Stock Code:4513

FALCON MACHINE TOOLS CO., LTD.

2022 Annual Report

Printed on April 23, 2023

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Taiwan Stock Exchange Market Observation Post System:

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2022 Annual Report is available at

https://www.chevaliertw.com

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2. **Deputy spokesperson**
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5. **Auditors**
   Ernst & Young Accounting Firm
   Auditors: Chen, Zheng-Chu and Hong, Guo-Sen
   Address: 26F, No. 186, Shizheng N. 7th Rd., Xitun Dist., Taichung City, Taiwan
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6. **Overseas Securities Exchange:**Not applicable

7. **Company website:**https://www.chevaliertw.com

Contents

I.Letter to Shareholders

Dear Shareholders,

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:

2022 Business Report

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 improving 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 approximately1,124 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.

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 Supervisor: Pei, Yu-Wen

II.Company Profile

2.1.Date of Incorporation：1978/04/13

2.2.Company History：

1978 The company's history can be traced back to April 21, 1972 when Chairman Zhang, Po-Ming founded the FALCON ENTERPRISE CO., LTD. After 4 years, on April 13, 1978, Zhang, Po-Yuan and Song, Yin-Sen were invited to establish Chevalier Machinery Inc. The company specialized in the production of high-precision surface grinding machines, and Zhang Shao-Quan was appointed as the first Chairman. In September of the same year, Chevalier Machinery participated in the International Machinery Exhibition in Chicago and received positive feedback, which laid the foundation for the company's trademark brand "CHEVALIER" to be marketed overseas

1980 Collaborating with Cuttermaster technology in the United States to produce tool grinders

1981 Honored to be awarded the Grade A Quality Control Manufacturer by the national government, making us the first grinding machine manufacturer in Taiwan to receive this recognition. The company also received the government's Product Certification Mark, becoming the first grinding machine manufacturer in Taiwan to receive this recognition as well

1983 Awarded first place in the Ministry of Economic Affairs Catalog Design Competition. This recognition has helped us improve our product self-sufficiency and quality, leading us to construct our second factory.

1984 Director Zhang, Po-Ming was appointed as Chairman

1985 Pass the certification inspection by the Chinese Precision Machinery Industry Association (CPMIA), becoming the first grinding machine manufacturer in the industry to receive this recognition

1987 Awarded the Excellent Product Design Award from the Taiwan External Trade Development Council (TAITRA). To address the needs of diversified production and automated product development, we built our third factory. Our company is also dedicated to giving back to society, and our Chairman was recognized as a national representative for good deeds and received commendation from former President Lee, Teng-Hui

1989 The company invested NT$15 million in the completion of the fourth factory and the addition of ultra-precision inspection equipment. They were also recognized with the Best Self-Created Brand Award at the Taipei International Machine Tool Show. In addition, they have been registered as a center-satellite excellent manufacturer by the Industrial Development Bureau.

1990 Awarded the Best CNC Grinding Machine Development Award by the Machinery Association

1992 To align with international trends and support its diversification strategy, the company changed its name from "Falcon Machinery Co., Ltd." to "Falcon Enterprise Co., Ltd." The company was the first tool machine company in Taiwan to receive "ISO 9002" certification from the Bureau of Standards, Metrology, and Inspection of the Ministry of Economic Affairs and the British Standards Institution (BSI). It was also awarded the "Excellent Award" at the 3rd Tool Machine Research and Development Innovation Product Competition, organized by the Taiwan Machine Tool & Accessory Builders' Association.

1993 Participated in the National Brand Yushan Award competition held by the Ministry of Economic Affairs and received the "Outstanding Boutique Award"

1994 Successfully completed the Ministry of Economic Affairs' lead project to develop a new product - a four-axis high-speed robot. This product has obtained CE certification from the European Union

1995 Received the "Good Product Award" at the Tool Machine Research and Development Innovation Product Competition. First factory in the Quanxing Industrial Zone was completed, and obtained approval for a public offering

1996 The second phase of construction for our factory in the Quanxing Industrial Zone was completed, along with the successful development of new products including CNC lathes and 5-axis CNC grinders. As part of our expansion efforts, company also invested in "CHEVALIER MACHINERY INC." in Los Angeles, USA, which has since become our subsidiary company.

1997 The first in the grinder industry to pass the certification inspection by the Chinese Institute of Precision Machinery (CIPM). Additionally, company received the "ISO 9001" certification from the Bureau of Commodity Inspection and Quarantine of the Ministry of Economic Affairs. Our grinder also won the highest honor in its category at the Taipei International Machine Tool Show's Research and Development Innovation Product Competition. Company also completed the construction of our third and fourth phase of factories in the Quanxing Industrial Zone

1998 Company's stocks were officially listed for Over-the-Counter Market trading on March 25th. Additionally, company have also completed the construction of our fifth factory in the Quanxing Industrial Zone.

1999 Quanxing factory has been completed, and company have established a subsidiary company in Germany. The second factory in Quanxing has also been finished. Furthermore, our SMART-818 grinder has been awarded the "Taiwan Excellence Award", and our electronic business department has commenced production

2000 Passed the ISO 14000 certification

2001 ULTRA-H612CNC sub-micron and PC-based grinder has been awarded the "Taiwan Excellence Award". Factory and office are also consolidated into one location. Furthermore, the machine tool business is established a plant in Shanghai

2003 The second phase of the Shang Hai Chevalier Machinery INC has been completed and put into operation. Collaborate with American technology to develop and produce the MDP molecular decomposition grinder. The first linear motor grinder 608LM in China was launched and introduced the first oil-hydrostatic grinder technology in sync with Europe.

2004 Introducing the QP series integrated machining center. The MDP molecular decomposition grinding machine has won the Reader's Choice Technology Innovation Award at the Chicago International Machine Tool Show.

2005 Signed a technology cooperation agreement for vertical lathes with a major Japanese technical company. The high-speed linear motor CNC grinder 608LM has won the Taipei International Machine Tool Show Product Technology Innovation Award, and was awarded the Excellence Award in the grinding machine category. Launched a new vertical lathe.

2006 Dissolve with two subsidiaries, Cheng Hui Investment Company and Fu Jia Investment Co., Ltd., has been approved. In addition, released the FPG-V1632DC dual-head grinder, which boasts nanometer-level precision.

2007 Launched a new series of high-precision heavy-duty gantry milling machines, as well as a next-generation series of high-precision heavy-duty gantry grinders.

2008 Invest in Fu Yu Machinery Co., Ltd., which specializes in producing large gantry milling machines, vertical machining centers, and CNC horizontal boring and milling machines.

2009 Amidst the global financial crisis, underwent a corporate resource consolidation and merged with Fu Yu Co., Ltd.

2010 Successfully developed a high-precision linear guide vertical gantry machining center (DCL).

2011 Launched a large vertical grinding center machine (FVG-4040DC).

2013 Subsidiary in China, Shanghai Chevalier Machinery INC, has officially relocated to Suzhou. Construction of a new comprehensive office building has begun at Chuan Sing Industrial Park. Additionally, successfully developed and unveiled an intelligent elevated mechanical arm automated production line for aluminum wheel rims.

2014 Participated in the Aerospace Machining Equipment Integration Project under the A+ Program of the Ministry of Economic Affairs.

2015 The new comprehensive office building at Chuan Sing Industrial Park has been completed, and moving in by May. Successfully completed the disposal of Chuan Sing Industrial Park Plant 2.

2016 Falcon Group has initiated the FPS improvement project comprehensively

2017 Developed an ultrasonic spindle

2018 Completed the development of a 3D glass hot-press molding precision graphite machining machine and started mass production. Exhibited our double-sided grinding and processing machine at the Taipei International Machine Tool Show

2019 Develop a smart machine communication system and working on an online product description and sales service system

2020 Developing SMART iControl 4 hardware and software functionality.

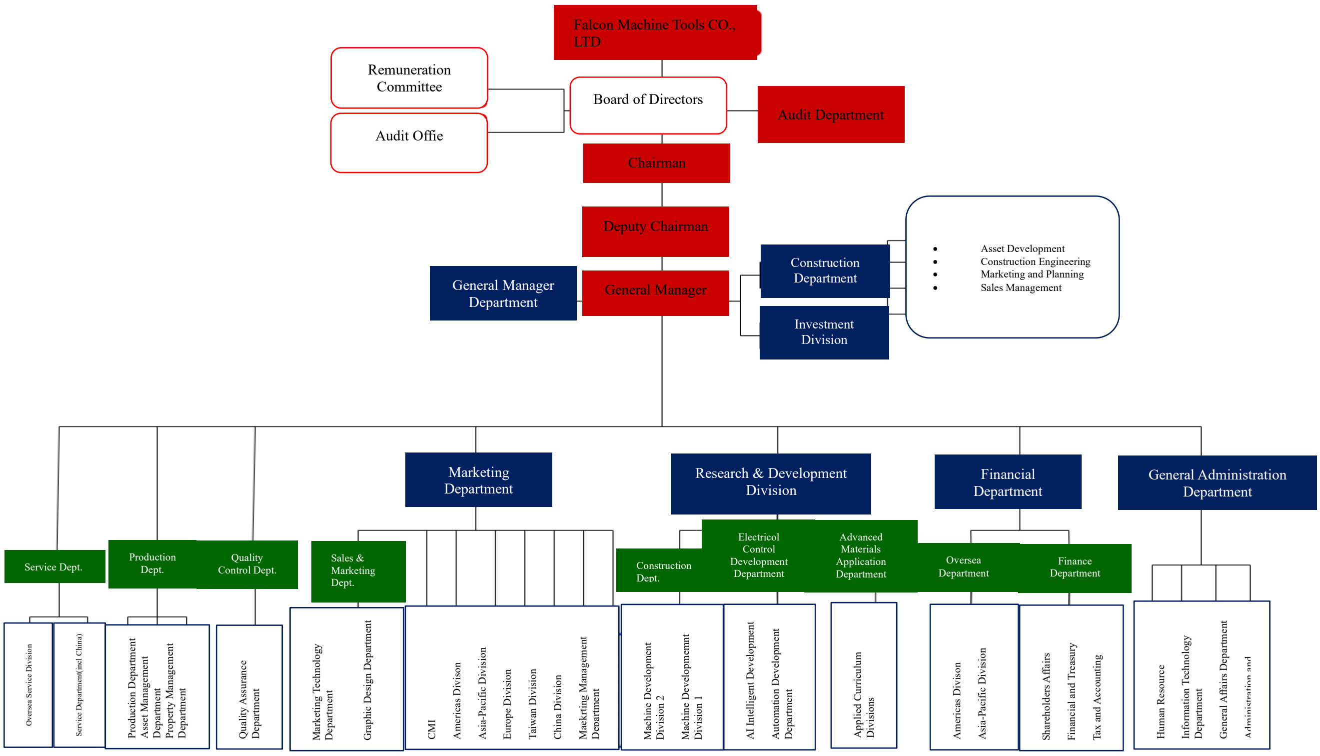
2021 Uploaded company's machining videos on YouTube and participated in the Foreign Trade Association's 360 video promotion program.

2022 Established a subsidiary, “Lin Yu International Industry Co., Ltd”. Launched the new design SMART-IV series of high-intelligence CNC grinding machines and new size FSG-20ADIV series of CNC surface grinding machines.

