended were NT\$29,012 thousand and NT\$26,577 thousand respectively, which stand for 1316% and 77%. The comprehensive income shares of the investments in associates and joint ventures for using Equity Method were NT\$36,341 thousand and NT\$(8559) thousand, which stand for 111% and 164% of other comprehensive income.

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

Management is responsible for the preparation and fair presentation of the individual 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 individual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the individual 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 members of the Audit Committee) are responsible for overseeing the Company's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the individual 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 individual 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 individual 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 individual 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 individual financial statements, including the disclosures, and whether the individual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the individual financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the individual 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 Chen, Cheng-Chu and Hung, Kuo-Sen.

Ernst & Young  
Taipei, Taiwan  
Republic of China

March 21, 2023

No. Financial-Supervisory-Securities-Auditing-1100352201

No. Taiwan-Financial-Securities-VI-0970038990

Notice to Readers

*The accompany parent company only financial statements are intended only to present the parent company only 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 parent company only financial statements are those generally applied in the Republic of China.*

*For the convenience of readers, the independent auditors' report and the accompanying parent company only 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 version, the Chinese-language independent auditors' report and parent company only financial statements shall prevail.*

Falcon Machine Tools Company Limited and Subsidiaries

Individual Balance Sheets

For the years then ended 2022 and 2021

Unit: NT\$ '000

Asset			December 31, 2022		December 31, 2021	
Code	Contents	Notes	Amount	%	Amount	%
	Current Asset					
1100	Cash and cash equivalents	4 & 6.1	\$138,796	7	\$170,637	8
1136	Financial assets carried at amortized cost - current	4, 6.2 & 8	-	-	6,931	-
1150	Notes receivable	4 & 6.3	17,658	1	45,091	2
1160	Notes receivable - related parties	4, 6.3 & 7	1,075	-	2,071	-
1170	Accounts receivable	4 & 6.4	217,838	10	145,236	7
1180	Accounts receivable - related parties	4, 6.4 & 7	56,012	3	16,316	1
1200	Other receivables	4 & 7	11,941	1	18,878	1
1220	Tax assets		21,916	1	-	-
130X	Inventories	4 & 6.5	549,356	26	591,328	28
1410	Prepayments		9,863	-	6,551	-
1460	Noncurrent assets held for sale	4, 6.6 & 8	78,898	4	-	-
1470	Other current assets		14,187	1	29,075	1
11XX	Total current assets		<u>1,117,540</u>	<u>54</u>	<u>1,032,114</u>	<u>48</u>
	Noncurrent assets					
1517	Financial assets at fair value through other consolidated profit or loss - noncurrent	4	22,630	1	3,760	-
1535	Financial assets carried at amortized cost - noncurrent	4, 6.2 & 8	38,413	1	34,640	2
1550	Investment accounted for using equity method	4 & 6.7	610,446	29	652,835	31
1600	Net property, plant and equipment	4, 6.8 & 8	190,914	9	302,057	14
1755	Right-of-use assets	3 & 6.16	11,148	1	20,724	1
1760	Investment property	4, 6.9 & 8	10,462	1	22,915	1
1780	Intangible assets	4	10,769	1	9,459	-
1840	Net deferred tax assets	4 & 6.20	64,930	3	58,090	3
1900	Other noncurrent assets	4	1,912	-	2,151	-
15XX	Total noncurrent assets		<u>961,624</u>	<u>46</u>	<u>1,106,631</u>	<u>52</u>
1XXX	Asset Grand Total		<u>\$2,079,164</u>	<u>100</u>	<u>\$2,138,745</u>	<u>100</u>

(Please refer to the Notes in Consolidated Financial Statements)

Chairman : LIN, TSUNG-LIN

General Manager : TUNG, SHANG-YU

Account Supervisor : PEI, YU-WEN

## Falcon Machine Tools Company Limited and Subsidiaries

## Individual Balance Sheets (con.)

For the years then ended 2022 and 2021

Unit: NTS '000

Liabilities & Equities			December 31, 2022		December 31, 2021	
Code	Content	Note	Amount	%	Amount	%
	Current liabilities					
2100	Short-term borrowings	4 & 6.10	\$353,412	17	\$212,786	10
2110	Short-term notes payable		-	-	29,955	1
2130	Current contract liabilities	6.14	40,535	2	71,757	3
2150	Notes payable		10,130	-	9,826	1
2160	Notes payable - related parties	7	18	-	348	-
2170	Accounts payable		157,780	8	259,624	12
2180	Accounts payable - related parties	7	10,361	1	18,683	1
2200	Other payables		44,311	2	43,341	2
2230	Tax liabilities		362	-	-	-
2280	Lease liabilities - current	6.16	1,661	-	4,890	-
2320	Long-term liabilities due within one year or within one business cycle	6.11	236,727	11	126,257	6
2399	Other current liabilities - other		10,475	1	7,915	-
21XX	Total current liabilities		<u>865,772</u>	<u>42</u>	<u>785,382</u>	<u>36</u>
	Noncurrent liabilities					
2540	Long-term borrowings	4 & 6.11	313,623	15	465,771	22
2570	Net deferred tax liabilities	4 & 6.20	66,479	4	39,233	2
2580	Lease liabilities - noncurrent	6.16	7,848	-	14,135	1
2640	Accrued pension liabilities - noncurrent	4 & 6.12	4,289	-	22,914	1
2645	Guarantee deposit received		180	-	179	-
25XX	Total noncurrent liabilities		<u>392,419</u>	<u>19</u>	<u>542,232</u>	<u>26</u>
2XXX	Total liabilities		<u>1,258,191</u>	<u>61</u>	<u>1,327,614</u>	<u>62</u>
31XX	Interests attributable to parent company owner	4 & 6.13				
3100	Capital					
3110	Common stock capital		768,803	37	768,803	36
3200	Capital reserve		11,460	-	11,460	1
3300	Retained earnings					
3310	Legal reserve		22,474	1	21,054	1
3320	Special reserve		53,916	3	49,531	2
3350	Undistributed earnings (Deficit to be offset)		(11,829)	(1)	14,199	1
	Total retained earnings		<u>64,561</u>	<u>3</u>	<u>84,784</u>	<u>4</u>
3400	Other equity interests					
3410	Exchange differences resulting from translating the financial statements of foreign operations		(26,729)	(1)	(57,657)	(3)
3420	Financial assets at fair value through other consolidated profit or loss		2,878	-	3,741	-
	Unrealised gains/losses					
34XX	Total of other equity interests		<u>(23,851)</u>	<u>(1)</u>	<u>(53,916)</u>	<u>(3)</u>
3XXX	Grand total for equities		<u>820,973</u>	<u>39</u>	<u>811,131</u>	<u>38</u>
	Grand total for liabilities & equities		<u>\$2,079,164</u>	<u>100</u>	<u>\$2,138,745</u>	<u>100</u>

(Please refer to the Notes in Individual Financial Statements)

Chairman : LIN, TSUNG-LIN

General Manager : TUNG, SHANG-YU

Account Supervisor : PEI, YU-WEN

## Falcon Machine Tools Company Limited and Subsidiaries

## Individual Statements of Comprehensive Income

For the years then ended 2022 and 2021

Unit: NTS '000

Code	Content	Note	Year 2022		Year 2021	
			Amount	%	Amount	%
4000	Operating revenues	4, 6.14 & 7	\$1,191,535	100	\$1,055,120	100
5000	Operating costs	6.5, 6.17 & 7	(948,847)	(80)	(851,313)	(81)
5900	Operating margin		242,688	20	203,807	19
5910	Unrealized gain of sales		(43,689)	(3)	(29,593)	(3)
5920	Realized gain of sales		29,593	2	37,094	4
5950	Net operating margin		228,592	19	211,308	20
6000	Operating expenses	6.15 & 6.17				
6100	Sales and marketing expenses		(87,546)	(7)	(73,702)	(7)
6200	General and administrative expenses		(68,074)	(6)	(62,566)	(6)
6300	Research and development		(44,493)	(4)	(51,492)	(5)
6450	Expected credit impairment losses		(7,912)	-	(1,768)	-
	Total operating expenses		(208,025)	(17)	(189,528)	(18)
6900	Operating income		20,567	2	21,780	2
7000	Non-operating income and expenses	6.18 & 7				
7100	Interest income from bank deposits		745	-	177	-
7010	Other income		6,253	1	8,768	1
7020	Other gains and losses		12,062	1	(7,337)	(1)
7050	Finance costs		(22,003)	(2)	(19,397)	(2)
7070	Share of profit or loss of subsidiaries, associates & joint ventures accounted for using equity method	4 & 6.7	(19,828)	(2)	30,658	3
	Total non-operating income and expenses		(22,771)	(2)	12,869	1
7900	Net income (loss) before tax		(2,204)	-	34,649	3
7950	Income tax expenses	4 & 6.20	(20,791)	(2)	(749)	-
8200	Net income (loss)		(22,995)	(2)	33,900	3
8300	Other comprehensive net income	6.19				
8310	Not reclassified to profit or loss					
8311	Measure on defined benefit plans	6.12	3,465	-	713	-
8316	Equity instrument investment at fair value through other comprehensive					
	Unrealized profit or loss on valuation		(2,579)	-	-	-
8349	Income tax related to items that may not be reclassified subsequently to profit		(693)	-	(143)	-
8360	Items that may be reclassified subsequently to profit or loss					
8361	Exchange differences resulting from translating the financial statements of foreign operations		41,229	3	(11,040)	(1)
8370	Other comprehensive income of associates & joint ventures accounted for using equity method — items that may be reclassified subsequently to income tax		1,716	-	5,261	-
8399	Items that may be reclassified subsequently to income tax		(10,301)	-	-	-
	Other comprehensive income, net of tax		32,837	3	(5,209)	(1)
8500	Total comprehensive income		\$9,842	1	\$28,691	2
	Earnings per share	4 & 6.21				
9750	Basic earnings per share		\$(0.30)		\$0.44	
9850	Diluted earnings per share		\$(0.30)		\$0.44	

(Please refer to the Notes in Individual Financial Statements)

Chairman : LIN, TSUNG-LIN

General Manager : TUNG, SHANG-YU

Account Supervisor : PEI, YU-WEN

Falcon Machine Tools Company Limited and Subsidiaries

Individual Statements of Changes in Equity

For the years then ended 2022 and 2021

Unit: NTS '000

Content	Capital	Capital Reserve	Retained Earnings			Other Equity Interests		Total Equity
			Legal Reserve	Special Reserve	Undistributed Earnings (Deficit to be offset)	Exchange Differences Resulting from Translating the Financial Statements of Foreign Operations	Unrealised Gains/ Losses of Financial Assets at Fair Value through other Consolidated Profit or Loss	
Balance as of January 1, 2021	\$768,803	\$11,460	\$21,054	\$49,531	\$(20,271)	\$(46,617)	\$(1,520)	782,440
Appropriations of prior year's earnings 2020:								
Legal reserve								
Common stock cash dividend								
Profit 2021					33,900			33,900
Other comprehensive income 2021					570	(11,040)	5,261	(5,209)
Total comprehensive income					34,470	(11,040)	5,261	28,691
Balance as of December 31, 2021	\$768,803	\$11,460	\$21,054	\$49,531	\$14,199	\$(57,657)	\$3,741	\$811,131
Balance as of January 1, 2022	\$768,803	\$11,460	\$21,054	\$49,531	\$14,199	\$(57,657)	\$3,741	\$811,131
Appropriations of prior year's earnings 2021:								
Legal reserve			1,420		(1,420)			-
Special reserve				4,385	(4,385)			-
Loss 2022					(22,995)			(22,995)
Other comprehensive income 2022					2,772	30,928	(863)	32,837
Total comprehensive income					(20,223)	30,928	(863)	9,842
Balance as of December 31, 2022	\$768,803	\$11,460	\$22,474	\$53,916	\$(11,829)	\$(26,729)	\$2,878	\$820,973

(Please refer to the Notes in Individual Financial Statements)

Chairman : LIN, TSUNG-LIN

General Manager : TUNG, SHANG-YU

Account Supervisor : PEI, YU-WEN



Falcon Machine Tools Company Limited and Subsidiaries

Individual Statements of Cash Flows

For the years then ended 2022 and 2021

Unit: NT\$ '000

Content	Year 2022	Year 2021	Content	Year 2022	Year 2021
Cash flows from operating activities:			Cash flow of investment activities:		
Net income before tax	\$(2,204)	\$34,649	Financial assets measured at fair value through other comprehensive income	(25,020)	-
Adjustments to reconcile net income (loss) before tax to net cash:			Financial assets measured at amortized cost	-	(5,607)
Provided by (used in) operating activities:			Disposal of financial assets measured at amortized cost	6,931	130
Depreciation	31,519	34,131	Property, plant and equipment	(2,583)	(3,599)
Amortization	2,078	2,066	Disposal of property, plant and equipment	194	138
Expected credit loss (gain)	7,912	1,768	Prepayment for equipments	-	8,816
Interest expenses	22,003	19,397	Intangible assets	(362)	(8,965)
Interest income from bank deposits	(745)	(177)	Loss (gain) of other noncurrent assets	-	(1,170)
Dividend revenue	(10)	-	Dividend received (cash dividend of the year of investments accounted for using equity method)	2,501	-
Share of profit of subsidiaries, associates & joint ventures accounted for using equity method	19,828	(30,658)	Repayment of reduction of capital from investees for using equity method	23	-
Gain from disposal of property, plant and equipment	(194)	(138)	Acquisition of investment for using equity method	(50,000)	-
Non-financial asset impairment loss	785	-	Earnings from invested company for using equity method	109,060	-
Loss for market price decline and obsolete and slow-moving inventories	39,057	13,142	Investment activities - net cash outflow	40,744	(10,257)
Profit from lease modification	(103)	-	Cash flow of financing activities	963,617	982,099
Unrealized foreign currency exchange (gains) losses	(3,773)	871	Decrease in short-term borrowings	(822,991)	(1,092,546)
Changes in operating assets and liabilities:			Increase in short-term notes payable	120,430	120,360
Reduce in notes receivables (increase)	28,429	(475)	Decrease in short-term notes payable	(150,385)	(120,331)
Increase in account receivables	(80,514)	(54,597)	Long-term loans	496,677	145,315
Increase in account receivables - related parties	(39,696)	(5,264)	Long-term loans payments	(538,355)	(59,887)
Other receivables	6,937	(1,796)	Guarantee deposit received	1	(351)
Inventories	39,531	(124,899)	Lease liabilities payments	(6,935)	(6,338)
Prepayments	(3,312)	372	Net cash flow of financing activities	62,059	(31,679)
Other current assets	4,713	(2,957)	Increase in cash and cash equivalents	(31,841)	(5,639)
Contract liabilities - current	(31,222)	33,686	Beginning balance of cash and cash equivalents	170,637	176,276
Increase (reduce) in notes payable	(26)	159	Ending balance of cash and cash equivalents	\$138,796	\$170,637
Increase (reduce) in account receivables	(110,166)	134,282			
Other payable	(2,723)	12,626			
Other current liabilities	2,560	(2,232)			
Accrued pension liabilities - noncurrent	(15,160)	(9,283)			
Cash generated from operations	(84,496)	54,673			
Interest received	745	177			
Interest paid	(17,970)	(18,553)			
Dividend received	10	-			
Income tax paid	(32,933)	-			
Net cash provided by (used in) operating activities	(134,644)	36,297			

(Please refer to the Notes in Individual Financial Statements)

Chairman : LIN, TSUNG-LIN

General Manager : TUNG, SHANG-YU

Account Supervisor : PEI, YU-WEN

**FALCON MACHINE TOOLS CO., LTD.****Table of 2022 Allocation of Profits**

Unit: NT\$

Item	Total
Balance of Beginning Undistributed Earnings	8,393,547
Increase (Decrease):	
Other Comprehensive Income for the Current Period	2,772,194
Post-tax Profit or Loss for the Current Period	(22,994,885)
Ending Deficit Balance to be Made up	(11,829,144)

Chairman:  
Lin, Tsung-Lin

General Manager:  
Tung, Shang-Yu

Accounting Supervisor:  
Pei, Yu-Wen

**FALCON MACHINE TOOLS CO., LTD.**

**Comparison Table Illustrating the Original and Amended Text of the “Articles of Incorporation”**

Amended Text	Original Text	Explanation
<p>Article 2: The Company’s businesses are as follows: (1) CB01010 Mechanical Equipment Manufacturing (2) CB01990 Other Machinery Manufacturing (3) CC01010 Manufacture of Power Generation, Transmission and Distribution Machinery (4) CC01990 Other Electrical Engineering and Electronic Machinery Equipment Manufacturing (5) CC01110 Computer and Peripheral Equipment Manufacturing (6) CD01060 Aircraft and Parts Manufacturing (7) CE01010 General Instrument Manufacturing (8) CE01990 Other Optics and Precision Instrument Manufacturing (9) CP01010 Hand Tools Manufacturing (10) E604010 Machinery Installation (11) I501010 Product Designing (12) F113010 Wholesale of Machinery (13) F113020 Wholesale of Electrical Appliances (14) F113030 Wholesale of Precision Instruments (15) F113050 Wholesale of Computers and Clerical Machinery Equipment (16) F113990 Wholesale of Other Machinery and Tools (17) F114070 Wholesale of Aircraft and Component Parts Thereof (18) F213010 Retail Sale of Electrical Appliances (19) F213030 Retail Sale of Computers and Clerical Machinery Equipment (20) F213040 Retail Sale of Precision Instruments (21) F213080 Retail Sale of Machinery and Tools (22) F213990 Retail Sale of Other Machinery and Tools (23) F214070 Retail Sale of Aircraft and Component Parts Thereof (24) F401010 International Trade (25) ZZ99999 All business activities that are not prohibited or restricted by law, except those that are subject to special approval is not allowed. <u>(26) E801010 Indoor Decoration</u> <u>(27) H701010 Housing and Building</u></p>	<p>Article 2: The Company’s businesses are as follows: (1) CB01010 Mechanical Equipment Manufacturing (2) CB01990 Other Machinery Manufacturing (3) CC01010 Manufacture of Power Generation, Transmission and Distribution Machinery (4) CC01990 Other Electrical Engineering and Electronic Machinery Equipment Manufacturing (5) CC01110 Computer and Peripheral Equipment Manufacturing (6) CD01060 Aircraft and Parts Manufacturing (7) CE01010 General Instrument Manufacturing (8) CE01990 Other Optics and Precision Instrument Manufacturing (9) CP01010 Hand Tools Manufacturing (10) E604010 Machinery Installation (11) I501010 Product Designing (12) F113010 Wholesale of Machinery (13) F113020 Wholesale of Electrical Appliances (14) F113030 Wholesale of Precision Instruments (15) F113050 Wholesale of Computers and Clerical Machinery Equipment (16) F113990 Wholesale of Other Machinery and Tools (17) F114070 Wholesale of Aircraft and Component Parts Thereof (18) F213010 Retail Sale of Electrical Appliances (19) F213030 Retail Sale of Computers and Clerical Machinery Equipment (20) F213040 Retail Sale of Precision Instruments (21) F213080 Retail Sale of Machinery and Tools (22) F213990 Retail Sale of Other Machinery and Tools (23) F214070 Retail Sale of Aircraft and Component Parts Thereof (24) F401010 International Trade (25) ZZ99999 All business activities that are not prohibited or restricted by law, except those that are subject to special approval is not allowed.</p>	<p>Added to meet operational needs.</p>

Amended Text	Original Text	Explanation
<p><u>Development and Rental</u>  <u>(28) H703090 Real Estate Business</u>  <u>(29) H703100 Real Estate Leasing</u>  <u>(30) H704041 Real Estate Consignment Brokerage</u>  <u>(31) I401010 General Advertisement Service</u>  <u>(32) I503010 Landscape and Interior Designing</u></p>		
<p>Article 3:  The Company shall have its head office in <u>Changhua County</u>, the Republic of China, and may, pursuant to a resolution adopted at the meeting of the Board of Directors, set up branch offices within or outside the territory of the Republic of China when deemed necessary.</p>	<p>Article 3:  The Company shall have its head office in <u>Taichung City</u>, the Republic of China, and may, pursuant to a resolution adopted at the meeting of the Board of Directors, set up branch offices within or outside the territory of the Republic of China when deemed necessary.</p>	<p>Amended according to the actual situation.</p>
<p>Article 12:  Shareholders' meetings of the Company are of two types: (1) Annual General Shareholders' Meetings – which shall be convened by the Board of Directors within 6 months after the end of each fiscal year, and the Board of Directors shall notify all shareholders 30 days before the meeting; (2) Special Shareholders' Meetings – which shall be convened whenever necessary in accordance with the relevant laws, rules and regulations of the Republic of China. <u>The company's shareholders' meeting can be held in the form of virtual conference or other methods announced by the central competent authority. The adoption of virtual conferencing shall comply with relevant regulations such as the conditions, operating procedures, unless otherwise provided by the competent securities authority.</u></p>	<p>Article 12:  Shareholders' meetings of the Company are of two types: (1) Annual General Shareholders' Meetings – which shall be convened by the Board of Directors within 6 months after the end of each fiscal year, and the Board of Directors shall notify all shareholders 30 days before the meeting; (2) Special Shareholders' Meetings – which shall be convened whenever necessary in accordance with the relevant laws, rules and regulations of the Republic of China.</p>	<p>Amended according to laws and regulations and the actual situation.</p>
<p>Article 16:  Except as otherwise provided by the <u>laws and regulations</u>, the resolutions of shareholders' meetings shall be adopted at the meeting with the consent of more than half of the voting rights of the present shareholders, when the meeting is attended by shareholders in person or by proxy representing more than half of the total issued and outstanding capital stock of the Company.</p>	<p>Article 16:  Except as otherwise provided by the <u>Company Act</u>, the resolutions of shareholders' meetings shall be adopted at the meeting with the consent of more than half of the voting rights of the present shareholders, when the meeting is attended by shareholders in person or by proxy representing more than half of the total issued and outstanding capital stock of the Company.</p>	<p>Amended according to laws and regulations and the actual situation.</p>
<p>Chapter 4 Directors</p>	<p>Chapter 4 Directors and Supervisors</p>	<p>Amended according to the actual situation.</p>
<p>Article 34:  These Articles of Incorporation were resolved on March 6, 1978.  The first amendment was on March 23, 1978.  The second amendment was on June 25, 1979.  The third amendment was on May 20, 1982.</p>	<p>Article 34:  These Articles of Incorporation were resolved on March 6, 1978. The first amendment was on March 23, 1978. The second amendment was on June 25, 1979. The third amendment was on May 20, 1982.</p>	<p>Added the number and date of this amendment; unified the writing.</p>

Amended Text	Original Text	Explanation
<p>The fourth amendment was on October 20, 1982.  The fifth amendment was on June 24, 1983.  The sixth amendment was on August 10, 1984.  The seventh amendment was on May 27, 1987.  The eighth amendment was on November 5, 1988.  The ninth amendment was on October 6, 1989.  The tenth amendment was on June 1, 1991.  The eleventh amendment was on July 9, 1991.  The twelfth amendment was on April 23, 1992.  The thirteenth amendment was on May 25, 1992.  The fourteenth amendment was on February 22, 1993.  The fifteenth amendment was on October 20, 1994  The sixteenth amendment was on November 7, 1994.  The seventeenth amendment was on June 10, 1995.  The eighteenth amendment was on May 30, 1996.  The nineteenth amendment on March 4, 1997.  The twentieth amendment was on May 31, 1997.  The twenty-first amendment was on May 18, 1998.  The twenty-second amendment was on May 19, 1999.  The twenty-third amendment was on June 16, 2000.  The twenty-fourth amendment was on May 31, 2001.  The twenty-fifth amendment was on June 28, 2002.  The twenty-sixth amendment was on June 25, 2004.  The twenty-seventh amendment was on June 29, 2005.  The twenty-eighth amendment was on June 23, 2006.  The twenty-ninth amendment was on June 25, 2008.  The thirtieth amendment was on June 19, 2009.  The thirty-first amendment was on June 15, 2012.  The thirty-second amendment was on June 18, 2014.  The thirty-third amendment was on June 22, 2016.  The thirty-fourth amendment was on June 23, 2020.  The thirty-fifth amendment was on July 7, 2021.  <u>The thirty-sixth amendment was on June 21, 2023.</u></p>	<p>The fourth amendment was on October 20, 1982. The fifth amendment was on June 24, 1983. The sixth amendment was on August 10, 1984. The seventh amendment was on May 27, 1987. The eighth amendment was on November 5, 1988. The ninth amendment was on October 6, 1989. The tenth amendment was on June 1, 1991. The eleventh amendment was on July 9, 1991. The twelfth amendment was on April 23, 1992. The thirteenth amendment was on May 25, 1992. The fourteenth amendment was on February 22, 1993. The fifteenth amendment was on October 20, 1994. The sixteenth amendment was on November 7, 1994. The seventeenth amendment was on June 10, 1995. The eighteenth amendment was on May 30, 1996. The nineteenth amendment on March 4, 1997. The twentieth amendment was on May 31, 1997. The twenty-first amendment was on May 18, 1998. The twenty-second amendment was on May 19, 1999. The twenty-third amendment was on June 16, 2000. The twenty-fourth amendment was on May 31, 2001. The twenty-fifth amendment was on June 28, 2002. The twenty-sixth amendment was on June 25, 2004. The twenty-seventh amendment was on June 29, 2005. The twenty-eighth amendment was on June 23, 2006. The twenty-ninth amendment was on June 25, 2008. The thirtieth amendment was on June 19, 2009. The thirty-first amendment was on June 15, 2012. The thirty-second amendment was on June 18, 2014. The thirty-third amendment was on June 22, 2016. The thirty-fourth amendment was on June 23, 2020. The thirty-fifth amendment was on July 7, 2021.</p>	

## **FALCON MACHINE TOOLS CO., LTD.**

### **Rules and Procedures of Shareholders' Meeting (Version after Reformulation)**

**Article 1:**

To establish a strong governance system and sound supervisory capabilities for this Corporation's board of directors and to strengthen management capabilities, these Rules are adopted pursuant to Article 5 of Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.