III.Corporate Governance Report

3.1.Organization

3.1.1Organizational Chart



3.1.2Major Corporate Functions

Department	Functions
General Manager Department	1. Technical personnel training and development, including the design of training programs and management of workplace health and safety. 2. Planning, drafting, and tracking company operational plans。 3. Establishing, promoting, supervising, and improving various management systems, incentive systems, and performance assessment systems within the company. 4. Coordination across departments, project evaluation, and promotion. 5. Ensuring company information security, including updating and maintaining computer systems and managing and maintaining information equipment. 6. Managing personnel recruitment, selection, education and training, career development, remuneration and benefits, employee relations, and performance evaluation. 7. Managing personnel attendance, calculating payroll, implementing education and training programs, conducting performance evaluations, and maintaining employee welfare relations. 8. Handling general administrative and related affairs, as well as maintaining fixed assets.
Finance Department	1. Management of fixed assets. 2. Handling, auditing, and preparing financial statements for accounting and taxation purposes. 3. Cost accounting and analysis, inventory (including fixed assets) planning, and related operations. 4. Compilation, variance analysis, and control of annual budgets. 5. Financial management, acquisition and utilization of short-, medium-, and long-term funds, and related scheduling matters. 6. Legal person, handling of debts, and maintenance of intellectual property rights such as trademarks and patents. 7. Management of investment ventures. 8. Management of stock affairs.
Research & Development Division	1. Development of new products, improvement of existing products, research and development of new technologies, mechanical design, and research and development of mechanisms and electronic controls. 2. Assistance in solving quality and technical issues related to company products. 3. Establishment and updating of product bills of materials (BOM).
Sales & Marketing Department	1. Responsible for market research, business development, exhibition participation, and sales in the Americas, Asia Pacific and Middle East, Eastern Europe and Russia, domestic, and mainland China regions. 2. Management of agents and collection of accounts receivable.
Construction Department	1. Evaluation of pre-project operations, product planning and positioning, and related contract management. 2. Integrated marketing services, providing professional agency services.
Investment Department	1. Analysis of investment value and feasibility for new business ventures.
Quality Control Department	1. Implementation of various inspection and testing systems to ensure the quality of raw materials and finished products in compliance with ISO certification requirements. 2. Planning of the company's quality assurance system, coordination with relevant units for prevention, tracking, and improvement of major quality anomalies to meet customer needs and reduce complaints.
Production Department	1. Production and manufacturing operations such as machine assembly, installation, and testing. 2. Control and improvement of production processes, enhancement of production technology, and management of production environment. 3. Maintenance, upkeep, and management of production equipment assets, application tools, etc. 4. On-the-job education and training for technical personnel, training plans, and implementation of factory health and safety measures. 5. Relevant operations such as raw material procurement, warehouse management, raw material cost management, and raw material inventory management. 6. Development, maintenance, and management of suppliers (including defense contractors) and control of accounts payable. 7. Management of production planning, material management, and production-sales coordination. 8. Operations related to process planning and environmental monitoring management, process control and quality monitoring management, communication and management of production information, scheduling, and management. 9. Production and manufacturing operations such as parts processing, assembly, installation, and testing.
Service Department	1. Providing pre-sales, in-sales, and after-sales services and consultation for customers based on their needs. 2. Responsible for providing after-sales services, handling customer complaints, and maintaining customer relationships for domestic and international customers, as well as the Longmen series, to enhance customer satisfaction with the company.
Audit Department	1. Ensure the effective and efficient implementation of internal control systems, strengthen corporate governance, and establish mechanisms for enterprise risk assessment and risk management. 2. Investigate and evaluate the soundness, reasonableness, and effectiveness of the internal control systems and various management systems implemented throughout the company. 3. Audit the efficiency of each unit in executing the company's plans or policies and make recommendations for improvement. 4. Manage the receipt and dispatch of relevant documents related to internal auditing, revise the written internal control system, and distribute it accordingly.

3.2.Directors, Supervisors and Management Team

3.2.1.Information on Directors and Supervisors

Date: April 23th , 2023 ; Unit: Shares

Job Title	Nationality or place of registration	Name	Gender Age	Date of election / appointment to current term	Term of office	Commencement date of first term	No. of shares held at time of election		No. of shares currently held		Shares currently held by spouse and minor children		Shares held through nominees		Principal work experience and academic qualifications	Other officer(s), director(s), or supervisor(s) with which the person has a relationship of spouse or relative within the second degree		
							No.of Shares	Shareholding ratio	No.of Shares	Shareholding ratio	No.of Shares	Shareholding ratio	No.of Shares	Shareholding ratio		Job Tittle	Name	Relationship
Chairman	R.O.C	Lin, Tsung -Lin	Male 51-60	2022. 10.21	3	2022. 10.21	100,000	0.13%	101,000	0.13%	0	0%	0	0%	1.Department of Forestry, National Pingtung University of Science and Technology	NO	NO	NO
Vice Chairman		Tung, Shang -Yu	Male 51-60	2022. 10.21	3	2022. 10.21	2,000	0.00%	261,000	0.34%	0	0%	0	0%	1.Department of Industrial Engineering and Management	NO	NO	NO
Corporate Director /Representative		Linju Investment Co., Ltd.	-	2022. 10.21	3	2022. 10.21	8,300,000	10.77%	10,061,000	13.09%	0	0%	0	0%	Not available	NO	NO	NO
		Lin, Yi -Zhen	Female 51-60	2022. 10.21	3	2022. 10.21	0	0%	0	0%	0	0%	0	0%	1.Master in Business Administration (MBA),Long Island, University, US 2.Department of Accounting, New York University	NO	NO	NO
		Zhang, Yu -xin	Female 21-30	2022 .10.21	3	2022. 10.21	0	0%	0	0%	246,000	0.32%	0	0%	1.Department of Business Administration , Cheng Siu University	NO	NO	NO
Independent Director		Wu, Zhi -Chi	Male 41-50	2022. 10.21	3	2022. 10.21	0	0%	0	0%	0	0%	0	0%	1.Department of Accounting, Shih Chien University	NO	NO	NO
		Gong, Xin -Jie	Male 41-50	2022. 10.21	3	2022. 10.21	0	0%	0	0%	0	0%	0	0%	1. Master of Laws, Minnesota State University 2.Department of Law, National ChengChi University	NO	NO	NO
		Chen, Feng- Yun	Male 61-70	2022. 10.21	3	2022. 10.21	0	0%	0	0%	0	0%	0	0%	1.PhD in Economics, Xiamen University 2. Executive Master of Business Administration (EMBA), National Chengchi University	NO	NO	NO

Note 1: Position held by the director of this company and other companies as follows:

Lin, Tsung-Lin
Chairman of Sun Xin Construction Co., Ltd.
Chairman of Sun Bo International Co., Ltd.
Chairman of Sun Young International Architecture Group
Chairman of Sun Wei Investment Co., Ltd.
Chairman of Yue Yang International Industrial Co., Ltd.
Chairman of Tai Lin Development Co., Ltd.
Chairman of Qingyong International Industrial CO., LTD
Chairman of Qingjingtien Investment Co., Ltd.
Chairman of Qingjingning Investment Co., Ltd.
Chairman of Qingjinglin Real Estate Co., Ltd.
Chairman of Qingjinglin Investment Co., Ltd.
Chairman of Qingjinglin Development Co., Ltd.
Chairman of Qingjinglin Assets Co., Ltd.
Chairman of Yangji Co., Ltd.
Chairman of Jingtsen Real Estate Co., Ltd.
Chairman of Lin Coffee Co., Ltd.
Chairman of Linju Investment Co., Ltd.
Chairman of Linyu International Industrial Co., Ltd.
Chairman of Hsiangyang International Development Co., Ltd.
Director of Shang Yi Construction Co., Ltd.
Director of Everich Construction Co., Ltd.
Supervisor of Qingjingning Construction Co., Ltd.
Supervisor of Rui Young Construction

Tung, Shang-Yu
Chairman of Guangshang Construction Co., Ltd.
Chairman of Guangshang Investment Co., Ltd.
Chairman of Guangcheng Advertising Business Co., Ltd.
Chairman of Guangcheng International Industrial Co., Ltd.
Chairman of Guangcheng Advertising Co., Ltd.
Chairman of Liancheng Advertising Business Co., Ltd.
Supervisor of Linju Investment Co., Ltd.
Vice Chairman and General Manager of Falcon Machine Tools Co., Ltd.

Lin, Yi-Zhen
Special Assistant to the General Manager of Falcon Machine Tools Co., Ltd.
Deputy Spokesperson of Falcon Machine Tools Co., Ltd.

Zhang Yu-Xin
Executive Assistant of Sun Young International Architecture Group

Wu, Zhi-Chi
Managing Partner of Cometrue Consulting Limited
Director of Song Yu Financial Advisory Co., Ltd.
Independent Director of Far EasTone Telecom munications Co., Ltd.
Independent Director of Cen Link Co., Ltd.

Gong, Xin-Jie
Lawyer at Global Network Commerce Legal
Chairman of Longhe Enterprise Management Advisory Co., Ltd.

Chen, Feng-Yun
Chairman of Yuan Kon Health & Lifestyle Co., Ltd.
Chairman of Dihong Management Consulting Co., Ltd.
Independent Director of Sea Mild Biotech

3.2.1.Former Director Information

Date: 2022/09/22; Unit: Shares

Job Title	Nationality or place of registration	Name	Gender Age	Date of election / appointment to current term	Term of office	Commencement date of first term	No. of shares held at time of election		No. of shares currently held		Shares currently held by spouse and minor children		Shares held through nominees		Principal work experience and academic qualifications	Positions held concurrently in the company and/or in any other company	Other officer(s), director(s), or supervisor(s) with which the person has a relationship of spouse or relative within the second degree		
							No. of Shares	Shareholding Ratio	No. of Shares	Shareholding Ratio	No. of Shares	Shareholding Ratio	No. of Shares	Shareholding Ratio			Job Tittle	Name	Relationship
Chairman	R.O.C	Zhang, Po-Ming	Male 71-80	2021.07.07	3	1978.02.21	3,195,000	4.16%	3,212,128	4.18%	304,000	0.40%	0	0%	1. National Taichung Agricultural Senior High School 2. Chairman of Falcon Co. Ltd 3. Taiwan Machine Tool & Accessory Builders' Association (TMBA) 4.Director of Chinese Precision Machinery Development Association (CMD)	1. Chairman of Fushu Technology Industry Co., Ltd. 2. Director of the Precision Machinery Development Association of the Republic of China (Taiwan) 3. Director of the Taiwan Machine Tool & Accessory Builders' Association	Vice Director	Zhang, Po-Yuan	Brother
Vice Chairman	R.O.C	Zhang, Po-Yuan	Male 61-70	2021.07.07	3	1978.02.21	4,012,309	5.22%	3.084,437	4.01%	1,020,740	1.33%	0	0%	1. Huaxia Technical College 2.General Manager, Director of Falcon Co. Ltd 3.Vice Chairman of Falcon Co.Ltd	1. Director of Huang Gang Machinery Co., Ltd. 2. Director of Fu Shun Industrial Co., Ltd.	Director	Zhang, Po-Ming	Brother
Director	R.O.C	Liu, Hua	Female 41-50	2021.07.07	3	2013.06.20	1,000,000	1.30%	1,000,000	1.30%	0	0%	0	0%	1. Master of Industrial Management, National Cheng Kung University 2. Project Manager of Admiral Oversea Corporation	1.Director of Chong Ting Investment Co., Ltd.	NO	NO	NO
Director	R.O.C	Chen, Zheng-Yun	Male 61-70	2021.07.07	3	2015.06.16	0	0%	0	0%	0	0%	0	0%	1. Nantou Senior High School 2.Vice General Manager of Lih-Shan Machinery Factory Co., Ltd	1.CEO of Chishui Investment Co., Ltd	NO	NO	NO
Independent Director	R.O.C	Tsai, Zheng-Teng	Male 61-70	2021.07.07	3	2015.06.16	0	0%	0	0%	0	0%	0	0%	1.PhD of Industrial Engineering, University of Iowa, USA 2. Vice President / Professor of Industrial Engineering and Enterprise Information Department, Tunghai University	1.Director of Chinhung International, Co., Ltd. 2.The Honorary Professor of Tunghai University	NO	NO	NO
Independent Director	R.O.C	Peng, Chuan	Male 61-70	2021.07.07	3	2017.06.21	30,000	0.04%	20,000	0.03%	0	0%	0	0%	1PhD from Texas Tech University, USA 2. Department Head of Industrial Engineering and Management Information, National Quemoy University	1. Supervisor of Chinhung International, Corp 2. Associate Professor in Department of Industrial Engineering and Enterprise Information, Tunghai University	NO	NO	NO
Independent Director	R.O.C	Zhang, Yong-He	Male 51-60	2021.07.07	3	2021.07.07	0	0%	0	0%	0	0%	0	0%	1. PhD in Finance, University of Houston	1. Professor in Department of Finance, Tunghai University	NO	NO	NO

Note: The former director's removal date was October 21, 2022.