**Article 2:**

The rules of procedure for the Corporation's shareholders' meeting shall be in accordance with the provisions of these Rules, unless otherwise stipulated by laws or the Articles of Incorporation.

**Article 3:**

Unless otherwise provided by laws or regulations, the Corporation's shareholders' meetings shall be convened by the Board of Directors.

The Corporation shall hold a virtual shareholders' meeting, unless otherwise provided in the Regulations Governing the Administration of Shareholder Services of Public Companies, which shall be specified in the articles of corporation and shall be resolved by the board of directors. The virtual shareholders' meeting shall be conducted by the resolution of the board of directors with the attendance of more than two-thirds of the directors and the consent of more than half of the directors present. Changes to how the Corporation convenes its shareholders' meeting shall be resolved by the board of directors, and shall be made no later than mailing of the shareholders meeting notice.

The Corporation shall prepare electronic versions of the shareholders meeting notice and proxy forms, and the origins of and explanatory materials relating to all proposals, including proposals for ratification, matters for deliberation, or the election or dismissal of directors or supervisors, and upload them to the Market Observation Post System (MOPS) before 30 days before the date of a regular shareholders' meeting or 15 days before the date of a special shareholders' meeting. The Corporation shall prepare electronic versions of the shareholders' meeting agenda and supplemental meeting materials and upload them to the MOPS before 21 days before the date of the regular shareholders' meeting or 15 days before the date of the special shareholders meeting. If, however, the Corporation has the paid-in capital of NT\$10 billion or more as of the last day of the most current fiscal year, or total shareholding of foreign shareholders and PRC shareholders reaches 30% or more as recorded in the register of shareholders of the shareholders' meeting held in the immediately preceding year, transmission of these electronic files shall be made by 30 days before the regular shareholders' meeting. In addition, 15 days before the date of the shareholders' meeting, the Corporation shall also have prepared the shareholders' meeting agenda and supplemental meeting materials and made them available for review by shareholders at any time. The meeting agenda and supplemental materials shall also be displayed at the Corporation and the professional shareholder services agent designated thereby.

The Corporate shall make the meeting agenda and supplemental meeting materials in the preceding paragraph available to shareholders for review in the following manner on the date of the shareholders meeting:

1. For physical shareholders meetings, to be distributed on-site at the meeting.
2. For hybrid shareholders meetings, to be distributed on-site at the meeting and shared on the virtual meeting platform.
3. For virtual-only shareholders meetings, electronic files shall be shared on the virtual meeting platform.

The reasons for convening a shareholders meeting shall be specified in the meeting notice and public announcement. With the consent of the addressee, the meeting notice may be given in electronic form.

Election or dismissal of directors, amendments to the articles of incorporation, reduction of capital, application for the approval of ceasing its status as a public company, approval of competing with the company by directors, surplus profit distributed in the form of new shares, reserve distributed in the form of new shares, the dissolution, merger, or demerger of the corporation, or any matter under Article 185, paragraph 1 of the Company Act, Articles 26-1 and 43-6 of the Securities Exchange Act, Articles 56-1 and 60-2 of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers shall be set out and the essential contents explained in the notice of the reasons for convening the shareholders meeting. None of the above matters may be raised by an extraordinary motion.

Where re-election of all directors as well as their inauguration date is stated in the notice of the reasons for convening the shareholders meeting, after the completion of the re-election in said meeting such inauguration date may not be altered by any extraordinary motion or otherwise in the same meeting.

A shareholder holding one percent or more of the total number of issued shares may submit to the Corporation a proposal for discussion at a regular shareholders meeting. The number of items so proposed is limited to one only, and no proposal containing more than one item will be included in the meeting agenda. When the circumstances of any subparagraph of Article 172-1, paragraph 4 of the Company Act apply to a proposal put forward by a shareholder, the board of directors may exclude it from the agenda.

A shareholder may propose a recommendation for urging the corporation to promote public interests or fulfill its social responsibilities, provided procedurally the number of items so proposed is limited only to one in accordance with Article 172-1 of the Company Act, and no proposal containing more than one item will be included in the meeting agenda.

Prior to the book closure date before a regular shareholders meeting is held, the Corporation shall publicly announce its acceptance of shareholder proposals in writing or electronically, and the location and time period for their submission; the period for submission of shareholder proposals may not be less than 10 days.

Shareholder-submitted proposals are limited to 300 words, and no proposal containing more than 300 words will be included in the meeting agenda. The shareholder making the proposal shall be present in person or by proxy at the regular shareholders meeting and take part in discussion of the proposal. Prior to the date for issuance of notice of a shareholders meeting, the

Corporation shall inform the shareholders who submitted proposals of the proposal screening results, and shall list in the meeting notice the proposals that conform to the provisions of this article. At the shareholders meeting the board of directors shall explain the reasons for exclusion of any shareholder proposals not included in the agenda.

**Article 4:**

For each shareholders meeting, a shareholder may appoint a proxy to attend the meeting by providing the proxy form issued by the Corporation and stating the scope of the proxy's authorization.

A shareholder may issue only one proxy form and appoint only one proxy for any given shareholders' meeting, and shall deliver the proxy form to the Corporation before five days before the date of the shareholders meeting. When duplicate proxy forms are delivered, the one received earliest shall prevail unless a declaration is made to cancel the previous proxy appointment.

After a proxy form has been delivered to the Corporation, if the shareholder intends to attend the meeting in person or to exercise voting rights by correspondence or electronically, a written notice of proxy cancellation shall be submitted to this Corporation before two business days before the meeting date. If the cancellation notice is submitted after that time, votes cast at the meeting by the proxy shall prevail.

If, after a proxy form is delivered to the Corporation, a shareholder wishes to attend the shareholders meeting online, a written notice of proxy cancellation shall be submitted to this Corporation two business days before the meeting date. If the cancellation notice is submitted after that time, votes cast at the meeting by the proxy shall prevail.

**Article 5: (Principles determining the time and place of a shareholders' meeting)**

The venue for a shareholders' meeting shall be the premises of the Corporation, or a place easily accessible to shareholders and suitable for a shareholders meeting. The meeting may begin no earlier than 9 a.m. and no later than 3 p.m. Full consideration shall be given to the opinions of the independent directors with respect to the place and time of the meeting.

The restrictions on the place of the meeting shall not apply when the Corporation convenes a virtual-only shareholders' meeting.

**Article 6: (Preparation of documents such as the attendance book)**

The Corporation shall specify in its shareholders' meeting notices the time during which attendance registrations for shareholders, solicitors and proxies (collectively "shareholders") will be accepted, the place to register for attendance, and other matters for attention.

The time during which shareholder attendance registrations will be accepted, as stated in the preceding paragraph, shall be at least 30 minutes prior to the time the meeting commences. The place at which attendance registrations are accepted shall be clearly marked and a sufficient number of suitable personnel assigned to handle the registrations. For virtual shareholders' meetings, shareholders may begin to register on the virtual meeting platform 30 minutes before the meeting starts. Shareholders completing registration will be deemed as attending the shareholders' meeting in person.

Shareholders shall attend shareholders' meetings based on attendance cards, sign-in cards, or other certificates of attendance. The Corporation may not arbitrarily add requirements for other documents beyond those showing eligibility to attend presented by shareholders. Solicitors soliciting proxy forms shall also bring identification documents for verification.

The Corporation shall furnish the attending shareholders with an attendance book to sign, or attending shareholders may hand in a sign-in card in lieu of signing in.

The Corporation shall furnish attending shareholders with the meeting agenda book, annual report, attendance card, speaker's slips, voting slips, and other meeting materials. Where there is an election of directors, pre-printed ballots shall also be furnished.

When the government or a juristic person is a shareholder, it may be represented by more than one representative at a shareholders' meeting. When a juristic person is appointed to attend as proxy, it may designate only one person to represent it in the meeting.

In the event of a virtual shareholders meeting, shareholders wishing to attend the meeting online shall register with the Corporation two days before the meeting date.

In the event of a virtual shareholders meeting, this Corporation shall upload the meeting agenda book, annual report and other meeting materials to the virtual meeting platform at least 30 minutes before the meeting starts, and keep this information disclosed until the end of the meeting.

**Article 6-1: (Convening virtual shareholders meetings and particulars to be included in shareholders meeting notice)**

To convene a virtual shareholders meeting, the Corporation shall include the follow particulars in the shareholders meeting notice:

1. How shareholders attend the virtual meeting and exercise their rights.
2. Actions to be taken if the virtual meeting platform or participation in the virtual meeting is obstructed due to natural disasters, accidents, or other force majeure events, at least covering the following particulars:
  - A. To what time the meeting is postponed or from what time the meeting will resume if the above obstruction continues and cannot be removed, and the date to which the meeting is postponed or on which the meeting will resume.
  - B. Shareholders not having registered to attend the affected virtual shareholders meeting shall not attend the postponed or resumed session.
  - C. In case of a hybrid shareholders' meeting, when the virtual meeting cannot be continued, if the total number of shares represented at the meeting, after deducting those represented by shareholders attending the virtual shareholders' meeting online, meets the minimum legal requirement for a shareholder meeting, then the shareholders' meeting shall continue. The shares represented by shareholders attending the virtual meeting online shall be counted towards the total number of shares represented by shareholders present at the meeting, and the shareholders attending the virtual meeting online shall be deemed abstaining from voting on all proposals on meeting agenda of that shareholders' meeting.

D. Actions to be taken if the outcome of all proposals has been announced and extraordinary motion has not been carried out.

3. To convene a virtual-only shareholders' meeting, appropriate alternative measures available to shareholders with difficulties in attending a virtual shareholders' meeting online shall be specified.

**Article 7: (The chair and non-voting participants of a shareholders' meeting)**

If a shareholders' meeting is convened by the board of directors, the meeting shall be chaired by the chairperson of the board. When the chairperson of the board is on leave or for any reason unable to exercise the powers of the chairperson, the vice chairperson shall act in place of the chairperson; if there is no vice chairperson or the vice chairperson also is on leave or for any reason unable to exercise the powers of the vice chairperson, the chairperson shall appoint one of the managing directors to act as chair, or, if there are no managing directors, one of the directors shall be appointed to act as chair. Where the chairperson does not make such a designation, the managing directors or the directors shall select from among themselves one person to serve as chair.

When a managing director or a director serves as chair, as referred to in the preceding paragraph, the managing director or director shall be one who has held that position for six months or more and who understands the financial and business conditions of the company. The same shall be true for a representative of a juristic person director that serves as chair.

It is advisable that shareholders' meetings convened by the board of directors be chaired by the chairperson of the board in person and attended by a majority of the directors, at least one supervisor in person, and at least one member of each functional committee on behalf of the committee. The attendance shall be recorded in the meeting minutes.

If a shareholders' meeting is convened by a party with power to convene but other than the board of directors, the convening party shall chair the meeting. When there are two or more such convening parties, they shall mutually select a chair from among themselves.

The Corporation may appoint its attorneys, certified public accountants, or related persons retained by it to attend a shareholders' meeting in a non-voting capacity.