I.Major shareholders of the corporate shareholders:

Name of corporate shareholders	Major shareholders of the corporate shareholder
Lin-Ju Investment Co., Ltd.	Lin, Tsung-Lin(0.01), Guang Shang Investment Co., Ltd. (31.25), Qingjingning Investment Co., Ltd. (37.49), Lucchi Investment Co., Ltd(31.25)

II.Major shareholders of the Company's major institutional shareholders:

Name of corporate shareholders	Major shareholders of the corporate shareholder
Guang Shang Investment Co., Ltd.	Tung, Shang-Yu(23),Tung, Zhao-Ling(22),Tung, Zhao-Ying(28),Tung, Lin Mei-Gui(27)
Qingjingning Investment Co., Ltd.	Lin, Tsung-Lin(99.84),Wu He-Bei(0.16)
Lucchi Investment Co., Ltd	Hua Qi-Xiang(100)

III.Professional qualifications and independence analysis of directors and supervisors:

Criteria / Name	Professional Qualifications	Independence Analysis	Number of independent directorships held in other publicly listed companies
Chairman: Lin,Tsung-Lin	· Possesses working experience in commerce, legal person, finance, accounting, or corporate business operations. · Graduated from the Department of Forestry at National Pingtung University of Science and Technology. · Currently serves as Chairman of the Company, as well as Chairman of Sun Young International Architecture Group and Qing Yang International Industrial Co., Ltd. · None of the circumstances specified in Article 30 of the Company Act apply.	Not Applicable	NO
Vice Chairman: Tung,Shang-Yu	· Possesses working experience in commerce, legal person, finance, accounting, or corporate business operations. · Graduated from the Department of Industrial Engineering and Management at National Kaohsiung University of Science and Technology. · Current serves as Vice Chairman and General Manager of the company, as well as Chairman of Guangshang Construction Co., Ltd. · None of the circumstances specified in Article 30 of the Company Act apply.	Not Applicable	NO
Director: Lin,Yi-Zhen	· Possesses working experience in commerce, legal person, finance, accounting, or corporate business operations. · Graduated with a Master's degree in Business Administration from Long Island University in the United States, and a Bachelor's degree in Accounting from New York University. · Formerly held positions as a Senior Investment Manager in the Wealth Management division of Tai Shin Bank, and as an Assistant Manager at Better Life Group Co., LTD. · Currently serving as Executive Assistant in the General Manager's Office and Deputy Spokesperson for the company. · None of the circumstances specified in Article 30 of the Company Act apply.	Not Applicable	NO
Director: Zhang,Yu-xin	· Possesses working experience in commerce, legal person, finance, accounting, or corporate business operations. · Graduated from the Department of Business Administration at Cheng Shiu University of Science and Technology. · Currently serving as Executive Assistant at Sun Young International Architecture Group · None of the circumstances specified in Article 30 of the Company Act apply.	Not Applicable	NO
Independent Director: Wu,Zhi-Chi	· Possesses working experience in commerce, legal person, finance, accounting, or corporate business operations. · Graduated from the Department of Accounting at Shih Chien University and obtained a CPA certificate · Currently serving as the Managing Partner of ComeTrue Consulting Limited, as well as an Independent Director of Far Eastern New Century Corporation and Cen Link Co., Ltd · None of the circumstances specified in Article 30 of the Company Act apply.	· Company's independent director satisfies the criteria for independence · Requires that the director, their spouse, and relatives up to the second degree have not held positions as directors, supervisors, or employees in our company or related entities; do not possess any shares in our company and have not held positions as directors, supervisors, or employees in companies that have significant relationships with our company. · Not received any remuneration for providing business, legal, financial, accounting, or other services to our company or its related entities in the last two years	2
Independent Director: Gong,Xin-Jie	· Possesses working experience in commerce, legal person, finance, accounting, or corporate business operations. · Graduated with a Master of Laws degree from the University of Minnesota Law School, and obtained a Bachelor of Laws degree from National Chengchi University. Also obtained a lawyer's certificate. · Currently servings as a lawyer at Global Network Commerce Legal. · None of the circumstances specified in Article 30 of the Company Act apply.		NO
Independent Director: Chen,Feng-Yun	· Possesses working experience in commerce, legal person, finance, accounting, or corporate business operations. · Graduated with a PhD in Economics from Xiamen University and an EMBA degree from National Chengchi University. · Formerly worked as a trainer at the Listing Department/Business Department of the Securities and Futures Bureau. · Currently serves as an independent director at Sea Mild Biotechnology Co., Ltd · None of the circumstances specified in Article 30 of the Company Act apply.		1

IV.Board Diversity and Independence:

(1)Board Diversity:

Our company is committed to the goal of diversifying the backgrounds and independence of the members of the board of directors by ensuring their professional knowledge, experience, gender, and other diversified backgrounds. In response to the company's development strategy and changes in internal and external environments, appropriate candidates will be continuously invited to join the board of directors to enhance its balance, in line with the above objectives. To achieve the ideal goal of corporate governance, the members of our board of directors come from the management team, related industry managers, and professionals with financial, business, and accounting expertise. With different fields and work backgrounds, they effectively fulfill the responsibilities of board members, including establishing and maintaining the company's vision and values, assisting in promoting corporate governance and strengthening management, supervising and evaluating the implementation of policies and operational plans by the management, and taking responsibility for the overall operational status of the company in economic, social, and environmental aspects. This is to enhance the level of corporate governance and corporate value from the perspective of stakeholders.

The current board of directors consists of seven members. The specific management goals and achievement status of our board's diversity policy are as follows:

Management Objectives	Achievement
Independent directors shall account for more than one-third of the total number of directors.	Achieved
The number of directors who concurrently serve as managers of the company shall not exceed one-third of the total number of directors.	Achieved
The term of office for independent directors shall not exceed three terms.	Achieved
There shall be at least one female director on the board of directors.	Achieved

In the 2022 Annual Shareholders Meeting held on October 21, the company appointed a total of seven directors, including three independent directors. All members of the board of directors are outstanding individuals from industry and academia, possessing diverse and complementary industrial experience and professional capabilities in finance, accounting, and law. This is in line with the policy of diversifying the backgrounds of board members. The implementation of the policy of diversification of the board of directors is as follows:

Core of Diversity / Director		Basic Composition									Professional Background		Professional knowledge and skills					
		Gender	Nationality	Holding an Employee Position in the Company	Age 21-30	Age 31-40	Age 41-50	Age 51-60	Age 61-70	Independent director's term of service (less than 3 terms)	Industry	Finance	Judgement Skill	Management Skill	Leadership Skill	Expertise	Global Market Perspective	Crisis Management Skill
Directors	Lin, Tsung-Lin	Male	R.O.C					✓				✓	✓	✓	✓		✓	✓
	Tung, Shang-Yu	Male	R.O.C	✓				✓			✓	✓	✓	✓	✓	✓	✓	✓
	Lin, Yi-Zhen	Female	R.O.C	✓				✓				✓	✓	✓	✓		✓	✓
	Zhang Yu-Xin	Female	R.O.C		✓								✓	✓	✓		✓	✓
Independent Directors	Wu Zhi-Chi	Male	R.O.C				✓			✓	✓	✓	✓	✓	✓	✓	✓	✓
	Gong, Xin-Jie	Male	R.O.C				✓			✓	✓	✓	✓	✓	✓	✓	✓	✓
	Chen, Feng-Yun	Male	R.O.C						✓	✓		✓	✓	✓	✓		✓	✓

(2)Board Independence:

The company has a board of 7 directors, including 3 independent directors. The independent directors serve for no more than three consecutive terms to maintain their independence and ability to objectively carry out their duties. Furthermore, they have not been involved in any situations covered by the provisions of the third and fourth paragraphs of Article 26-3 of the Securities and Exchange Act.

3.2.2.Information on the Management Team

Date: April,23 2023 ; Unit: Shares

Job Title	Name	Nationality	Gender	Date of appointment to position	Shares held		Shares held by spouse and minor children		Shares held through nominees		Principal work experience and academic qualifications	Position concurrently held in other companies at present	Other managerial officer(s) with which the person has a relationship of spouse or relative within the second degree			Remark(s) (Note)
					No. of Shares	Shareholding ratio	No. of Shares	Shareholding ratio	No. of Shares	Shareholding ratio			Job Title	Name	Relationship	
General Manager	Tung, Shang-Yu	Taiwan	Male	2022.10.21	261,000	0.34%	0	0%	0	0%	1. Department of Industrial Engineering and Management at National Kaohsiung University of Science and Technology. 2. Chairman of Guangshang Construction Co., Ltd.	Please refer to Pg9.	NO	NO	NO	NO
Vice General Manager and Chief Financial Officer	Pei, Yu-Wen	Taiwan	Female	2022.11.08	40,000	0.05%	0	0%	0	0%	1.Master in Graduate Institute of Future Studies from Tamkang University 2.Accounting from Tamkang University 3.Deputy Manager in the Audit Department of KPMG Taiwan 4.Chief Financial Officer in Ching Young International Industrial CO., LTD.	1.Legal Person in Top High Image Corp. 2. Chief Financial Officer in Ching Young International Industrial CO., LTD. 3.Representative in Tai He Xing CO., LTD.	NO	NO	NO	NO
Vice General Manager	Chen, Shih-En	Taiwan	Male	2003.03.01	62,191	0.08%	402	0%	0	0%	1.Department of Mechanical Engineering 2.Chairman of Fulson Industrial Co. Ltd	1. Chairman of Fulson Industrial Co. Ltd 2. Chairman of Hwang Kang Machinery Co.Ltd	NO	NO	NO	NO
Deputy General Manager	Zhang, Ming-Lun	Taiwan	Male	1995.07.01	161,047	0.21%	27,094	0.04%	0	0%	1.Department of Information Engineering and Computer Science in Feng Chia University 2.Chairman of Focus CNC Co. Ltd	1. Chairman of Focus CNC Co. Ltd	NO	NO	NO	NO
Deputy General Manager	Zhang, Che-Hua	Taiwan	Male	2015.01.01	0	0%	354	0%	0	0%	1.Master in Department of Automatic Control Engineering, Feng Chia University	NO	NO	NO	NO	NO
Special Assistant	Lin, Yi-Zhen	Taiwan	Female	2022.11.08	0	0%	0	0%	0	0%	1.Master of Business Administration, Long Island University 2.Bachelor degree of Accounting, New York University 3.Vice General Manager of Better Life Group Co. Ltd 4. Senior Investment Manager, Wealth Management Division, Taishin Bank 5. Wealth Management Manager, Standard Chartered Bank	NO	NO	NO	NO	NO
Associates	Chen, Shih-Chang	Taiwan	Male	2018.03.01	10,927	0.01%	2,825	0%	0	0%	1.Graduated from Department of Agronomy, National Chiayi University	NO	NO	NO	NO	NO
Associates	Chen, Wen-Wei	Taiwan	Male	2022.11.08	0	0%	0	%	0	%	1.Department of Accounting, Soochow University 2.Manager of Audit Department, KPMG Taiwan	NO	NO	NO	NO	NO
Audit Supervisor	Hsu, Chao-Ying	Taiwan	Female	2016.08.11	0	0%	0	0%	0	0%	1.Department Bank and Insurance, Overseas Chinese University 2. Accounting Program, Tunghai University 3. Supervisor of Hwang Kang Machinery Co.Ltd	1.Supervisor of Fulson Industrial Co. Ltd. Supervisor of Hwang Kang Machinery Co.Ltd	NO	NO	NO	NO