**Article 8: (Documentation of a shareholders meeting by audio or video)**

The Corporation, beginning from the time it accepts shareholder attendance registrations, shall make an uninterrupted audio and video recording of the registration procedure, the proceedings of the shareholders' meeting, and the voting and vote counting procedures.

The recorded materials of the preceding paragraph shall be retained for at least one year. If, however, a shareholder files a lawsuit pursuant to Article 189 of the Company Act, the recording shall be retained until the conclusion of the litigation.

Where a shareholders' meeting is held online, the Corporation shall keep records of shareholder registration, sign-in, check-in, questions raised, votes cast and results of votes counted by the Corporation, and continuously audio and video record, without interruption, the proceedings of the virtual meeting from beginning to end.

The information and audio and video recording in the preceding paragraph shall be properly kept by the Corporation during the entirety of its existence, and copies of the audio and video recording shall be provided to and kept by the party appointed to handle matters of the virtual meeting.

**Article 9:**

Attendance at shareholders' meetings shall be calculated based on numbers of shares. The number of shares in attendance shall be calculated according to the shares indicated by the attendance book and sign-in cards handed in, and the shares checked in on the virtual meeting platform, plus the number of shares whose voting rights are exercised by correspondence or electronically.

The chair shall call the meeting to order at the appointed meeting time and disclose information concerning the number of nonvoting shares and number of shares represented by shareholders attending the meeting.

However, when the attending shareholders do not represent a majority of the total number of issued shares, the chair may announce a postponement, provided that no more than two such postponements, for a combined total of no more than one hour, may be made. If the quorum is not met after two postponements and the attending shareholders still represent less than one third of the total number of issued shares, the chair shall declare the meeting adjourned. In the event of a virtual shareholders' meeting, the Corporation shall also declare the meeting adjourned at the virtual meeting platform.

If the quorum is not met after two postponements as referred to in the preceding paragraph, but the attending shareholders represent one third or more of the total number of issued shares, a tentative resolution may be adopted pursuant to Article 175, paragraph 1 of the Company Act; all shareholders shall be notified of the tentative resolution and another shareholders' meeting shall be convened within one month. In the event of a virtual shareholders' meeting, shareholders intending to attend the meeting online shall re-register to the Corporation in accordance with Article 6.

When, prior to conclusion of the meeting, the attending shareholders represent a majority of the total number of issued shares, the chair may resubmit the tentative resolution for a vote by the shareholders' meeting pursuant to Article 174 of the Company Act.

**Article 10:**

If a shareholders' meeting is convened by the board of directors, the meeting agenda shall be set by the board of directors. Votes shall be cast on each separate proposal in the agenda (including extraordinary motions and amendments to the original proposals set out in the agenda). The meeting shall proceed in the order set by the agenda, which may not be changed without a resolution of the shareholders meeting.

The provisions of the preceding paragraph apply mutatis mutandis to a shareholders' meeting convened by a party with the power to convene that is not the board of directors.

The chair may not declare the meeting adjourned prior to completion of deliberation on the meeting agenda of the preceding two paragraphs (including extraordinary motions), except by a resolution of the shareholders' meeting. If the chair declares the



meeting adjourned in violation of the rules of procedure, the other members of the board of directors shall promptly assist the attending shareholders in electing a new chair in accordance with statutory procedures, by agreement of a majority of the votes represented by the attending shareholders, and then continue the meeting.

The chair shall allow ample opportunity during the meeting for explanation and discussion of proposals and of amendments or extraordinary motions put forward by the shareholders; when the chair is of the opinion that a proposal has been discussed sufficiently to put it to a vote, the chair may announce the discussion closed, call for a vote, and schedule sufficient time for voting.

**Article 11:**

Before speaking, an attending shareholder must specify on a speaker's slip the subject of the speech, his/her shareholder account number (or attendance card number), and account name. The order in which shareholders speak will be set by the chair. A shareholder in attendance who has submitted a speaker's slip but does not actually speak shall be deemed to have not spoken. When the content of the speech does not correspond to the subject given on the speaker's slip, the spoken content shall prevail. Except with the consent of the chair, a shareholder may not speak more than twice on the same proposal, and a single speech may not exceed 5 minutes. If the shareholder's speech violates the rules or exceeds the scope of the agenda item, the chair may terminate the speech.

When an attending shareholder is speaking, other shareholders may not speak or interrupt unless they have sought and obtained the consent of the chair and the shareholder that has the floor; the chair shall stop any violation.

When a juristic person shareholder appoints two or more representatives to attend a shareholders' meeting, only one of the representatives so appointed may speak on the same proposal.

After an attending shareholder has spoken, the chair may respond in person or direct relevant personnel to respond.

Where a virtual shareholders' meeting is convened, shareholders attending the virtual meeting online may raise questions in writing at the virtual meeting platform from the chair declaring the meeting open until the chair declaring the meeting adjourned. No more than two questions for the same proposal may be raised. Each question shall contain no more than 200 words. The regulations in paragraphs 1 to 5 do not apply.

**Article 12: (Calculation of voting shares and recusal system)**

Voting at a shareholders' meeting shall be calculated based the number of shares.

With respect to resolutions of shareholders' meetings, the number of shares held by a shareholder with no voting rights shall not be calculated as part of the total number of issued shares.

When a shareholder is an interested party in relation to an agenda item, and there is the likelihood that such a relationship would prejudice the interests of the Corporation, that shareholder may not vote on that item, and may not exercise voting rights as proxy for any other shareholder.

The number of shares for which voting rights may not be exercised under the preceding paragraph shall not be calculated as part of the voting rights represented by attending shareholders.

With the exception of a trust enterprise or a shareholder services agent approved by the competent securities authority, when one person is concurrently appointed as proxy by two or more shareholders, the voting rights represented by that proxy may not exceed three percent of the voting rights represented by the total number of issued shares. If that percentage is exceeded, the voting rights in excess of that percentage shall not be included in the calculation.

**Article 13:**

A shareholder shall be entitled to one vote for each share held, except when the shares are restricted shares or are deemed non-voting shares under Article 179, paragraph 2 of the Company Act.

When the Corporation holds a shareholder meeting, it shall adopt exercise of voting rights by electronic means and may adopt exercise of voting rights by correspondence. When voting rights are exercised by correspondence or electronic means, the method of exercise shall be specified in the shareholders' meeting notice. A shareholder exercising voting rights by correspondence or electronic means will be deemed to have attended the meeting in person, but to have waived his/her rights with respect to the extraordinary motions and amendments to original proposals of that meeting; it is therefore advisable that the Corporation avoid the submission of extraordinary motions and amendments to original proposals.

A shareholder intending to exercise voting rights by correspondence or electronic means under the preceding paragraph shall deliver a written declaration of intent to the Corporation two days before the date of the shareholders' meeting. When duplicate declarations of intent are delivered, the one received earliest shall prevail, except when a declaration is made to cancel the earlier declaration of intent.

After a shareholder has exercised voting rights by correspondence or electronic means, in the event the shareholder intends to attend the shareholders' meeting in person or online, a written declaration of intent to retract the voting rights already exercised under the preceding paragraph shall be made known to the Corporation, by the same means by which the voting rights were exercised, two business days before the date of the shareholders meeting. If the notice of retraction is submitted after that time, the voting rights already exercised by correspondence or electronic means shall prevail. When a shareholder has exercised voting rights both by correspondence or electronic means and by appointing a proxy to attend a shareholders' meeting, the voting rights exercised by the proxy in the meeting shall prevail.

Except as otherwise provided in the Company Act and in the Corporation's articles of incorporation, the passage of a proposal shall require an affirmative vote of a majority of the voting rights represented by the attending shareholders. At the time of a vote, for each proposal, the chair or a person designated by the chair shall first announce the total number of voting rights represented by the attending shareholders, followed by a poll of the shareholders. After the conclusion of the meeting, on the same day it is held, the results for each proposal, based on the numbers of votes for and against and the number of abstentions, shall be entered into the MOPS.

When there is an amendment or an alternative to a proposal, the chair shall present the amended or alternative proposal together with the original proposal and decide the order in which they will be put to a vote. When any one among them is passed, the other proposals will then be deemed rejected, and no further voting shall be required.

Vote monitoring and counting personnel for the voting on a proposal shall be appointed by the chair, provided that all monitoring personnel shall be shareholders of the Corporation.

Vote counting for shareholders meeting proposals or elections shall be conducted in public at the place of the shareholders' meeting. Immediately after vote counting has been completed, the results of the voting, including the statistical tallies of the numbers of votes, shall be announced on-site at the meeting, and a record made of the vote.

When the Corporation convenes a virtual shareholders' meeting, after the chair declares the meeting open, shareholders attending the meeting online shall cast votes on proposals and elections on the virtual meeting platform before the chair announces the voting session ends or will be deemed abstained from voting.

In the event of a virtual shareholders' meeting, votes shall be counted at once after the chair announces the voting session ends, and results of votes and elections shall be announced immediately.

When the Corporation convenes a hybrid shareholders' meeting, if shareholders who have registered to attend the meeting online in accordance with Article 6 decide to attend the physical shareholders' meeting in person, they shall revoke their registration two days before the shareholders' meeting in the same manner as they registered. If their registration is not revoked within the time limit, they may only attend the shareholders' meeting online.

When shareholders exercise voting rights by correspondence or electronic means, unless they have withdrawn the declaration of intent and attended the shareholders meeting online, except for extraordinary motions, they will not exercise voting rights on the original proposals or make any amendments to the original proposals or exercise voting rights on amendments to the original proposal.

**Article 14:**

The election of directors at a shareholders' meeting shall be held in accordance with the applicable election and appointment rules adopted by the Corporation, and the voting results shall be announced on-site immediately, including the names of those elected as directors and the numbers of votes with which they were elected, and the names of directors not elected and number of votes they received.

The ballots for the election referred to in the preceding paragraph shall be sealed with the signatures of the monitoring personnel and kept in proper custody for at least one year. If, however, a shareholder files a lawsuit pursuant to Article 189 of the Company Act, the ballots shall be retained until the conclusion of the litigation.

**Article 15:**

Matters relating to the resolutions of a shareholders' meeting shall be recorded in the meeting minutes. The meeting minutes shall be signed or sealed by the chair of the meeting and a copy distributed to each shareholder within 20 days after the conclusion of the meeting. The meeting minutes may be produced and distributed in electronic form.

The Corporation may distribute the meeting minutes of the preceding paragraph by means of a public announcement made through the MOPS.

The meeting minutes shall accurately record the year, month, day, and place of the meeting, the chair's full name, the methods by which resolutions were adopted, and a summary of the deliberations and their voting results (including the number of voting rights), and disclose the number of voting rights won by each candidate in the event of an election of directors. The minutes shall be retained for the duration of the existence of the Corporation.

Where a virtual shareholders' meeting is convened, in addition to the particulars to be included in the meeting minutes as described in the preceding paragraph, the start time and end time of the shareholders' meeting, how the meeting is convened, the chair's and secretary's name, and actions to be taken in the event of disruption to the virtual meeting platform or participation in the meeting online due to natural disasters, accidents or other force majeure events, and how issues are dealt with shall also be included in the minutes.

When convening a virtual-only shareholder meeting, other than compliance with the requirements in the preceding paragraph, the Corporation shall specify in the meeting minutes alternative measures available to shareholders with difficulties in attending a virtual-only shareholders' meeting online.

**Article 16: (Public disclosure)**

On the day of a shareholders' meeting, the Corporation shall compile in the prescribed format a statistical statement of the number of shares obtained by solicitors through solicitation, the number of shares represented by proxies and the number of shares represented by shareholders attending the meeting by correspondence or electronic means, and shall make an express disclosure of the same at the place of the shareholders' meeting. In the event a virtual shareholders' meeting, the Corporation shall upload the above meeting materials to the virtual meeting platform at least 30 minutes before the meeting starts, and keep this information disclosed until the end of the meeting.

During this Corporation's virtual shareholders' meeting, when the meeting is called to order, the total number of shares represented at the meeting shall be disclosed on the virtual meeting platform. The same shall apply whenever the total number of shares represented at the meeting and a new tally of votes is released during the meeting.

If matters put to a resolution at a shareholders' meeting constitute material information under applicable laws or regulations or under Taiwan Stock Exchange Corporation (or Taipei Exchange Market) regulations, the Corporation shall upload the content of such resolution to the MOPS within the prescribed time period.

**Article 17: (Maintaining order at the meeting place)**

Staff handling administrative affairs of a shareholders' meeting shall wear identification cards or arm bands.

The chair may direct the proctors or security personnel to help maintain order at the meeting place. When proctors or security

personnel help maintain order at the meeting place, they shall wear an identification card or armband bearing the word "Proctor."

At the place of a shareholders' meeting, if a shareholder attempts to speak through any device other than the public address equipment set up by the Corporation, the chair may prevent the shareholder from so doing.

When a shareholder violates the rules of procedure and defies the chair's correction, obstructing the proceedings and refusing to heed calls to stop, the chair may direct the proctors or security personnel to escort the shareholder from the meeting.

**Article 18: (Recess and resumption of a shareholders meeting)**

When a meeting is in progress, the chair may announce a break based on time considerations. If a force majeure event occurs, the chair may rule the meeting temporarily suspended and announce a time when, in view of the circumstances, the meeting will be resumed.

If the meeting venue is no longer available for continued use and not all of the items (including extraordinary motions) on the meeting agenda have been addressed, the shareholders' meeting may adopt a resolution to resume the meeting at another venue. A resolution may be adopted at a shareholders' meeting to defer or resume the meeting within five days in accordance with Article 182 of the Company Act.

**Article 19: (Disclosure of information at virtual meetings)**

In the event of a virtual shareholders' meeting, the Corporation shall disclose real-time results of votes and election immediately after the end of the voting session on the virtual meeting platform according to the regulations, and this disclosure shall continue at least 15 minutes after the chair has announced the meeting adjourned.

**Article 20: (Location of the chair and secretary of virtual-only shareholders' meeting)**

When the Corporation convenes a virtual-only shareholders' meeting, both the chair and secretary shall be in the same location, and the chair shall declare the address of their location when the meeting is called to order.

**Article 21: (Handling of disconnection)**

If the virtual meeting platform or participation in the virtual meeting is obstructed due to natural disasters, accidents or other force majeure events before the chair has announced the meeting adjourned, and the obstruction continues for more than 30 minutes, the meeting shall be postponed to or resumed on another date within five days, in which case Article 182 of the Company Act shall not apply.

For a meeting to be postponed or resumed as described in the preceding paragraph, shareholders who have not registered to participate in the affected shareholders' meeting online shall not attend the postponed or resumed session.

For a meeting to be postponed or resumed under the first paragraph, the number of shares represented by, and voting rights and election rights exercised by the shareholders who have registered to participate in the affected shareholders' meeting and have successfully signed in the meeting, but do not attend the postpone or resumed session, at the affected shareholders' meeting, shall be counted towards the total number of shares, number of voting rights and number of election rights represented at the postponed or resumed session.

During a postponed or resumed session of a shareholders' meeting held under the first paragraph, no further discussion or resolution is required for proposals for which votes have been cast and counted and results have been announced, or list of elected directors.

When the Corporation convenes a hybrid shareholders' meeting, and the virtual meeting cannot continue as described in first paragraph, if the total number of shares represented at the meeting, after deducting those represented by shareholders attending the virtual shareholders' meeting online, still meets the minimum legal requirement for a shareholder meeting, then the shareholders' meeting shall continue, and not postponement or resumption thereof under the first paragraph is required.

Under the circumstances where a meeting should continue as in the preceding paragraph, the shares represented by shareholders attending the virtual meeting online shall be counted towards the total number of shares represented by shareholders present at the meeting, provided these shareholders shall be deemed abstaining from voting on all proposals on meeting agenda of that shareholders' meeting.

When postponing or resuming a meeting according to the first paragraph, the Corporation shall handle the preparatory work based on the date of the original shareholders meeting in accordance with the requirements listed under Article 44-20, paragraph 7 of the Regulations Governing the Administration of Shareholder Services of Public Companies.

For dates or period set forth under Article 12, second half, and Article 13, paragraph 3 of Regulations Governing the Use of Proxies for Attendance at Shareholder Meetings of Public Companies, and Article 44-5, paragraph 2, Article 44-15, and Article 44-17, paragraph 1 of the Regulations Governing the Administration of Shareholder Services of Public Companies, the Corporations shall handle the matter based on the date of the shareholders' meeting that is postponed or resumed under the first paragraph.

**Article 22: (Handling of digital divide)**

When convening a virtual-only shareholders meeting, the Corporation shall provide appropriate alternative measures available to shareholders with difficulties in attending a virtual shareholders meeting online. Except for the circumstances stipulated in Item 6, Article 44-9, of the Regulations Governing the Administration of Shareholder Services of Public Companies, at least shareholders shall be provided with connection equipment and necessary assistance, and the period during which shareholders may apply to the Corporation and other relevant notices shall be specified.

**Article 23:**

These Rules shall take effect after having been submitted to and approved by a shareholders' meeting. Subsequent amendments thereto shall be effected in the same manner.

**Article 24:**

These Rules were established on June 21, 2023.

## FALCON MACHINE TOOLS CO., LTD.

### List of Potential Placees (Insiders or Related Parties) for 2023 Private Placement of Common Shares

A. The method and objective for selecting the placees

If the placees are insiders or related parties of the company, those who will directly or indirectly benefit the company's future operations and have a certain understanding of the company are listed as follows:

Potential Placees	Relations with the Company
Lin, Tsung-Lin	Chairman of the Company
Tung, Shang-Yu	Vice Chairman and General Manager of the Company
Linju Investment Co., Ltd.	Legal Person as Corporate Director of the Company, Major Shareholder (10%)
Lin, Yi-Zhen	Legal Person as Corporate Director of the Company
Zhang, Yu-Xin	Legal Person as Corporate Director of the Company
Guangshang Investment Co., Ltd.	Related Party of the Company
Qingjingning Investment Co., Ltd.	Related Party of the Company
Lucchi Investment Co., Ltd.	Related Party of the Company

B. If the placees are juristic person, the names of top 10 shareholders, shareholding ratio, and the relations with the Company are as follows.

Potential Placees	Names of Top 10 Shareholders	Shareholding Ratio	Relations with the Company
Linju Investment Co., Ltd.	Lin, Tsung-Lin	0.01%	Chairman of the Company
	Guangshang Investment Co., Ltd.	31.25%	Related Party of the Company
	Qingjingning Investment Co., Ltd.	37.49%	Related Party of the Company
	Lucchi Investment Co., Ltd.	31.25%	Related Party of the Company
Guangshang Investment Co., Ltd.	Tung, Shang-Yu	23.00%	Vice Chairman and General Manager of the Company
	Tung, Zhao-Ling	22.00%	None
	Tung, Zhao-Ying	28.00%	None
	Tung, Lin Mei-Gui	27.00%	None
Qingjingning Investment Co., Ltd.	Lin, Tsung-Lin	99.84%	Chairman of the Company
	Wu, He-Bei	0.16%	None
Lucchi Investment Co., Ltd.	Hua, Qi-Xiang	100%	Spouse of Legal Person as Corporate Director of the Company

C. If the top 10 shareholders are juristic person, the names of top 10 shareholders, shareholding ratio, and the relations with the Company are as follows:  
Not applicable.

## **FALCON MACHINE TOOLS CO., LTD.**

### **Securities Underwriter's Assessment Opinion on Necessity and Reasonableness of Private Placement**

Appointer: Falcon Machine Tools Co., Ltd.

Trustee: Falcon Machine Tools Co., Ltd.

Specified Use: Only for Falcon Machine Tools Co., Ltd.

Used for 2023 Private Placements of Securities

Report Type: Securities Underwriter's Assessment Opinion on Necessity and  
Reasonableness of Private Placement

Appraisal Agency: Taichung Bank Securities Co., Ltd

April 28, 2023

Falcon Machine Tools Co., Ltd. (hereinafter referred to as Falcon or the Company) plans to conduct a private placement of common shares within the quota of the total number of shares not exceeding 30,000,000 shares on May 2, 2023. This private placement still needs to be approved by the resolution of the shareholders' regular meeting on June 21, 2023, and the board of directors is authorized to handle it once or separate into two time within one year from the date of the resolution of the shareholders' regular meeting.

According to the Company's financial statements audited by CPAs in 2022, the loss to be made up was 11,829 thousand dollars, and the after-tax net loss was 22,995 thousand dollars. Therefore, the business has complied with the provisions of Article 3 of "Directions for Public Companies Conducting Private Placements of Securities."

In addition, according to Article 4 of "Directions for Public Companies Conducting Private Placements of Securities," "If there has been, is, or will be any significant change in managerial control during the period from 1 year preceding the day on which the board of directors resolves on the private placement of securities to 1 year from the delivery date of those privately placed securities, the company shall engage a securities underwriter to provide an assessment opinion on the necessity and reasonableness for conducting the private placement." After investigation, the Company had changed more than 1/2 of the number of directors in the year before the resolution of the board of directors on May 2, 2023, which causes the original management officials to lose their rights of control. Therefore, it is necessary to ask a securities underwriter to provide an assessment opinion on the necessity and reasonableness for conducting the private placement.

The content of this opinion letter is only used as a reference for the resolution of the shareholders' regular meeting of Falcon on June 21, 2023 for conducting the private placement, and is not used for other purposes. The content of this opinion letter is based on the proposal of the Company's board of directors on May 2, 2023, and the Company's financial information provided by Falcon. The content may change due to changes in the Company's private placement plan or other circumstances in the future. The impact of this opinion letter does not bear any legal responsibility, hereby declared.

### 1. Company Overview

Falcon was established on April 13, 1978 and was listed for trading on March 25, 1998. The main business items are the manufacturing and processing of various machine tools and the import and export trade business for domestic and foreign sales. As of December 31, 2022, the paid-in capital was NT\$768,803,000 dollars. The Company's condensed financial statements for the last three years are as follows:

#### Balance Sheet

Unit: NT\$ thousands

Year/Item	2020	2021	2022
Current Assets	1,486,041	1,737,809	1,790,097
Noncurrent Assets	833,134	792,797	683,127
Total Assets	2,319,175	2,530,606	2,473,224
Current Liabilities	866,871	934,697	1,143,551
Noncurrent Liabilities	669,864	784,778	508,700
Total Liabilities	1,536,735	1,719,475	1,652,251
Capital Stock	768,803	768,803	768,803
Capital Surplus	11,460	11,460	11,460
Retained Earnings	50,314	84,784	64,561
Others	(48,137)	(53,916)	(23,851)
Total Equity	782,440	811,131	820,973
Net Worth Per Share (Dollar)	10.18	10.55	10.68

Source: Consolidated financial statements audited and certified by CPAs for each year

## Statement of Comprehensive Income

Unit: NT\$ thousands

Year/Item	2020	2021	2022
Revenue	1,116,868	1,607,091	1,610,552
Gross Profit	256,095	389,264	403,869
Gross Profit Margin	22.92%	24.22%	25.07%
Operating Income (Loss)	(37,937)	45,977	15,336
Operating Income to Paid-in Capital Ratio	(3.39%)	0.30%	0.95%
Non-operating Income and Expenses	(1,897)	6,301	(2,651)
Net Income (Loss) Attributable to Shareholders of the Parent	(38,882)	33,900	(22,995)
Earnings Per Share (Loss) (Dollar)	(0.51)	0.44	(0.30)

Source: Consolidated financial statements audited and certified by CPAs for each year

### 2. Assessment Opinion from the Underwriter

Falcon plans to hold a board meeting on May 2, 2023. It is expected that the total number of shares will not exceed 30,000,000 shares for private placement of common shares. The funds raised will be used to add to operation capital, repay bank loans, improve financial structure, or support other capital needs in response to the company's future diversified business development (including but not limited to reinvestment, adding to new business operation capital). According to the proposal of the board of directors of the company on May 2, 2023, the applicants for this private placement are the company's insiders, related parties, or specific persons who meet the conditions set by the competent authority. However, as of the date of issuance of this opinion letter, the company has no selected private equity investors.