3.3.Remuneration paid to Director, General Manager and Deputy General Manager

3.3.1.Remuneration to Ordinary Directors and Independent Directors (Individual Disclosure of Names and Remuneration Items)

Unit: NT$ Thousands

Job Title / Name	Remuneration to directors								Sum of A+B+C+D and ratio to net income (%)		Remuneration received by directors for concurrent service as an employee								Sum of A+B+C+D+E+F+G and ratio to net income (%)		Remuneration received from investee enterprises other than subsidiaries or from the parent company
	Base Remuneration (A)		Retirement pay and pension (B)		Director profit-sharing remuneration (C)		Expenses and perquisites (D)				Salary, rewards, and special disbursements (E)		Retirement pay and pension (F)		Employee profit-sharing compensation (G)						
															The company		All consolidated entities				
	The company	All consolidated entities	The company	All consolidated entities	The company	All consolidated entities	The company	All consolidated entities	The company	All consolidated entities	The company	All consolidated entities	The company	All consolidated entities	Amount in Cash	Amount in Stock	Amount in Cash	Amount in Stock	The company	All consolidated entities	
Current Director(Terms：2022/10/21-2025/10/20)																					
Chairman: Lin, Tsung-Lin	47	47	0	0	0	0	18	18	0.28	0.28	0	0	0	0	0	0	0	0	0.28	0.28	NO
Vice Chairman: Tung, Shang-Yu	47	47	0	0	0	0	18	18	0.28	0.28	115	115	0	0	0	0	0	0	0.78	0.78	NO
Director：Lin, Yi-Zhen	47	47	0	0	0	0	18	18	0.28	0.28	298	298	18	18	0	0	0	0	1.66	1.66	NO
Director：Zhang, Yu-Xin	47	47	0	0	0	0	18	18	0.28	0.28	0	0	0	0	0	0	0	0	0.28	0.28	NO
Independent Director：Wu, Zhi-Chi	89	89	0	0	0	0	18	18	0.47	0.47	0	0	0	0	0	0	0	0	0.47	0.47	NO
Independent Director：Gong, Xin-Jie	89	89	0	0	0	0	18	18	0.47	0.47	0	0	0	0	0	0	0	0	0.47	0.47	NO
Independent Director：Chen, Feng-Yun	89	89	0	0	0	0	18	18	0.47	0.47	0	0	0	0	0	0	0	0	0.47	0.47	NO
Former Director(Terms：2020/07/07-2022/10/21)																					
Director：Zhang, Po-Ming	145	145	0	0	0	0	90	90	1.02	1.02	2,731	2,731	843	843	0	0	0	0	16.56	16.56	NO
Director：Zhang, Po-Yuan	145	145	0	0	0	0	60	60	0.89	0.89	1,513	1,513	0	0	0	0	0	0	7.47	7.47	NO
Director：Chen, Zheng-Yun	145	145	0	0	0	0	75	75	0.96	0.96	0	0	0	0	0	0	0	0	0.96	0.96	NO
Director：Liu,Hua	145	145	0	0	0	0	90	90	1.02	1.02	0	0	0	0	0	0	0	0	1.02	1.02	NO
Independent Director：Tsai, Cheng-Teng	293	293	0	0	0	0	90	90	1.67	1.67	0	0	0	0	0	0	0	0	1.67	1.67	NO
Independent Director：Peng,Quan	293	293	0	0	0	0	90	90	1.67	1.67	0	0	0	0	0	0	0	0	1.67	1.67	NO
Independent Director：Zhang, Yong-He	293	293	0	0	0	0	90	90	1.23	1.23	0	0	0	0	0	0	0	0	1.23	1.23	NO

Remuneration Range Table:

Ranges of remuneration paid to each of the Company's directors	Name of Directors			
	Sum of (A+B+C+D)		Sum of (A+B+C+D+E+F+G)	
	The company	All consolidated entities	The company	All consolidated entities
Less than NT$ 1,000,000	Lin, Tsung-Lin, Tung, Shang-Yu, Lin, Yi-Zhen, Zhang, Yu-Xin, Wu, Zhi-Chi, Kung Hsin-chieh, Chen, Feng-Yun, Chang Pao-ming, Chang Pao-yuan, Chen Cheng-yun, Liu Hua, Tsai Cheng-teng, Peng Chuan, Chang Yong-he	Lin, Tsung-Lin, Tung, Shang-Yu, Lin, Yi-Zhen, Zhang, Yu-Xin, Wu, Zhi-Chi, Kung Hsin-chieh, Chen, Feng-Yun, Chang Pao-ming, Chang Pao-yuan, Chen Cheng-yun, Liu Hua, Tsai Cheng-teng, Peng Chuan, Chang Yong-he	Lin, Tsung-Lin, Tung, Shang-Yu, Lin, Yi-Zhen, Zhang, Yu-Xin, Wu, Zhi-Chi, Kung Hsin-chieh, Chen, Feng-Yun, Chang Pao-ming, Chang Pao-yuan, Chen Cheng-yun, Liu Hua, Tsai Cheng-teng, Peng Chuan, Chang Yong-he	Lin, Tsung-Lin, Tung, Shang-Yu, Lin, Yi-Zhen, Zhang, Yu-Xin, Wu, Zhi-Chi, Kung Hsin-chieh, Chen, Feng-Yun, Chang Pao-ming, Chang Pao-yuan, Chen Cheng-yun, Liu Hua, Tsai Cheng-teng, Peng Chuan, Chang Yong-he
NT$1,000,000 (incl.)～NT$2,000,000 (excl.)	NO	NO	Zhang, Po-Yuan	Zhang, Po-Yuan
NT$2,000,000 (NT$3,500,000 (excl.)	NO	NO	NO	NO
NT$3,500,000 (NT$5,000,000 (excl.)	NO	NO	Zhang, Po-Ming	Zhang, Po-Ming
NT$5,000,000 (NT$10,000,000 (excl.)	NO	NO	NO	NO
NT$10,000,000 (NT$15,000,000 (excl.)	NO	NO	NO	NO
NT$15,000,000 (NT$30,000,000 (excl.)	NO	NO	NO	NO
NT$30,000,000 (NT$50,000,000 (excl.)	NO	NO	NO	NO
NT$50,000,000 (NT$100,000,000 (excl.)	NO	NO	NO	NO
NT$100,000,000 or above	NO	NO	NO	NO
Total	14	14	14	14

***The remuneration disclosed in this table is different from the income concept under the Income Tax Act. Therefore, the purpose of this table is for information disclosure only and not for tax purposes**

3.3.2.Remuneration to General Manager(s) and Assistant General Manager(s) (Individual Disclosure of Names and Remuneration Items)

Unit: NT$ Thousands

Job Title	Name	Salary (A)		Retirement pay and pension (B)		Rewards and special disbursements (C)		Employee profit-sharing remuneration (D)				Sum of A+B+C+D and ratio to net income (%)		Remuneration received from investee enterprises other than subsidiaries or from the parent company (Note)
		The company	All consolidated entities	The company	All consolidated entities	The company	All consolidated entities	The company		All consolidated entities		The company	All consolidated entities	
								Amount in Cash	Amount in Stock	Amount in Cash	Amount in Stock			
Chairman	Lin, Tsung-Lin	0	0	0	0	0	0	0	0	0	0	0.00	0.00	None
Chairman and CEO(Note)	Zhang, Po-Ming	1,742	1,742	843	843	989	989	0	0	0	0	15.54	15.54	None
Vice Chairman and CEO	Tung, Shang-Yu	115	115	0	0	0	0	0	0	0	0	0.50	0.50	None
Vice Chairman and Chief Administrative Officer (Note)	Zhang, Po-Yuan	1,397	1,397	0	0	116	116	0	0	0	0	6.58	6.58	None
Deputy General Manager	Pei, Yu-Wen	177	177	10	10	0	0	0	0	0	0	0.81	0.81	None
Deputy General Manager	Zhang, Ming-Lun	1,128	1,128	68	68	40	40	0	0	0	0	5.38	5.38	None
Deputy General Manager	Chen, Shi-En	1,311	1,311	79	79	0	0	0	0	0	0	6.04	6.04	None
Deputy General Manager	Zhang, Zhe-Hua	1,133	1,133	68	68	240	240	0	0	0	0	6.27	6.27	None

Note:Resignation date is October 21, 2022

Remuneration Range Table:

Ranges of remuneration paid to each of the Company's directors	Name of Directors	
	Sum of (A+B+C+D)	Companies in the consolidated financial statements
Less than NT$ 1,000,000	Lin,Tsung-Lin, Tung,Shang-Yu, Pei,Yu-Wen	Lin,Tsung-Lin, Tung,Shang-Yu, Pei,Yu-Wen
NT$1,000,000 (incl.)～NT$2,000,000 (excl.)	Zhang,Po-Yuan, Chang,Ming-lun, Chen,Shih-en, Chang,Zhe-hua	Zhang,Po-Yuan, Chang,Ming-lun, Chen,Shih-en, Chang,Zhe-hua
NT$2,000,000 (NT$3,500,000 (excl.)	None	None
NT$3,500,000 (NT$5,000,000 (excl.)	Zhang,Po-Ming	Zhang,Po-Ming
NT$5,000,000 (NT$10,000,000 (excl.)	None	None
NT$10,000,000 (NT$15,000,000 (excl.)	None	None
NT$15,000,000 (NT$30,000,000 (excl.)	None	None
NT$30,000,000 (NT$50,000,000 (excl.)	None	None
NT$50,000,000 (NT$100,000,000 (excl.)	None	None
NT$100,000,000 or above	None	None
Total	8	8

***The remuneration disclosed in this table is different from the income concept under the Income Tax Act. Therefore, the purpose of this table is for information disclosure only and not for tax purposes**

3.3.3.Remuneration of the top five highest-paid managerial officers in a TWSE/TPEx-listed company

Unit: NT$ Thousands

Job Title	Name	Base Remuneration (A)		Retirement pay and pension (B)		Director profit-sharing compensation (C)		Expenses and perquisites (D)				Sum of A+B+C+D and ratio to net income (%)		Remuneration received from investee enterprises other than subsidiaries or from the parent company (Note)
		The company	All consolidated entities	The company	All consolidated entities	The company	All consolidated entities	The company		All consolidated entities		The company	All consolidated entities	
								Amount in Cash	Amount in Stock	Amount in Cash	Amount in Stock			
Deputy Chairman and General Manager	Tung, Shang-Yu	115	115	0	0	0	0	0	0	0	0	0.50	0.50	NONE
Deputy General Manager	Pei, Yu-Wen	177	177	10	10	0	0	0	0	0	0	0.81	0.81	NONE
Deputy General Manager	Zhang, Ming-Lun	1,128	1,128	68	68	40	40	0	0	0	0	5.38	5.38	NONE
Deputy General Manager	Chen, Shih-En	1,311	1,311	79	79	0	0	0	0	0	0	6.04	6.04	NONE
Deputy General Manager	Zhang, Zhe-Hua	1,133	1,133	68	68	240	240	0	0	0	0	6.27	6.27	NONE

***The remuneration disclosed in the table is different from income as defined in the Income Tax Act. This table is therefore provided for disclosure only and is not used for taxation purposes.**

3.3.4.Names and Distributions of Employee Profit-Sharing Remuneration to Managerial Officers: No distribution of employee remuneration in 2022

Unit: NT$ thousands

	Job Title	Name	Amount in Stock	Amount in Cash	Total	As a % of net profit (%)
Managerial Officers	Vice Chairman and General Manager	Tung, Shang-Yu	0	0	0	0.00
	Vice General Manager	Pei, Yu-Wen	0	0	0	0.00
	Vice General Manager	Zhang, Ming-Lun	0	0	0	0.00
	Vice General Manager	Chen, Shih-En	0	0	0	0.00
	Vice General Manager	Zhang, Zhe-Hua	0	0	0	0.00
	Special Administrator	Lin, Yi-Zhen	0	0	0	0.00
	Associates	Chen, Shih-Chang	0	0	0	0.00
	Associates	Chen, Wen-Wei	0	0	0	0.00

3.3.5. Comparison of Remuneration for Directors, Supervisors, President and Vice Presidents in the Most Recent Two Fiscal Years and Remuneration Policy for Directors, Supervisors, President and Vice Presidents

Unit: NT$ thousands/%

Job Title	2022				2021			
	Total Remuneration		Ratio of Total Remuneration to Net Profit after Tax(%)		Total Remuneration		Ratio of Total Remuneration to Net Profit after Tax(%)	
	The company	All consolidated entities	The company	All consolidated entities statements	The company	All consolidated entities statements	The company	All consolidated entities statements
Directors	8,043	8,043	(34.98)	(34.98)	9,226	9,226	27.22	27.22
Supervisors	0	0	0	0	270	270	0.80	0.80
General Manager and Vice General Manager	4,254	4,254	(18.50)	(18.50)	4,092	4,092	12.02	12.02

※After offsetting the accumulated losses and setting aside reserves, it is proposed that no dividends be distributed to shareholders despite the net profit after tax for the year 2021 being NTD 33.9 billion.

※Due to an after-tax net loss of NTD 22.995 billion in the year 2022, it is proposed that no dividends be distributed to shareholders.

I. The company's Article 24-1 of the Articles of Incorporation stipulates that the remuneration of the Chairman and Directors shall be authorized by the Board of Directors based on their level of participation and contribution to the Company's operations, taking into account the usual industry standards. The Company's Directors, General Manager, and Deputy General Manager have the responsibilities of both executive management and operation within the group. Their salary structure includes base salary, special allowance, and vehicle allowance. Their salaries are based on their contributions, qualifications, and business performance, and are formulated in accordance with the provisions of the Articles of Incorporation by referring to industry standards, and are submitted to the Remuneration Committee for approval before being issued.

II. The company has established clear decision-making powers for the aforementioned positions and assigned individuals responsible for executing strategies. Hence, there should be no future risks.

III. The distribution of director's remuneration is in accordance with Article 29 of the Company's Articles of Incorporation: if the Company makes a profit in the year, not less than 2% shall be allocated for employee remuneration, and shall be distributed in the form of stocks or cash as decided by the Board of Directors. The Company may allocate up to 5% of the above-mentioned profit for the remuneration of directors, as decided by the Board of Directors. The allocation of employee remuneration and director's remuneration shall be reported to the shareholders' meeting. However, when the Company still has accumulated losses, the remuneration shall be reserved in advance to make up for the losses, and then employee and director's remuneration shall be allocated in the aforementioned proportions. The allocation shall be estimated in accordance with the provisions of the Articles of Incorporation, approved by the Remuneration Committee, and then submitted to the Board of Directors for approval, and shall be issued based on the Company's relevant measures in consideration of their contributions, qualifications, and business performance.

IV. The total amount of director's remuneration for this period is lower than that of the previous year, which is due to the non-distribution of director's remuneration for the after-tax net loss of the current year and the lower remuneration for the new directors than the former directors. The Supervisor was removed after the establishment of the Audit Committee on July 7, 2021, so there is no supervisor's remuneration for this year. The total amount of remuneration for the General Manager and Deputy General Manager has increased compared to the previous year, which is reasonable because the number of Deputy General Managers has increased from 3 to 4 this year.

3.4.Status of Implementation of Cooperate Governance

3.4.1.Operation of the Board of Directors

The board of directors held 9 meetings in the year 2022, with the attendance as follows: The overall average attendance rate was 95%.

Title	Name	No. of meetings attended in person	No. of meetings attended by proxy	In-person attendance rate(%)	Remarks
Chairman	Lin, Tsung-Lin	3	0	100%	Note 1
Vice Chairman	Tung, Shang-Yu	3	0	100%	Note 1
Director	Lin, Yi-Zhen	3	0	100%	Note 1
Director	Zhang, Yu-Xin	3	0	100%	Note 1
Independent Director	Wu, Zhi-Chi	3	0	100%	Note 1
Independent Director	Gong, Xin-Jie	3	0	100%	Note 1
Independent Director	Chen, Feng-Yun	3	0	100%	Note 1
Chairman	Zhang, Po-Ming	6	0	100%	Note 2
Vice Chairman	Zhang, Po-Yuan	4	0	67%	Note 2
Director	Liu, Hua	6	0	100%	Note 2
Director	Chen, Zheng-yun	5	0	83%	Note 2
Independent Director	Tsai, Zhen-Teng	6	0	100%	Note 2
Independent Director	Peng, Quan	6	0	100%	Note 2
Independent Director	Zhang, Yong-He	6	0	100%	Note 2

Note 1:The ninth board of directors took office on October 21, 2022, and the number of board meetings to be attended for the year 2022 is 3.

Note 2:The eighth board of directors was dismissed on October 21, 2022, and the number of board meetings to be attended for the year 2022 was 6.

Other information required to be disclosed:

I.If any of the following circumstances exists, specify the board meeting date, meeting session number, content of the motion(s), the opinions of all the independent directors, and the measures taken by the Company based on the opinions of the independent directors:

A.Any matters under Article 14-3 of the Securities and Exchange Act.

Date: 2022/12/31

Board of Directors	Proposal and Resolutions	Opinions from Independent Director	Handling of Independent Director Opinions by the Company	Recording or State in writing on an objections or expressed reservation by Independent Director
8th session, 4th meeting 2022/03/25	Proposal: Present the financial statements for the year 2021 and establish the operational plan for the year 2022. Resolution: Passed as proposed	None	None	None
	Proposal: Discuss the profit distribution proposal for the year 2021 in company Resolution: Passed as proposed	None	None	None
	Proposal: Draft the employee and director remuneration proposal for the year 2021. Resolution: Passed as proposed Recusal: Zhang, Po-Ming, Zhang, Po-Yuan	None	None	None
	Proposal: Present the statement of internal control system for year 2021. Resolution: Passed as proposed	None	None	None
	Proposal: Company’s overdue receivables as of the end of December 2021, excluding the loans, are not categorized as funds lent to others. Resolution: Passed as proposed	None	None	None

Board of Directors	Proposal and Resolutions	Opinions from Independent Director	Handling of Independent Director Opinions by the Company	Recording or State in writing on an objections or expressed reservation by Independent Director
	Proposal: Propose to increase the investment in subsidiary company through debt-to-equity conversion Resolution: Passed as proposed	None	None	None
	Proposal: Estimate the employee and director remuneration proposal for year 2022 Resolution: Passed as proposed	None	None	None
	Proposal: Discuss related the convening of annual shareholder meeting for year 2022 Resolution: Passed as proposed	None	None	None
8th session, 5th meeting 2022/05/11	Proposal: Evaluate on independence and suitability of audit accountant Resolution: Passed as proposed	None	None	None
	Proposal: Agreement for extension of credit between company and financial entity Resolution: Passed as proposed	None	None	None
8th session, 6th meeting 2022/07/29	Proposal: Due to the notification received from Linju Investment Co., Ltd., Better Life Group Co., LTD., and Liu Fang-jun regarding their public tender offer to acquire ordinary shares of company, it has been proposed to discuss the verification and review the identity and financial condition of the tender offeror, the fairness of the tender offer conditions, the reasonableness of the source of funds for the tender offer, and to provide recommendations to the shareholders about this acquisition in accordance with Article 14 of the 'Regulations Governing Public Tender Offers for Securities of Public Issuing Companies'." Resolution: It is found that the tender offer price falls within the reasonable price range recommended by the accountants of both parties after the investigation and review. Even the identity and financial condition of the tender offeror, as well as the sources of the funds for the tender offer are considered reasonable, but also urge those shareholders to read the "Risks Associated with Participation in the Tender Offer" carefully as described in the public tender offer announcement and the tender offer prospectus, and make the decisions on whether to participate in the tender offer or not. This recommendation is provided as reference only, and those shareholders should evaluate and consider own investment needs and financial and tax situations, and assume the risks associated.	None	None	None
8th session, 7th meeting 2022/08/10	Proposal: As of the end of June 2022, the overdue amounts of our company's accounts receivable and other outstanding balances do not pertain to loans or borrowings. Resolution: Passed as proposed	None	None	None
8th session, 8th meeting 2022/09/02	Proposal: Election of Board Directors Resolution: Passed as proposed	None	None	None
	Proposal: Notice of the First Extraordinary Shareholders' Meeting of the Company in 2022. Resolution: Passed as proposed	None	None	None
	Proposal: Nomination period for director candidates (including independent directors), the number of positions to be elected, and the place of acceptance. Resolution: Passed as proposed	None	None	None
8th session, 9th meeting 2022/09/23	Proposal: Proposed resolution to nominate candidates for directors (including independent directors). Resolution: Passed as proposed	None	None	None
9th session, 2nd meeting 2022/11/08	Proposal: Proposed resolution of the change of Financial Officer, Accounting Officer, Spokesperson, and Deputy Spokesperson Resolution: Passed as proposed Recusal：Lin, Yi-Zhen, Chen, Wen-Wei	None	None	None
	Proposal: Internal adjustment and replacement of accountant from Ernst & Young Accounting Firm.	None	None	None

Board of Directors	Proposal and Resolutions	Opinions from Independent Director	Handling of Independent Director Opinions by the Company	Recording or State in writing on an objections or expressed reservation by Independent Director
	Resolution: Passed as proposed			
	Proposal: Revision of some articles from the "Internal Control System and Related Operations" and formulation of "Operational Guidelines for Consolidated Financial Statements Preparation Process Management". Resolution: Passed as proposed	None	None	None
	Proposal: Participate in the bidding process for the joint development project with Taiwan Sugar Corporation Resolution: Passed as proposed	None	None	None
	Proposal: Establish the remuneration proposal for the 9th Board of Directors (including independent directors) Resolution: Passed as proposed Recusal: Partial recusal of general and independent directors in batches	None	None	None
	Proposal: Appointment of New Manager's Remuneration Resolution: Passed as proposed Recusal: Tung, Shang-Yu, Lin, Yi-Zhen, Chen, Wen-Wei	None	None	None
9th session, 3rd meeting 2022/12/22	Proposal: Apply a joint guarantee for the performance bond with King Town's Bank. Resolution: Passed as proposed	None	None	None
	Proposal: Proposed Disposal of Real Estate and Related Equipment of Company. Resolution: Passed as proposed	None	None	None

B.In addition to the matters referred to above, any dissenting or qualified opinion of an independent directory that is on record or stated in writing with respect to any board resolution.