The securities underwriter's assessment on necessity and reasonableness of the Company conducting the private placement is as follows:

#### (1) Assessment on legitimacy

##### 1. Article 3 of "Directions for Public Companies Conducting Private Placements of Securities"

According to the company's 2022 financial statements audited by CPAs, the loss to be made up was 11,829 thousand dollars, and the net loss after tax was 22,995 thousand dollars. Therefore, it is not restricted to Article 3 "Public companies with after-tax net profit in the most recent year and no accumulated losses are not allowed to conduct private placement of securities." of "Directions for Public Companies Conducting Private Placements of Securities"

##### 2. Regulations on private placement prices and theoretical prices of subparagraphs 1 and 2, paragraph 1, Article 4 of "Directions for Public Companies Conducting Private Placements of Securities"

In accordance with the provisions of subparagraph 1, paragraph 1, Article 4 of "Directions for Public Companies Conducting Private Placements of Securities," "Where the company is a TWSE listed or TPEX listed company or an emerging stock company, if the price per share of the privately placed common shares is lower than 80 percent of the reference price, or if the issuance price of the preferred shares, convertible corporate bonds, preferred shares with warrants, corporate bonds with warrants, or employee stock warrants is lower than 80 percent of the theoretical price, state the independent expert's opinion on the basis and reasonableness of the pricing on the meeting notice, to serve as a reference for the shareholders to decide whether to agree." In accordance with the provisions of subparagraph 2, paragraph 1, Article 4, "If the placee is an insider or related party of the company, the price per share of the privately placed common shares shall not be lower than 80 percent of the reference price." According to the content of the board of directors' proposal on May 2, 2023, the issue price of this private placement is proposed to be no lower than 80 percent of the reference price or theoretical price, and not lower than the par value of the stock, and it has been included in the board of directors' proposal, which should comply with relevant laws and regulations.

3.Regulations on places of subparagraph 2, paragraph 1, Article 4 of “Directions for Public Companies Conducting Private Placements of Securities”

According to the provisions of subparagraph 2, paragraph 1, Article 4 of “Directions for Public Companies Conducting Private Placements of Securities,” if the places are insiders or related parties of the company, the list of places, method and objectives of selecting the places, and the relationship between the places and the company shall be fully discussed at a meeting of the board of directors and stated in the notice to convene the shareholders’ meeting, failing which no such person may subscribe afterwards; if any placee is a strategic investor, the method and objectives of selecting the placee, the necessity for that selection, and the anticipated benefits shall be fully discussed at a meeting of the board of directors and stated in the notice to convene the shareholders’ meeting. ° Relevant matters about the proposal for this private placement will be fully discussed in the board of directors’ meetings and will be stated in the reason for the convening of the shareholders’ regular meeting on June 21, 2023. There should be no doubts about violating relevant laws and regulations.

(2)Current situation of the Company

Unit: NT\$ thousands

Year/Item	2020	2021	2022
Revenue	1,116,868	1,607,091	1,610,552
Gross Profit	256,095	389,264	403,869
Gross Profit Margin	22.92%	24.22%	25.07%
Operating Income (Loss)	(37,937)	45,977	15,336
Operating Income to Paid-in Capital Ratio	(3.39%)	0.30%	0.95%
Non-operating Income and Expenses	(1,897)	6,301	(2,651)
Net Income (Loss) Attributable to Shareholders of the Parent	(38,882)	33,900	(22,995)
Earnings Per Share (Loss) (Dollar)	(0.51)	0.44	(0.30)
Short-term Bank Loans	377,836	273,493	450,940
Long-term Bank Loans	515,144	548,811	405,753
Total Bank Loans (A)	892,980	822,304	856,693
Total Liabilities (B)	1,536,735	1,719,475	1,652,251
Total Bank Loans to Total Liabilities (A)/(B) (%)	58.11%	47.82%	51.85%
Debt Ratio (%)	66.26%	67.95%	66.81%

Source: Consolidated financial statements audited and certified by CPAs for each year

(3)Assessment on necessity and reasonableness of the Company conducting the private placement

1.Assessment on necessity

Falco’s current major operating items are the manufacturing and processing of various machine tools and import and export trade business for domestic and foreign sales. The main sales markets are the United States, China, and Europe, and the operation is deeply affected by the economic boom and bust of the United States and China. In recent years, the international economy has been affected by unfavorable factors such as the pandemic, the Ukrainian-Russian War, rising global raw material prices, European energy problems, and global inflation. Countries have suspended or postponed various capital expenditures and investment plans, which slowed down the demand for the machine tool industry, and it is difficult to make a breakthrough in operation. In the past three years, the operation has been up and down. Although 2021 has turned from loss to profit, due to the impact of the international central bank’s continuous interest rate hikes and rising interest expenses that have eroded profits, 2022 has shown a loss again. In addition, the company’s debt ratio in the last three years has been as high as 60% or more, and the proportion of total bank loans in total debt is as high as 47.82%~58.11%. It is obvious that the company’s financial management is overly dependent on bank financing. Facing global inflation, countries have raised interest rates one after another, and the rising interest rates will increase the company’s financial burden. Therefore, the company plans to conduct private placements, obtain stable



long-term funds, and reduce dependence on bank financing to reduce interest expenses and make the use of funds more flexible, and thus enhance the interests of shareholders. The private placement plan should have its necessity.

## 2. Assessment on reasonableness

### (1) Reasonableness of types of conducting privately placed securities

Falcon plans to conduct the private placement of common shares within the total number of shares not exceeding 30,000,000 shares, which is a type of securities generally issued in the market and should be reasonable.

The proposal for this private placement plan is submitted by the board of directors on May 2, 2023 for the resolution of the shareholders' regular meeting on June 21, 2023. The shareholders' meeting authorizes the board of directors to conduct it once or separate into two time within one year from the date of the resolution. If the maximum dilution ratio after the issuance of all 30,000,000 private placement common shares is 28.07%, the issuance price should not be lower than 80 percent of the reference price, and should not be lower than the par value of the stock. After evaluation, the pricing ratio is still in line with market practice, so there is no material adverse impact on shareholders' equity.

### (2) Reasonableness of expected benefits from private placement

Falcon plans to conduct the private placement of common shares that the total number of shares will not exceed 30,000,000 shares. The funds raised will be used to add to operation capital, repay bank loans, improve financial structure, or support other capital needs in response to the company's future diversified business development (including but not limited to reinvestment, adding to new business operation capital). The expected benefits from private placement are as follows:

Since the beginning of the year, inflationary pressures in countries around the world have gradually increased. The chaos of supply chain caused by Covid-19, the sharp rise in global commodity prices stimulated by the Ukrainian-Russian War, and the monetary tightening policies of various countries have exacerbated the inflationary effect. In order to curb inflation, various countries continued to raise interest rates, and Central Bank of the Republic of China (Taiwan) has raised interest rates four times since March 2022, which not only makes the business environment more difficult for enterprises, but also relatively increases the cost of obtaining operation capital. If all of the privately placed common shares are issued in the future, the company will obtain stable long-term funds. In addition to completing the financial structure, it can also improve the flexibility of fund allocation and reduce operational risks, which is beneficial to the overall operational development.

After referring to the related matters such as private placement conditions, fund use and benefits, etc. of the proposal submitted by the board of directors on May 2, 2023, no major abnormalities were found. Therefore, this private placement is expected to have positive benefits to the company's finances and shareholders' interests. Furthermore, this private placement is expected to add to the group's operation capital, improve the company's financial structure, reduce costs, improve operating performance efficiency, and benefit R&D technology department. The expected benefits from this private placement should have reasonableness.

### 3. Selecting the placees and assessment on its potentiality

The placee for this private placement is considered in accordance with Article 43-6 of the Securities and Exchange Act and No. 0910003455 issued by the Financial Supervisory Commission on June 13, 2002 (91). No specific person has been selected yet.

#### (1) If the placees are insiders or related parties of the company

If the placees are insiders or related parties of the company, the tentative list, the method and objective for selecting the placees, and the feasibility and necessity of placees are as follows:

##### A. The method and objective for selecting the placees

If the placees are insiders or related parties of the company, those who will directly or indirectly benefit the company's future operations and have a certain understanding of the company are tentatively listed as follows:

Potential Placees	Relations with the Company
Lin, Tsung-Lin	Chairman of the Company
Tung, Shang-Yu	Vice Chairman and General Manager of the Company
Linju Investment Co., Ltd.	Legal Person as Corporate Director of the Company, Major Shareholder (10%)
Lin, Yi-Zhen	Legal Person as Corporate Director of the Company
Zhang, Yu-Xin	Legal Person as Corporate Director of the Company
Guangshang Investment Co., Ltd.	Related Party of the Company
Qingjingning Investment Co., Ltd.	Related Party of the Company
Lucchi Investment Co., Ltd.	Related Party of the Company

Source: Provided by the Company

##### B. If the placees are juristic person, the names of top 10 shareholders, shareholding ratio, and the relations with the Company are as follows.

Potential Placees	Names of Top 10 Shareholders	Shareholding Ratio	Relations with the Company
Linju Investment Co., Ltd.	Lin, Tsung-Lin	0.01%	Chairman of the Company
	Guangshang Investment Co., Ltd.	31.25%	Related Party of the Company
	Qingjingning Investment Co., Ltd.	37.49%	Related Party of the Company
	Lucchi Investment Co., Ltd.	31.25%	Related Party of the Company
Guangshang Investment Co., Ltd.	Tung, Shang-Yu	23.00%	Vice Chairman and General Manager of the Company
	Tung, Zhao-Ling	22.00%	None
	Tung, Zhao-Ying	28.00%	None
	Tung, Lin Mei-Gui	27.00%	None
Qingjingning Investment Co., Ltd.	Lin, Tsung-Lin	99.84%	Chairman of the Company
	Wu, He-Bei	0.16%	None
Lucchi Investment Co., Ltd.	Hua, Qi-Xiang	100%	Spouse of Legal Person as Corporate Director of the Company

Source: Provided by the Company

#### C. The feasibility and necessity of placees

After reviewing the list of insiders or related parties who may participate in the placement disclosed by the company, they are the corporate directors of the company or their related persons, or belong to the management level of the company. Since these placees are already familiar with the company's business, when the company is facing improvement in operation, the participation of the above-mentioned insiders or related parties in the subscription of this private placement of securities can stabilize the managerial control by increasing the shareholding ratio of the company's insiders/related parties or the management team, and can provide the funds required for the company's operations and reduce the pressure on the company's funds. Therefore, it is feasible and necessary if the company chooses the above-mentioned insiders or related parties that may participate in the placement.

#### (2) In case the subscriber is a strategic investor:

##### A. The selection method and purpose of the subscriber

With the current resolution, the company may enhance its operations, R&D capabilities, and expand the market through introducing strategic investors for the private placement plan. The selection of placees is limited to individuals or legal persons who are in the same industry, or can improve the company's financial structure, or can help improve the company's operating performance efficiency and R&D technology, or other operators who can provide a niche for business integration. On the one hand, it can assist in obtaining long-term stable funds; on the other hand, it can assist the company in expanding its business scope, technology research and development, and other strategies that effectively enhance shareholders' interests. Therefore, the introduction of strategic investors will give priority to those able to help the company strengthen its competitive advantage or create shareholder equity. The company has not yet selected a strategic investor for this private placement.

##### B. The feasibility and necessity of placees

In response to fierce competition in the industry, the company plans to introduce strategic investors in line with the company's future product and business planning, hoping to improve its operating performance efficiency and R&D technology through its own experience, technology, and knowledge. Therefore, it is necessary and reasonable for taking strategic investors, who will help the company's future business development, into consideration for the placees of this private placement. However, no strategic investors have been selected yet.

#### 4. The impact on the company's business, finance, and shareholders' equity after the transfer of managerial control

The current issued share capital of Falcon is 76,880,300 shares. It is estimated that after the issuance of all 30,000,000 common shares in this private placement, it will account for 28.07% of the total issued share capital. In the future, if there is a change in the number of directors or managerial control of Falcon, the information disclosure will be handled in accordance with relevant regulations to ensure the rights and interests of shareholders.

If there is a change in the number of directors or transfer of managerial control of Falcon, the impact on the company's business, finance, and shareholders' equity is as follows:

##### (1) The impact on the company's business

The company plans to invite insiders/related parties of the company or specific persons who meet the conditions set by the competent authority to participate in the private placement. The funds of this private placement are mainly used for adding to operation capital, repaying bank loans, improving the financial structure, or supporting other capital needs in response to the company's future diversified business development (including but not limited to reinvestment, adding to new business operational capital), which should help the company improve its operations and thereby enhance shareholders' equity. Therefore, it has a positive effect on the company's business operations.

(2)The impact on the company’s finance

The company conducts the private placement of securities within the total quota of 30,000,000 shares, with a par value of 10 dollars per share of common shares. This private placement of securities will not only help the company obtain stable long-term funds and improve its financial structure, but it can also improve the flexibility of capital allocation and reduce operational risks, which is beneficial to the overall operational development. It has no major adverse financial impact.

(3)The impact on the shareholders’ equity of the company

In addition to helping the company obtain long-term stable funds, this private placement plan can also enhance the company’s profits and shareholders’ rights and interests through introducing strategic investors. According to the pricing principles of this private placement of common shares, the issue price shall be determined on the basis that it shall not be lower than 80% of the reference price and shall not be lower than the par value of the shares. Therefore, the determination of the price of this private placement complies with the provisions of “Directions for Public Companies Conducting Private Placements of Securities.” There should be no material adverse impact on shareholders’ rights and interests.