II.Status of implementation of recusals of directors with respect to any motions with which they may have a conflict of interest

Date:2022/12/31

ITEM	Date and session	Name of Director	Content of the motion	Cause for Recusal	Voting Participation
1	8th session, 4th meeting 2022/03/25	Zhang, Po-Ming	Draft the employee and director remuneration proposal for the year 2021.	Concurrently as Manager	Abstained from discussion and voting
2	9th session, 1st meeting 2022/10/21	Tung, Shang-Yu	Propose the election of the board chairman, vice chairman, and general manager	Concurrently as General manager	Abstained from discussion and voting
		Wu, Zhi-Chi Gong, Xin-Jie Chen, Feng-Yun	Proposal to appoint members to the 6th Remuneration Committee of the Company	Member of the Audit Committee	Abstained from discussion and voting
3	9th session, 2nd meeting 2022/11/08	Lin Yi-zhen	Proposed resolution of the change of Financial Officer, Accounting Officer, Spokesperson, and Deputy Spokesperson	Concurrently as worker	Abstained from discussion and voting
		Lin, Tsung-Lin Tung, Shang-Yu Lin Yi-zhen Zhang, Yu-Xin	Establish the remuneration proposal for the 9th Board of Directors (including independent directors)	Establishment of Director Remuneration Plan	Abstained from discussion and voting
		Wu, Zhi-Chi Gong, Xin-Jie Chen, Feng-Yun		Establishment of Independent Director Remuneration Plan	Abstained from discussion and voting
		Tung, Shang-Yu	Remuneration proposal for company new manager	Concurrently as Manager	Abstained from discussion and voting

III.Implementation of Evaluations of the Board of Directors

Evaluation Cycle	Evaluation Period	Scope of evaluation	Method of evaluation	Evaluation Content
Once a year	2022/01/01~ 2022/12/31	Board of Director	Assessment of Corporate Governance Manager	1. Enhance the degree of involvement in the company's operations. 2. Improve the quality of board decisions. 3. Review and optimize the composition and structure of the board of directors. 4. Enhance the process of director selection and ongoing education. 5. Strengthen the internal controls.
Once a year	2022/10/21~ 2022/12/31 (Note)	The Remuneration and Audit Committee	Evaluation of the Chairperson	1. Enhance involvement in the company's operations 2. Recognize the responsibilities of functional committees 3. Improve the quality of functional committee decisions 4. Review the composition and member selection of functional committees 5. Strengthen the internal controls.
Once a year	2022/10/21~ 2022/12/31 (Note)	Individual Director	Performance evaluation of board members (self or peer)	1. Grasp of the company's goals and mission 2. Understanding of the duties and responsibilities of a director 3. Involvement in the company's operations 4. Management and communication of internal relationships 5. Professionalism and ongoing education of directors 6. Strengthen the internal controls.

Note:If the evaluation period is less than one year due to director re-election.

IV.Evaluation of the targets that were adopted for strengthening of the functions of the board during the current and immediately preceding fiscal years (e.g., establishing an audit committee, increasing information transparency, etc.)

(1) The Establishment of Corporate Governance Regulations: Besides the powers and responsibilities of the Board of Directors as specified in the Company's Articles of Incorporation, the Company also has established various regulations to strengthen the operation of the Board of Directors and corporate governance, which is "Board of Directors Meeting Regulations," "Code of Ethics," "Board of Directors Performance Evaluation Procedures," "Internal Handling Procedures for Significant Information," "Employee Code of Conduct," "Management Procedures for Preventing Insider Trading," and "Management Procedures for Shareholders' Meeting Souvenirs and Deposits."Furthermore, in year 2022, the Company revised certain provisions of the "Internal Handling Procedures for Significant Information," "Board of Directors Meeting Regulations," and "Internal Control System and Related Operations" in accordance with the latest laws and regulations, and the revisions were approved by the Board of Directors.

(2) Board of Directors Performance Evaluation: To strengthen the efficiency of the Board of Directors' operation and implement corporate governance, the Company has established performance objectives and the Board of Directors Performance Evaluation Procedures, which apply to all members of the Board of Directors, functional committees, and individual directors. The procedures were established on March 24, 2020, in accordance with the Corporate Governance Best Practice Principles for Listed and OTC Companies. Each year, during December, each unit provides a questionnaire for Board members to complete. The completed questionnaire and related information concerning performance evaluation are provided to the Board of Directors for their reference.

A.The results of the Board of Directors Performance Evaluation in year 2022 as shown below:

(a)The overall self-evaluation score of the Board of Directors：4.86(out of 5)

(b)The overall self-evaluation score of the Board members：4.86(out of 5)

The Company conducted the annual internal Board of Directors Performance Evaluation for the entire Board of Directors, individual directors, and functional committees in accordance with the evaluation indicators and procedures set forth in the Board of Directors Performance Evaluation Procedures. The data was collected and evaluated through questionnaires, and the report was presented to the Board of Directors on March 21st, 2023. The detailed content of the report has been disclosed on the Company's website.

(3) Ensure effective governance and enhance long-term shareholder value：Members of the functional committees follow the latest version of the "Board of Directors Performance Evaluation Procedures" established by the regulatory authorities, and conduct annual self-evaluations in December based on performance indicators to assess their effectiveness in leading the company's strategic direction and overseeing operational management.

(4) Actively participating in corporate governance:

In recent years, the company has been actively involved in enhancing corporate governance and transparency. In 2021, the company received a corporate governance evaluation result of 66%-

80% (as of the date of printing, the results for 2022 have not yet been released). The company actively participates in corporate governance evaluations to improve its corporate governance capabilities.

(5) Strengthening the Functions and Decision-making Quality of the Board of Directors: In order to enhance the functions of the board of directors and improve decision-making quality, our company regularly convenes strategy meetings to update the directors on the financial and business status of the company, as well as the development and implementation of major business strategies and related plans. In addition, we also hold quarterly operational meetings, where management units report on operational matters to help the board of directors understand the business and improve decision-making effectiveness. During this process, the directors' professional knowledge and experience also provide valuable guidance to the management units.

(6) Enhancing Company Information Transparency: The company website and the Public Information Observation Station voluntarily disclose relevant information such as regulatory compliance and significant decisions made by the board of directors, to facilitate shareholders' understanding of the company's activities and enhance information transparency.

3.4.2.Operations of the Audit Committee

I.Scope of the Audit Committee mainly include:

(1) Develop or amend internal control systems in accordance with Article 14-1 of the Securities and Exchange Act.
(2) Evaluate the effectiveness of internal control systems.
(3) Develop or amend processing procedures related to asset acquisition or disposal, derivative trading, fund lending, endorsement or guarantees for others, in accordance with Article 36-1 of the Securities and Exchange Act.
(4) Handle matters related to directors' personal interests.
(5) Handle significant asset or derivative transactions.
(6) Handle significant fund lending, endorsement, or guarantee activities.
(7) Handle the issuance, public offering, or private placement of equity securities.
(8) Appoint, dismiss, or determine the remuneration of the certifying accountant.
(9) Determine the appointment or dismissal of financial, accounting, or internal audit supervisors.
(10) Review annual financial reports, business reports, and proposals for the distribution of profits or allocation of losses.
(11) Handle other significant matters as required by the company or regulatory authorities.

II.Annual Priorities of Audit Committee:

(1) Arranging meetings for the Audit Committee and communication meetings
(2) Handling matters related to Audit Committee meetings in compliance with the law (issuing meeting notices and recording meeting minutes)
(3) Tracking and implementing improvements requested by the Audit Committee
(4) Providing the necessary company information to assist independent directors in fully exercising their duties
(5) Conducting an annual self-evaluation of the Audit Committee
(6) Establishing and revising organizational regulations and related operating procedures
(7) Publicly disclosing and reporting matters related to the Audit Committee as required by law (organizational regulations, operational status)

III.The term of the 1st Audit Committee was from July 7, 2021 to October 21, 2022, with a total of 3 meetings held in 2022. The term of the 2nd Audit Committee was from October 21, 2022 to October 20, 2025, with 2 meetings held in 2022. The attendance by the committee member in 2022 was as follows:

Title	Name	No. of meetings attended in person	No. of meetings attended by proxy	In-person attendance rate(%)	Remarks
Convenor	Wu, Zhi-Chi	2	0	100	The second
Member	Gong, Xin-Jie	2	0	100	
Member	Chen, Feng-Yun	2	0	100	
Convenor	Tsai, Zhen-Teng	3	0	100	The first
Member	Peng, Quan	3	0	100	
Member	Zhang, Yong-He	3	0	100	

Other information required to be disclosed:

I. If any of the following circumstances exists, specify the board meeting date, meeting session number, content of the motion(s), the opinions of all the independent directors, and the measures taken by the Company based on the opinions of the independent directors:

A. Any matters under Article 14-5 of the Securities and Exchange Act.

Date: 2022/12/31

Term of Audit Committee Date of Meeting	Term of Board of Directors Date of Meeting	Proposal and Resolutions	Contents of the objections, reservations, or significant proposals by the independent director	Handling of the company's response to the opinions of the audit committee.
1st session 4th meeting 2022/03/25	8th session 4th meeting 2022/03/25	Proposal: The financial statements for the year 2021 Resolution: Passed as proposed	None	The resolution was approved unanimously by all attending directors
		Proposal: The profit distribution proposal for the year 2021 Resolution: Passed as proposed	None	The resolution was approved unanimously by all attending directors
		Proposal: Propose to amend certain provisions of the "Asset Acquisition or Disposal Operating Procedures" Resolution: Passed as proposed	None	The resolution was approved unanimously by all attending directors
		Proposal: Statement of the internal control system for company in year 2021. Resolution: Passed as proposed	None	The resolution was approved unanimously by all attending directors
1st session 5th meeting 2022/05/10	8th session 5th meeting 2022/05/11	Proposal: Financial statements for the first quarter of year. Resolution: Passed as proposed	None	The resolution was approved unanimously by all attending directors
		Proposal: The assessment report on the independence and qualification of the company's signing certified public accountant. Resolution: Passed as proposed	None	The resolution was approved unanimously by all attending directors
1st session 6th meeting 2022/08/09	8th session 7th meeting 2022/08/10	Proposal: Financial statements for the second quarter of year. Resolution: Passed as proposed	None	The resolution was approved unanimously by all attending directors
		Proposal: As of the end of June 2022, company's overdue receivables and outstanding payments, excluding those categorized as loans of funds, are not considered as such. Resolution: Passed as proposed	None	The resolution was approved unanimously by all attending directors
2nd session 1st meeting 2022/11/08	9th session 2nd meeting 2022/11/08	Proposal: Change in the positions of the financial supervisor, accounting supervisor, spokesperson, and proxy spokesperson Resolution: Passed as proposed	None	The resolution was approved unanimously by all attending directors
		Proposal: Internal adjustment and replacement of accountant from Ernst & Young Accounting Firm. Resolution: Passed as proposed	None	The resolution was approved unanimously by all attending directors
		Proposal: Proposes a revision of certain articles in the "Internal Control System and Related Operations" and the establishment of the "Detailed Operating Procedures for the Preparation of Consolidated Financial Statements". Resolution: Passed as proposed	None	The resolution was approved unanimously by all attending directors
		Proposal: Participate in the bidding process for the joint development project with Taiwan Sugar Corporation Resolution: Passed as proposed	None	The resolution was approved unanimously by all attending directors
2nd session 2nd meeting 2022/12/22	9th session 3rd meeting 2022/12/22	Proposal: Apply a joint guarantee for the performance bond with King Town’s Bank. Resolution: Passed as proposed	None	The resolution was approved unanimously by all attending directors
		Proposal: Proposed Disposal of Real Estate and Related Equipment of Our Company. Resolution: Passed as proposed	None	The resolution was approved unanimously by all attending directors

II. There is NO execution status of independent directors' abstention from voting on interested party transactions.

III.Communication between the independent directors and the internal audit supervisor and accountant regarding significant matters related to the company's financial and business status, including the methods and outcomes of such communication.

A.The communication policy between independent directors and the internal audit supervisor and accountant is as follows:

1.The policy of inviting the certified public accountant to attend the audit committee at least twice a year to report on the review or audit results of the financial statements of the company and its subsidiaries, as well as the results of internal control audits. The communication should be sufficient to discuss any significant adjustments or revisions related to legal amendments.

2.If necessary, communicate with the accountant through meetings as required.

3.The internal audit supervisor and independent directors should hold regular meetings at least once a quarter through the audit committee to report on the implementation of internal audits and the operation of internal controls. In the event of any significant abnormality, a meeting may be convened at any time.

B.Summary of communication between the independent directors' board and the accountant in 2022:

The communication between the independent directors and the accountants of our company is good.

Date	Key Audit Matters	Opinion from Independent Director	Execution results handling
2022/03/25 Audit Committee	Explained the significant audit matters and audit results of the individual and consolidated financial statements for the year 2021.	None	The individual and consolidated financial statements for the year 2021 have been approved by the audit committee and were discussed in the 8th 4th board of directors meeting on March 25th, 2022.
2022/08/09 Audit Committee	Explained the significant audit matters and audit results of the individual and consolidated financial statements for the year 2022.	None	The individual and consolidated financial statements for the year 2022 have been approved by the audit committee and were discussed in the 8th 7th board of directors meeting on August 10th, 2022.

C.Summary of Communication between Independent Directors and Internal Audit Officers in year 2022:

Date	Key Audit Matters	Opinion from Independent Director	Execution results handling
2022/03/25 Audit Committee	Internal Control Statement for 2021	None	Reviewed and approved by the audit committee and submitted for discussion by the board of directors.
2022/11/08 Audit Committee	1. Explanation of the improvement plan for the company's financial reporting capabilities. 2. Report on the execution of audit services for the third quarter of year 2022 3. Development of the internal audit plan for year 2023. 4. Revision of certain provisions of the "Internal Control System and Related Operations" and establishment of the "Detailed Rules for the Management of Consolidated Financial Statement Preparation Processes"	1. None 2. None 3. None 4. None	1. Report to the board of directors and provide a letter from the Taipei Exchange to each committee member after the meeting. 2. Report to the board of directors 3. Reviewed and approved by the audit committee and submitted for discussion by the board of directors. 4. Reviewed and approved by the audit committee and submitted for discussion by the board of directors.

3.4.3.Corporate Governance – Implementation Status and Deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and the Reasons

Evaluation Item	Implementation status			Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies" and reasons
	Yes	No	Summary Description	
1.Has the Company established and disclosed its Corporate Governance Best-Practice Principles based on the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies?		✓	Company has not yet formulated.	The company has not yet established its corporate governance best practices in accordance with the "Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies", and will do so in the future according to its business needs and legal regulations
2.Shareholding Structure and Shareholders' Rights				
(1)Does the Company have Internal Operation Procedures for handling shareholders' suggestions, concerns, disputes and litigation matters. If yes, have these procedures been implemented accordingly?	✓		(1)The company has established a spokesperson and a deputy spokesperson as a means of handling shareholder suggestions, questions, and disputes. The company has also set up relevant contact information and a stakeholder complaint mailbox on its website and in its annual report, to receive various inquiries and suggestions.	(1)None
(2)Does the Company know the identity of its major shareholders and the parties with ultimate control of the major shareholders?	✓		(2)The list of major shareholders who exercise actual control over the company is handled by the General Administration Department and the stock Agency Department (China Trust Commercial Bank), and is disclosed periodically in accordance with legal regulations.	(2)None
(3)Has the Company built and implemented a risk management system and a firewall between the Company and its affiliates?	✓		(3)1.The company has developed and passed through the board of directors the "Supervision and Management Procedure for Subsidiaries." 2.All related parties of the company are direct or indirect subsidiaries holding more than 50% of the company's shares. Business dealings between the company and its related parties are treated as transactions with independent third parties. 3.The company has implemented strict operational procedures for managing fund lending, endorsement guarantees, transactions, and derivative transactions with its related parties.	(3)None
(4)Has the Company established internal rules prohibiting insider trading of securities based on undisclosed information?	✓		(4)To establish a sound internal mechanism for processing and disclosing significant information, prevent improper leakage of information, and ensure the consistency and accuracy of information released to the outside world, as well as to prevent insider trading, the company has developed the "Internal Procedures for Handling Significant Information" and the "Management Procedures for Preventing Insider Trading," which have been distributed to the directors and made available on the company's internal electronic bulletin board for managers and all employees to refer to at any time. In addition, the company revised the "Code of Ethics" on November 9, 2020, requiring all relevant parties to comply with the company's internal regulations and the provisions of the Securities Exchange Act regarding the prohibition of insider trading. All of the aforementioned documents are posted on the company's internal electronic bulletin board for relevant personnel to consult at any time.	(4)None
3.Composition and Responbilities of the board of directors				
(1)Have a diversity policy and specific management objectives been adopted for the board and have they been fully implemented?	✓		(1)Company is dedicated to achieving diversity in the backgrounds of board members, including their professional expertise, experience, gender, and independence. Company will continue to invite suitable candidates to join the board to strengthen its balance in response to the company's development strategy and changes in the internal and external environment. The board members come from different fields and work backgrounds, including the management team, industry managers, and professionals with financial, business, and accounting backgrounds. They effectively fulfill their responsibilities as board members, including establishing and maintaining the company's vision and values, promoting corporate governance, and supervising and evaluating the management's policies and operational plans. Moreover, they are responsible for the company's overall performance in the economy, society, and environment, taking the perspective of stakeholders to enhance corporate governance and enterprise value. Board of directors is composed of 7 members, including 3 independent directors (43% of the total). Independent directors are limited to serving no more than three consecutive terms. Also, one of the director over 65 years old, 3 directors aged between 51 and 60, and 3 directors under 50 years old. To promote gender equality and improve women's participation in decision-making and the	(1)None

Evaluation Item	Implementation status			Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies" and reasons
	Yes	No	Summary Description	
			soundness of the board structure, company have 2 female directors (29% of the total). Details of the implementation of board member diversity can be found on page 12.	
(2)Has the Company voluntarily established other functional committees in addition to the remuneration committee and the audit committee?	✓		(2)Company has established a remuneration committee and an audit committee, and has formulated the "Organization Regulations of the Remuneration Committee" and the "Rules of Procedure of the Audit Committee". The importance of other types of functional committees will be evaluated in the future, and relevant policies will be formulated for their implementation.	(2)Established according to the needs of the company's future development and legal requirements.
(3)Has the Company established rules and methodology for evaluating the performance of its Board of Directors, implemented the performance evaluations on an annual basis, and submitted the results of performance evaluations to the board of directors and used them as reference in determining salary/compensation for individual directors and their nomination and additional office terms?	✓		(3)company has established the "Board of Directors Performance Evaluation Rules," which stipulates that the board of directors should conduct at least one performance evaluation per year through a self-evaluation questionnaire to enhance corporate governance. The performance evaluation is carried out at the end of each year to measure the effectiveness of the board's leadership and supervision of the company's operations and management, with the aim of providing feedback on the board's performance and increasing long-term shareholder value. In 2022, the company conducted an internal evaluation and reported the results to the board of directors on March 21, 2023. The evaluation report has been disclosed on the company's website.	(3)None
(4)Does the Company regularly evaluate its external auditors' independence?	✓		(4)The company conducts an annual evaluation of the independence of its auditors as required by regulations. The auditors are asked to provide an "independence statement" and are checked for any relationships with the company's directors, supervisors, or executives, ensuring that they are not related parties. The company then uses its own auditor evaluation form to assess the auditors' independence in 6 areas: self-interest, self-evaluation, advocacy, familiarity, coercion, and audit quality indicators. The evaluation results are submitted to the board of directors for review. The auditor independence evaluation items are detailed in Note 1.	(4)None.
4.Does the TWSE/TPEx listed company have in place an adequate number of qualified corporate governance officers and has it appointed a chief corporate governance officer with responsibility corporate governance best practices (including but not limited to providing information necessary for directors and supervisors to perform their duties, aiding directors and supervisors in complying with laws and regulations, organizing board meetings and annual general meetings of shareholders as required by law, and compiling minutes of board meetings and annual general meetings)?	✓		1.At the board meeting held on May 7, 2021, company passed a resolution to establish the position of corporate governance officer. This position is responsible for handling matters related to board of directors and shareholder meetings in accordance with the law, preparing minutes of board of directors and shareholder meetings, assisting directors in their appointment and continuing education, providing necessary information for directors to carry out their duties, assisting directors in complying with laws and regulations, and other matters as stipulated in the company's articles of incorporation or contracts. 2.The current corporate governance officer of the company is Vice President Chen Shih-En, who meets the statutory qualification requirements for a corporate governance officer and has over three years of experience serving as a financial officer in publicly traded companies. 3.The performance of the corporate governance officer in the year 2022 is as follows: (1)Board Performance Evaluation: The performance evaluation of the board of directors for the year 2022 has been completed in order to implement corporate governance and was submitted to the board of directors on March 21, 2023. (2)Regulation revision : In order to comply with the revised regulations of the competent authority, the Company revised and established various procedures, including the procedures for acquiring or disposing of assets, the regulations for board meetings, the internal control system and related operations, the detailed rules for the preparation of consolidated financial statements, and the procedures for processing significant internal information. (3)Corporate governance evaluation: The Company's ranking range in the 8th session of the 2021 corporate governance evaluation was between 66-80%. (4)Integrity management: All employees received integrity management year-end education and training in January 2022. (5)Communication with Investor：Shareholder's meeting was held on June 22, 2022, meeting notices, Proposals, and meeting minutes are prepared within the statutory deadline. Moreover, the Company held 9 board meetings in the year 2022, provided meeting materials and produced meeting minutes after each meeting. The Company promptly disclosed and announced significant information and decisions made by the board of directors. Overall, the Company has been transparent and diligent in keeping its investors informed. (7)Assist independent directors, general directors, and corporate governance executives in developing annual training plans and	None.

Evaluation Item	Implementation status			Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies" and reasons
	Yes	No	Summary Description	
			arranging relevant courses. As of December 2022, all directors have completed their training courses, and the corporate governance executive has also fulfilled the required hours of training as of April 2022. Company optimize the training plans continuously to ensure that the directors and corporate governance executives are up-to-date with their professional knowledge and skills. (8)Reporting system implementation: Company have established a "Code of Ethics and Confidentiality Agreement" that includes an independent reporting system such as a reporting mailbox or hotline. However, as of 2022, we have not received any reports or complaints.	
5.Has the Company established channels for communicating with its stakeholders (including but not limited to shareholders, employees, customers, suppliers, etc.) and created a stakeholders section on its company website? Does the Company appropriately respond to stakeholders' questions and concerns on important corporate social responsibility issues?	✓		The company has established effective communication channels with various stakeholders, such as customers, shareholders, partner banks, employees, suppliers, community, regulatory bodies, and others related to the company's interests. Additionally, the company website and annual report have a contact windows to address corporate social responsibility issues that stakeholders may be concerned about, and the company responds to these concerns after understanding them.	None.
6.Has the Company appointed a professional shareholder services agent to handle matters related to its shareholder meetings?	✓		Company appoints the Stoke Agency Department of China Trust Commercial Bank to handle shareholder meeting affairs.	None.
7.Information Disclosure				
(1)Has the Company established a corporate website to disclose information regarding its financials, business, and corporate governance status?	✓		(1)The company website has an investor relations section to disclose relevant public information and can also be accessed for this purpose. http://doc.chevalier.com.tw:8080/share.cgi?ssid=0vDAynQ	(1)None.
(2)Does the Company use other information disclosure channels (e.g., maintaining an English-language website, designating staff to handle information collection and disclosure, appointing spokespersons, webcasting investors conference etc.)?	✓		(2)The company's financial, business, and corporate governance information can be found on the Market Observation Post System(MPOS). The company has designated a person in charge of collecting and disclosing company information, and has implemented a spokesperson system. The process of the corporate briefing is also made available on the company's website.	(2)The establishment of an English website will depend on the company's development needs and legal requirements in the future.
(3)Does the company publish and report its annual financial report within two months after the end of the fiscal year, and publish and report its financial reports for the first, second, and third quarters as well as its operating statements for each month before the specified deadlines?		✓	(3)The company aims to provide investors with timely and accurate financial information. The annual financial report is submitted for approval by the Audit Committee and the Board of Directors within two months after the end of the fiscal year, and is announced on the same day of approval in Market Observation Post System (MOPS). The first, second, and third quarterly financial reports are also submitted for approval by Audit Committee and the Board of Directors, and are announced on the same day of approval in MOPS before the legal deadline. The monthly operating status of the company is also fully disclosed on the MOPS before the legal deadline.	(3)Depend on the company's development needs and legal requirements
8.Has the Company disclosed other information to facilitate a better understanding of its corporate governance best practices (including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' and supervisors' continuing education, the implementation of risk management policies and risk evaluation standards, the implementation of customer relations policies, and purchasing liability insurance for directors and supervisors)?	✓		(1) Employee rights: The company upholds the principles of integrity and social responsibility, while ensuring that the legal rights of employees are protected in compliance with labor laws. (2) Employee care: To promote employee satisfaction and engagement, the company offers a safety office, employee welfare committee, and labor-management committee, along with a range of education and training programs and welfare systems, aimed at building trust and mutual benefits. (3) Investor relations: The company has honored the stock agency department of China Trust Commercial Bank, as well as a dedicated shareholder services officer within the company, to handle any issues that may arise between the company and its shareholders. (4) Supplier Relationships: The company prioritizes the principles of equality and mutual benefit in its relationships with suppliers, fostering strong and collaborative partnerships. (5) Stakeholder Rights: The company has developed a "Code of Ethics" to regulate its stakeholders in accordance with the law. All stakeholders of the company uphold a strong sense of self-discipline and are able to recuse themselves from any conflicts of interest to ensure sound corporate governance. Stakeholders are entitled to communicate with the company and provide suggestions to protect their legitimate interests. (6) Continuing Education for Directors: The company periodically	None.