Through the assessment, Falcon has considered various factors such as the company’s long-term future development and compliance with the legal restrictions on fundraising. In addition to obtaining long-term and stable funds for private placement of common shares and improving the financial structure, the private placement should be positively beneficial to shareholders’ rights and interests. Furthermore, considering the company’s profit status and the uncertainty and timeliness of raising funds through public offerings, it is necessary and reasonable for the company to plan to conduct securities through private placements.

In addition, reviewing the board meeting materials prepared by the company, the issuance procedures, content of proposal discussions, the reference for determining the private placement prices, and the selection method of specific persons are all in compliance with the Securities and Exchange Act and relevant laws and regulations, and there are no major abnormalities.

## Statement of Independence

1. The company was entrusted by Falcon Machine Tools Co., Ltd. to provide a securities underwriter's assessment opinion letter on necessity and reasonableness of private placement for its conduction of the private placement and issuance of securities in 2023. This assessment opinion letter maintains detached and independent.
2. In order to carry out the above business, the company hereby declares that there are no following circumstances:
  - (1) Either party and its parent company, all subsidiaries of the parent company, and venture capital enterprises managed by its subsidiaries hold more than 10% of the other party's total shares.
  - (2) Either party and its subsidiaries' directors who are assigned to the other party, and the number of directors exceeds half of the total number of directors of the other party.
  - (3) The chairman or general manager of either party is the same person as the chairman or general manager of the other party, or is a spouse or relative within the second degree of kinship.
  - (4) More than 20% of the total shares of either party are held by the same shareholders.
  - (5) The directors or supervisors of either party are more than half the same as the directors or supervisors of the other party. The calculation method includes the spouses, children, and relatives within the second degree of kinship.
  - (6) Any party and its related parties hold more than 50% of the total issued shares of the other party.
  - (7) The two parties should apply for combination or the combination has not been prohibited by the Fair Trade Commission after notification according to the relevant laws and regulations.
  - (8) Other laws and regulations or facts prove that any party directly or indirectly controls the personnel, finance or business operations of the other party, resulting in a loss of independence.
3. In order to raise the necessity and reasonableness of the private placement and issuance of securities, the assessment opinions I put forward all maintain detached and independent.

Declarant: Taichung Bank Securities Co., Ltd

Representative: Ye, Xiu-Hui

Date: April 28, 2023

**FALCON MACHINE TOOLS CO., LTD.**  
**Articles of Incorporation (Original Version)**

**Chapter 1 General Provisions**

- Article 1 The Company shall be incorporated under the Company Act of the Republic of China, and its name shall be Falcon Machine Tools Co., Ltd.
- Article 2 The Company's businesses are as follows:
- (1) CB01010 Mechanical Equipment Manufacturing
  - (2) CB01990 Other Machinery Manufacturing
  - (3) CC01010 Manufacture of Power Generation, Transmission and Distribution Machinery
  - (4) CC01990 Other Electrical Engineering and Electronic Machinery Equipment Manufacturing
  - (5) CC01110 Computer and Peripheral Equipment Manufacturing
  - (6) CD01060 Aircraft and Parts Manufacturing
  - (7) CE01010 General Instrument Manufacturing
  - (8) CE01990 Other Optics and Precision Instrument Manufacturing
  - (9) CP01010 Hand Tools Manufacturing
  - (10) E604010 Machinery Installation
  - (11) I501010 Product Designing
  - (12) F113010 Wholesale of Machinery
  - (13) F113020 Wholesale of Electrical Appliances
  - (14) F113030 Wholesale of Precision Instruments
  - (15) F113050 Wholesale of Computers and Clerical Machinery Equipment
  - (16) F113990 Wholesale of Other Machinery and Tools
  - (17) F114070 Wholesale of Aircraft and Component Parts Thereof
  - (18) F213010 Retail Sale of Electrical Appliances
  - (19) F213030 Retail Sale of Computers and Clerical Machinery Equipment
  - (20) F213040 Retail Sale of Precision Instruments
  - (21) F213080 Retail Sale of Machinery and Tools
  - (22) F213990 Retail Sale of Other Machinery and Tools
  - (23) F214070 Retail Sale of Aircraft and Component Parts Thereof
  - (24) F401010 International Trade
  - (25) ZZ99999 All business activities that are not prohibited or restricted by law, except those that are subject to special approval is not allowed.
- Article 3 The Company shall have its head office in Taichung City, the Republic of China, and may, pursuant to a resolution adopted at the meeting of the Board of Directors, set up branch offices within or outside the territory of the Republic of China when deemed necessary.
- Article 4 Public announcements of the Company shall be made according to Article 28 of the Company Act.

**Chapter 2 Capital Stock**

- Article 5 The registered total capital of the Company shall be one billion three hundred and fifty million New Taiwan Dollars (NT\$1,350,000,000), divided into one hundred and thirty-five million (135,000,000) shares, with a par value of ten New Taiwan Dollars (NT\$10) per share. The Board of Directors authorizes the shares to be issued in installments. The shares may be issued in installments, and the Board of Directors is authorized to handle it in accordance with the Company Act and relevant laws and regulations. The total amount of shares in the preceding paragraph is NT\$50 million reserved for the issuance of stock warrant certificates and subscription shares of special stock with stock warrants totaling 5 million shares.
- Article 5-1 The company may transfer to employees at a price lower than the average price of the actually repurchased shares, or issue stock warrants to employees at a price lower than the closing price on the issue date, upon the approval of a shareholders' meeting attended by shareholders representing more than half of the total number of issued shares, and with the consent of more than two-thirds of the voting rights of the attending shareholders.

- Article 6 The Company's shares shall bear the signatures or personal seals of directors who represent the Company, and be issued upon approvals from relevant competent authorities in accordance with the law. The shares can also be issued without printing a consolidated share certificate, but shall be registered and numbered by centralized securities depository enterprises.
- Article 7 Deleted.
- Article 8 Deleted.
- Article 9 Shareholders handle stock transfers, set rights pledge, report loss, succession, gift, report of loss of seal, change or address change, etc., unless otherwise provided by laws and securities regulations, in accordance with the "Regulations Governing the Administration of Shareholder Services of Public Companies."
- Article 10 Deleted.
- Article 11 Registration for transfer of shares shall be suspended 60 days immediately before the date of annual general shareholders' meeting, and 30 days immediately before the date of any special shareholders' meeting, or within 5 days before the day on which dividend, bonus, or any other benefit is scheduled to be paid by the Company.

### **Chapter 3 Shareholders' Meeting**

- Article 12 Shareholders' meetings of the Company are of two types: (1) Annual General Shareholders' Meetings – which shall be convened by the Board of Directors within 6 months after the end of each fiscal year, and the Board of Directors shall notify all shareholders 30 days before the meeting; (2) Special Shareholders' Meetings – which shall be convened whenever necessary in accordance with the relevant laws, rules and regulations of the Republic of China.
- Article 13 If a shareholder is unable to attend the shareholders' meeting for any reason, he or she may, in accordance with Article 177 of the Company Act, issue a power of attorney and appoint a proxy to attend the meeting.
- Article 14 The shareholders' meeting shall be presided by the Chairman of the Board of Directors of the Company, unless otherwise provided by the Company Act. In case the Chairman is on leave or otherwise cannot exercise his duty and authority for any reason, the Chairman shall appoint a director to act as his deputy; otherwise, the directors shall elect from among themselves a chairman to preside over the shareholders' meeting. If a shareholders' meeting is convened by a person other than the Board of Directors, the shareholders' meeting shall be chaired by that convener. If there are two or more conveners for a shareholders' meeting, one of them shall be elected to chair the meeting.
- Article 15 Except as otherwise provided by other laws or regulations, each share is entitled to one voting right.
- Article 16 Except as otherwise provided by the Company Act, the resolutions of shareholders' meetings shall be adopted at the meeting with the consent of more than half of the voting rights of the present shareholders, when the meeting is attended by shareholders in person or by proxy representing more than half of the total issued and outstanding capital stock of the Company.
- Article 17 The resolutions of the shareholders' meeting shall be recorded in the minutes, and such minutes shall be signed by or sealed with the chop of the Chairman of the meeting. Shareholders shall be notified of the minutes within 20 days after the meeting. The minutes specified above shall be distributed in the form of an announcement. The minutes shall record the essentials of the proceedings and their results, and be kept in the company together with the signature book of the attending shareholders and the power of attorney for attendance in accordance with Article 183 of the Company Act.

### **Chapter 4 Directors and Supervisors**

- Article 18 The Company shall have seven to nine Directors, who shall be elected by the system for nominating candidates. The number of directors is authorized and resolved by the Board of Directors. The directors are selected by at the shareholders' meeting from the list of director candidates, and the term of office is three years; re-elected Directors may serve consecutive terms. During the term of office of a director, the company may purchase liability insurance for him/her in respect of the compensation liability that he/she should bear in accordance with the law in the scope of his business. There shall be at least three independent Directors among the number of Directors to be elected referred to in the preceding paragraph, and the independent Directors shall represent at least one-fifth of the Board. The independent

Directors shall be elected at the shareholders' meeting using the candidate nomination system and from among a list of candidates. The restrictions on professional qualifications, share ownership, concurrent positions held, recognition of independence, the manner of nomination and method of election, attendance by proxy, and other related matters shall comply with applicable laws and regulations prescribed by the competent authority.

The total holding ratio of all directors shall be handled in accordance with the regulations of the securities competent authority.

Article 19 When the vacancy of directors reaches one-third, the board of directors shall convene a shareholder meeting for by-election according to law, and the term of office shall be limited to the term of the replacement.

Article 20 When a director's term of office expires and it is too late to be re-elected, his/her duties shall be extended until the re-elected director takes office.

Article 21 The board of directors are organized directors. With the attendance of more than two-thirds of the directors and the consent of more than half of the directors present, a chairman is elected among the directors by each other, and a vice-chairman is elected in the same manner. The company's affairs are carried out in accordance with the laws, articles of corporation, resolutions of the shareholders' meeting and the board meetings.

Article 22 The company's business policy and other important matters shall be resolved by the Board of Directors. Except for the first meeting of every term of the board of directors in accordance with Article 203 of the Company Act, the board meeting shall be convened and chaired by the chairman. When the chairman is for any reason unable to exercise the powers of the chairperson, he/she shall appoint one of the directors to act as chair. Where the chairman does not make such a designation, the directors shall select from among themselves one person to serve as chair. Directors shall attend the board meeting in person. If a director cannot attend in person, he/she may entrust other directors to attend the meeting on behalf of him/her in accordance with Article 205 of the Company Act. When the meeting of the board of directors is held, if it is a virtual conference, the directors who participate in the meeting through video conference are deemed to be present in person.

Article 22-1 A written notice of the reasons for a board meeting shall be given to each director and supervisor before 7 days before the meeting is convened. In emergency circumstances, however, a board meeting may be called on shorter notice.

The notice to be given under the preceding paragraph may be affected by means of writing or electronic transmission (e-mail or fax) with the prior consent of the recipients.

Article 23 The discussion of the board meeting shall be recorded in the minutes, and such minutes shall be signed by or sealed with the chop of the Chairman of the meeting. Directors shall be notified of the minutes within 20 days after the meeting. The minutes shall record the essentials of the proceedings and their results, and be kept in the company together with the signature book of the attending directors and the power of attorney for attendance in accordance with Article 183 of the Company Act.

Article 24 The Company shall form an Audit Committee, which is composed of all Independent Directors. Details including number of members, terms, responsibilities, and rule of meeting shall be stipulated separately in the Organization Rules of Audit Committee in accordance with the rules in the "Regulations Governing the Exercise of Powers by Audit Committees of Public Companies".

Article 24-1 The remuneration of Chairman, Vice Chairman, and Directors of the Company is authorized to be determined by the Board of Directors according to the degree of participation in the company's operations and the value of their contributions, and may be paid at such level as generally adopted by the enterprises of the same industry.

#### **Chapter 5 Managerial Officials and Staff**

Article 25 The company shall have one general manager and several managers, whose appointment and dismissal shall be made by the Board of Directors with the consent of more than half of all directors. However, the appointment and dismissal of managers shall be nominated by the general manager first.

Article 26 The company may employ consultants and important staff upon resolution of the Board of Directors.

Article 27 Deleted.



## **Chapter 6 Accounting**

Article 28 After the end of each fiscal year, the following reports shall be prepared by the Board of Directors, and be submitted to the shareholders' meeting for acceptance.

1. Business Report. 2. Financial Statements. 3. Proposal Concerning Appropriation of Profits or Covering of Losses.

Article 29 If the company makes a profit in the year, no less than 2% should be appropriated as employee remuneration, and the Board of Directors will resolve to distribute it in the form of shares or in cash; no more than 5% should be appropriated as director remuneration by resolution of the Board of Directors. Proposals on the distribution of employee remuneration and director remuneration shall be reported to the shareholders' meeting. However, if the company still has accumulated losses, it shall reserve the compensation amount in advance, and allocate employee remuneration and director remuneration in proportion to the preceding paragraph.

If there is a surplus in the company's annual final accounts, in addition to paying taxes in accordance with the law, the accumulated losses should be made up first, and then 10% of the balance should be withdrawn as the statutory surplus reserve (but not limited when the statutory surplus reserve has reached the paid-in capital of the company). The rest will be appropriated or reversed in accordance with laws and regulations. If there is still a balance, with accumulated undistributed surplus, the company may, if necessary, retain the distributable surplus without distributing it. A distribution proposal shall be submitted to the shareholders' meeting for resolution.

The company's corporate life cycle is in the "growth period." Based on capital expenditures, business expansion needs, and complete financial planning for sustainable development, the company's dividend policy will distribute stock dividends and cash dividends to shareholders in accordance with the company's future capital expenditure budget and capital needs. Among them, the cash dividend ratio shall not be lower than 10% of the total shareholder dividends.

## **Chapter 7 Supplementary Provisions**

Article 30 The company may act as a guarantor for related peers in the same industry.

Article 31 Pursuant to Article 13 of the Company Act, the amount of the company's reinvestment may exceed 40% of the paid-in capital, and the Board of Directors shall be authorized to implement it.

Article 32 The organizational charter and by-laws of the Company shall be separately adopted by the Board of Directors.

Article 33 For matters not provided for in the Articles of Incorporation, it shall be handled in accordance with the Company Act or other relevant laws and regulations of the Republic of China.

Article 34 These Articles of Incorporation were resolved on March 6, 1978. The first amendment was on March 23, 1978. The second amendment was on June 25, 1979. The third amendment was on May 20, 1982. The fourth amendment was on October 20, 1982. The fifth amendment was on June 24, 1983. The sixth amendment was on August 10, 1984. The seventh amendment was on May 27, 1987. The eighth amendment was on November 5, 1988. The ninth amendment was on October 6, 1989. The tenth amendment was on June 1, 1991. The eleventh amendment was on July 9, 1991. The twelfth amendment was on April 23, 1992. The thirteenth amendment was on May 25, 1992. The fourteenth amendment was on February 22, 1993. The fifteenth amendment was on October 20, 1994. The sixteenth amendment was on November 7, 1994. The seventeenth amendment was on June 10, 1995. The eighteenth amendment was on May 30, 1996. The nineteenth amendment on March 4, 1997. The twentieth amendment was on May 31, 1997. The twenty-first amendment was on May 18, 1998. The twenty-second amendment was on May 19, 1999. The twenty-third amendment was on June 16, 2000. The twenty-fourth amendment was on May 31, 2001. The twenty-fifth amendment was on June 28, 2002. The twenty-sixth amendment was on June 25, 2004. The twenty-seventh amendment was on June 29, 2005. The twenty-eighth amendment was on June 23, 2006. The twenty-ninth amendment was on June 25, 2008. The thirtieth amendment was on June 19, 2009. The thirty-first amendment was on June 15, 2012. The thirty-second amendment was on June 18, 2014. The thirty-third amendment was on June 22, 2016. The thirty-fourth amendment was on June 23, 2020. The thirty-fifth amendment was on July 7, 2021.

## **FALCON MACHINE TOOLS CO., LTD.**

### **Rules and Procedures of Shareholders' Meeting (Version before Reformulation)**

- Article 1 Shareholders' Meeting of the Company, unless otherwise provided by laws and regulations, shall be conducted in accordance with these Rules and Procedures.
- Article 2 The time during which shareholder or the proxy entrusted by the shareholder (hereinafter referred to as the proxy) attendance registrations will be accepted shall be at least 30 minutes prior to the time the meeting commences. The place at which attendance registrations are accepted shall be clearly marked and a sufficient number of suitable personnel assigned to handle the registrations.  
Shareholders (or proxies) shall attend shareholders' meetings based on attendance cards, sign-in cards, or other certificates of attendance. Solicitors soliciting proxy forms shall also bring identification documents for verification.  
The Corporation shall furnish the attending shareholders (or proxies) with an attendance book to sign, or attending shareholders (or proxies) may hand in a sign-in card in lieu of signing in. The number of shares attended is calculated based on the attendance book or the handed-in sign-in card.  
The Corporation shall furnish attending shareholders (or proxies) with the meeting agenda book, annual report, attendance card, speaker's slips, voting slips, and other meeting materials. Where there is an election of directors, pre-printed ballots shall also be furnished.
- Article 3 Attendance and voting at the shareholders' meeting shall be calculated on the basis of shares.  
Election or dismissal of directors, amendments to the articles of incorporation, reduction of capital, application for the approval of ceasing its status as a public company, approval of competing with the company by directors, surplus profit distributed in the form of new shares, reserve distributed in the form of new shares, the dissolution, merger, or demerger of the corporation, or any matter under Article 185, paragraph 1 of the Company Act, Articles 26-1 and 43-6 of the Securities Exchange Act, Articles 56-1 and 60-2 of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers shall be set out and the essential contents explained in the notice of the reasons for convening the shareholders meeting. None of the above matters may be raised by an extraordinary motion. A shareholder holding one percent or more of the total number of issued shares may submit to the Corporation a proposal for discussion at a regular shareholders meeting. The number of items so proposed is limited to one only, and no proposal containing more than one item will be included in the meeting agenda. When the circumstances of any subparagraph of Article 172-1, paragraph 4 of the Company Act apply to a proposal put forward by a shareholder, the board of directors may exclude it from the agenda. A shareholder may propose a recommendation for urging the corporation to promote public interests or fulfill its social responsibilities, provided procedurally the number of items so proposed is limited only to one in accordance with Article 172-1 of the Company Act, and no proposal containing more than one item will be included in the meeting agenda.
- Article 4 The venue for a shareholders' meeting shall be the premises of the Corporation, or a place easily accessible to shareholders and suitable for a shareholders meeting.  
The meeting may begin no earlier than 9 a.m. and no later than 3 p.m.
- Article 5 Unless otherwise provided by the Company Act, the shareholders' meeting shall be chaired by the chairperson of the board. When the chairperson of the board is on leave or for any reason unable to exercise the powers of the chairperson, the vice chairperson shall act in place of the chairperson; if there is no vice chairperson or the vice chairperson also is on leave or for any reason unable to exercise the powers of the vice chairperson, the chairperson shall appoint one of the managing directors to act as chair, or, if there are no managing directors, one of the directors shall be appointed to act as chair. Where the chairperson does not make such a designation, the managing directors or the directors shall select from among themselves one person to serve as chair.  
When a managing director or a director serves as chair, as referred to in the preceding paragraph, the managing director or director shall be one who has held that position for six months or more and who understands the financial and business conditions of the company. The same shall be true for a representative of a juristic person director that serves as chair.
- Article 6 The company may designate appointed accountant or related personnel to attend the shareholders' meeting. Personnel handling the shareholders' meeting shall wear identification badges or armbands.
- Article 7 The Corporation, beginning from the time it accepts shareholder attendance registrations, shall make an uninterrupted audio and video recording of the registration procedure, the proceedings of the shareholders' meeting, and the voting and vote counting procedures.  
The recorded materials of the preceding paragraph shall be retained for at least one year. If, however, a shareholder files a lawsuit pursuant to Article 189 of the Company Act, the recording shall be retained until the conclusion of the litigation. The Corporation shall make audio or video recordings of the entire process of the shareholders' meeting and keep them for at least one year.
- Article 8 When shareholders (or proxies) representing more than half of the total number of issued shares attend the shareholders' meeting, the chair shall call the meeting to order, and at the same time announce the number of non-voting shares and the number of shares attended. If the meeting time is over and the statutory amount is not enough, the chair may announce an extension, and if the amount is still insufficient after two extensions, it shall be handled in accordance with the relevant laws and regulations of the Company Act.

- Article 9 The meeting agenda shall be set by the board of directors. The meeting shall proceed in the order set by the agenda, which may not be changed without a resolution of the shareholders' meeting. If the shareholders' meeting is convened by other persons with the right to convene other than the board of directors, the provisions of the preceding paragraph shall apply mutatis mutandis. Before the completion of the agenda (including extraordinary motions) scheduled in the preceding two paragraphs, the chairman shall not announce the adjournment of the meeting unless a resolution is passed. If the chair declares the meeting adjourned in violation of the rules of procedure, the other members of the board of directors shall promptly assist the attending shareholders in electing a new chair in accordance with statutory procedures, by agreement of a majority of the votes represented by the attending shareholders, and then continue the meeting. After the meeting is adjourned by resolution, the shareholders shall not elect another chair to continue the meeting at the original address or another place.
- Article 10 Before speaking, an attending shareholder (or proxy) must specify on a speaker's slip the subject of the speech, his/her shareholder account number (or attendance card number), and account name. The order in which shareholders (or proxies) speak will be set by the chair. A shareholder (or proxy) in attendance who has submitted a speaker's slip but does not actually speak shall be deemed to have not spoken. When the content of the speech does not correspond to the subject given on the speaker's slip, the spoken content shall prevail. When a shareholder in attendance speaks, other shareholders are not allowed to interfere with the speech without the consent of the chair and the shareholder who speaks. The chair should stop the violation.
- Article 11 Unless otherwise permitted by the Chairman, each shareholder (or proxy) shall not, for each discussion item, speak more than two times, with each time not exceeding five minutes. In case the speech of any shareholder violates the abovementioned provision or exceeds the scope of the discussion item, the Chairman may stop the speech of such shareholder.
- Article 12 When the government or a juristic person is a shareholder, it may be represented by more than one representative at a shareholders' meeting. When a juristic person is appointed to attend as proxy, it may designate only one person to represent it in the meeting. When a legal person shareholder appoints two or more representatives to attend the shareholders' meeting, only one person can speak on the same proposal.
- Article 13 After attending shareholders' speeches, the chairman may reply in person or by designating relevant personnel.
- Article 14 When the chair is of the opinion that a proposal has been discussed sufficiently to put it to a vote, the chair may announce the discussion closed and call for a vote.
- Article 15 Vote monitoring and counting personnel for the voting on a proposal shall be appointed by the chair, provided that all monitoring personnel shall be shareholders of the Corporation. Vote counting for shareholders' meeting proposals or elections shall be conducted in public at the place of the shareholders' meeting. Immediately after vote counting has been completed, the results of the voting, including the statistical tallies of the numbers of votes, shall be announced on-site at the meeting, and a record made of the vote. The election of directors at a shareholders' meeting shall be held in accordance with the applicable election and appointment rules adopted by the Corporation, and the voting results shall be announced on-site immediately, including the names of those elected as directors and supervisors and the numbers of votes with which they were elected, and the names of directors and supervisors not elected and number of votes they received.
- Article 16 During the Meeting, the Chairman may set a time for intermission.
- Article 17 Except as otherwise provided in the Company Act and in the Corporation's articles of incorporation, the passage of a proposal shall require an affirmative vote of a majority of the voting rights represented by the attending shareholders (or proxies). At the time of a vote, if there is no objection after consultation by the chair, it is deemed to be passed, and its effect is the same as voting.
- Article 18 When there is an amendment or an alternative to a proposal, the chair shall present the amended or alternative proposal together with the original proposal and decide the order in which they will be put to a vote. When any one among them is passed, the other proposals will then be deemed rejected, and no further voting shall be required.
- Article 19 The chair may direct the proctors or security personnel to help maintain order at the meeting place. When proctors or security personnel help maintain order at the meeting place, they shall wear an identification card or armband bearing the word "Proctor."
- Article 20 Any matter not provided in these Rules and Procedures shall be handled in accordance with the Company Act and relevant laws and regulations.
- Article 21 The Rules and Procedures shall be effective from the date it is resolved by the Board of Directors and approved by the Shareholders' Meeting. The same applies in case of revision.

These Rules were resolved on June 28, 2002.  
The first amendment was made on June 18, 2014  
The second amendment was made on July 7, 2021