Evaluation Item	Implementation status			Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies" and reasons
	Yes	No	Summary Description	
			informs its directors of professional development courses organized by relevant organizations. In year 2022, the company's directors participated in professional development courses as shown in Table 1. Additionally, the directors regularly attend board meetings and provide valuable advice and guidance to the board. (7) Risk Management Policy and Standards Execution: The company has put in place several internal protocols and procedures, mandated by law, to evaluate and control relevant risks. (8) Execution of Customer Policies: The company has established a specialized customer service department to handle after-sales services and complaints. Furthermore, products are insured to safeguard the rights and interests of both purchasers and vendors. (9) To protect the directors' liabilities：Company has purchased a liability insurance policy from the Taiwan branch of American International Group, CHUBB on April 15, 2023. The policy covers a sum insured of USD 5 million and is valid for one year until April 15, 2024. (10) Managers of the company participated in training and development programs: In the year 2022, the managers of the company participated in training and development programs related to corporate governance and other relevant areas. The details of their participation are provided in Table 2.	
9.Please describe improvements that have already been made based on the Corporate Governance Evaluation results released for the most recent fiscal year by the Corporate Governance Center, Taiwan Stock Exchange, and specify the priority enhancement objectives and measures planned for any matters still awaiting improvement. (If the Company was not included among the companies evaluated for the given recent year, this item does not need to be completed.)		✓	Please refer to the following table (Table 3) for details.	

Note 1:Independent auditor's evaluation items.

Evaluation Item		Does it comply with independence
Self Interest	1.Direct or significant indirect financial relationship with the company	Yes
	2.Financing or guarantee transactions with the company or its directors and supervisors	Yes
	3.Assessment of the possibility of customer attrition	Yes
	4.Close business connection with company	Yes
	5.Potential Employment Relationship with company	Yes
	6.Related to audit cases or involve public expenses	Yes
Self-Evaluation	1.Members of the audit committee who have served as directors, officers or employees of the company, or held significant positions that could affect the audit cases, either currently or within the past two years	Yes
	2.The non-audit services provided to the Company will directly impact significant areas of the audit engagement	Yes
	3.Not obtained independent statements from accountants on a regular basis	Yes
Defense	1.Promoting or brokering the stocks or other securities issued by the Company	Yes
	2. Acting as a defense counsel for the Company or representing the Company to resolve conflicts with third parties	Yes
Familiarity	There is a familial relationship with individuals who hold positions as directors, supervisors, managers, or those who have a significant impact on the audit engagement with the Company	Yes
	A former co-auditor who has resigned within one year has taken a significant position as a director, supervisor, executive, or in a role that significantly affects the audit engagement of the Company	Yes
	Accepting significant gifts or presents from the Company, its directors, or employment	Yes
	Serving as an auditor for 7 consecutive years.	Yes
Coercion	Requesting the accountant to accept inappropriate choices in accounting policies or improper disclosures in financial statements made by management.	Yes
	To reduce fees, pressuring the accountant to improperly reduce necessary audit procedures.	Yes
Audit Quantity Indicators	First dimension: Professionalism	Yes
	Second dimension: Quality Checking	Yes
	Third dimension：Independence	Yes
	Fourth dimension：Supervision	Yes
	Fifth dimension： Innovative Capability	Yes

Table 1:Directors' Continuing Education in 2022

Title	Name	Study period		Sponsoring Organization	Course	Training Hours
		From	To			
Director	Lin, Tsung-Lin	2022/12/06	2022/12/06	Accounting Research and Development Foundation	Revised "Internal Control Processing Standards Revision" and Best Practices for Compliance and Anti-Fraud Measures in "Information Security"	6.0
Director	Tung, Shang-Yu	2022/12/05	2022/12/05	Accounting Research and Development Foundation	Common deficiencies in the preparation of corporate financial reports and the best practices for compliance with internal audit and internal control regulations	6.0
		2022/12/06	2022/12/06		Latest updates on the "Internal Control Processing Standards" and the best practices for compliance with the "Information Security" laws to prevent fraud	6.0
Director	Lin, Yi-Zhen	2022/11/29	2022/11/30	Securities & Futures Institute	The practical training program for directors, supervisors (including independent supervisors), and corporate governance executives	12.0
Director	Zhang, Yu-Xin	2022/12/05	2022/12/05	Accounting Research and Development Foundation	Common deficiencies in the preparation of corporate financial reports and the best practices for compliance with internal audit and internal control regulations	6.0
		2022/12/06	2022/12/06		Latest updates on the "Internal Control Processing Standards" and the best practices for compliance with the "Information Security" laws to prevent fraud	6.0
Independent Director	Wu, Zhi-Chi	2022/07/11	2022/07/11	Accounting Research and Development Foundation	Understanding the latest trends in ESG and TCFD reporting is crucial for companies to effectively address sustainability and climate risk	3.0
		2022/09/21	2022/09/21	CPA Associations R.O.C(Taiwan)	The trends and solutions for carbon management towards achieving Net-Zero emissions	3.0
Independent Director	Gong, Xin-Jie	2022/12/02	2022/12/02	Taiwan Corporate Governance Association	The position and role of directors are changing in response to the ESG	3.0
		2022/12/06	2022/12/06		Understanding financial statements is essential for effectively monitoring and managing a company's operations.	3.0
Independent Director	Chen, Feng-Yun	2022/12/14	2022/12/14	Taiwan Corporate Governance Association	Exploring case studies of financial statement fraud in company.	3.0
		2022/12/14	2022/12/14		Discusses the challenges and opportunities related to sustainable development, as well as provides an introduction to greenhouse gas inventory	3.0

Table 2:Participation of Company Managers in Governance-Related Education and Training in 2022:

Title	Name	Course	Study period	Sponsoring Organization	Training Hours
General Manager	Tung, Shang-Yu	Common deficiencies in the preparation of corporate financial reports and the best practices for compliance with internal audit and internal control regulations	2022/12/05	Accounting Research and Development Foundation	6.0
		Latest updates on the "Internal Control Processing Standards" and the best practices for compliance with the "Information Security" laws to prevent fraud	2022/12/06		6.0
Financial and Accounting Executive and Deputy General Manager	Pei, Yu-Wen	The practical training program for directors, supervisors (including independent supervisors), and corporate governance executives	2022/08/30 2022/08/31	Securities & Futures Institute	12.0
Corporate Governance Executive and Deputy General Manager	Chen, Shih-en	Trends in the Development of the Green Industry - Low-Carbon Investment Prospects and Responses to Business Strategy.	2022/03/22	Taiwan Corporate Governance Association	3.0
		Practical Analysis of the Latest Corporate Governance Policies and Corporate Governance Evaluation	2022/03/29	Accounting Research and Development Foundation	3.0
		Supervision of Directors, Supervisors, and Senior Executives on ESG Implementation in Companies	2022/04/18	Accounting Research and Development Foundation	3.0
		Net Zero Emissions, Carbon Neutrality, and Corporate Compliance with Regulations	2022/04/22	Taiwan Corporate Governance Association	3.0

Table 3:Explanation of improved situations in the 9th Corporate Governance Evaluation (Year 2022), as well as priority areas and measures to be strengthened for those that have not yet improved.

Item	Indicator content	Improved or not	Explanation of Not Yet Improved
1.1	Does the company report to shareholders' meetings on directors' remuneration, including remuneration policy, individual remuneration content and amounts?	NO	There are currently insufficient internal and external resources
1.6	Has the company held its annual shareholders' meeting by the end of May?	NO	There are currently insufficient internal and external resources
2.1	Does the company disclose its corporate governance guidelines?	NO	There are currently insufficient internal and external resources
2.7	Is the number of independent directors on the board is more than half of the total number of directors?	NO	There are currently insufficient internal and external resources
2.9	Does the company have a succession plan for the board members and key management personnel, and disclose its implementation status on the company's website or annual report?	NO	Improvement expected by 2024
2.14	Does the company have a functional committee other than those required by law, consisting of at least three members, more than half of whom are independent directors, with at least one member possessing the necessary professional expertise for the committee, and disclose its composition, responsibilities, and operating status on the company website or annual report?	NO	There are currently insufficient internal and external resources
2.22	Does the company have a board-approved risk management policy and procedures, which disclose the scope of risk management, organizational structure, and their operation, and report to the board at least once a year?	NO	There are currently insufficient internal and external resources
2.23	Does the board performance evaluation methodology established by the company been approved by the board of directors, with a requirement to conduct external evaluations at least once every three years? Has such an evaluation been conducted in the current or past two fiscal years, and has the progress and results of the evaluation been disclosed on the company website or in the annual report?	NO	There are currently insufficient internal and external resources
2.27	Does the company established an intellectual property management plan that is linked to its business objectives, and disclosed its implementation status on the company website or annual report, as well as reported to the board of directors at least once a year?	NO	There are currently insufficient internal and external resources
2.30	Does the company have at least one internal auditor with professional certifications such as Certified Internal Auditor, Certified Information Systems Auditor, or Certified Public Accountant?	NO	There are currently insufficient internal and external resources
3.2	Does the company simultaneously disclose significant information in English?	NO	Improvement expected by 2024
3.4	Does company are required to publish their annual financial reports within two months after the end of their year?	NO	There are currently insufficient internal and external resources
3.6	Does the company disclose its interim financial statements (including financial statements and notes) in English on its website or on the Market Observation Post (MOPS)?	NO	There are currently insufficient internal and external resources
3.10	Has the company's financial report been approved by the board of directors or submitted to the board for review at least 7 days before the deadline for disclosure, and has the financial report been disclosed on the same day of approval or the following day of submission?	NO	There are currently insufficient internal and external resources
3.18	Does the company have an English corporate website that includes information on finance, business, and corporate governance?	NO	Improvement expected by 2024
3.20	Has the company been invited or conducted at least two investor conferences in the evaluation year, and is there a gap of at least three months between the first and last conferences of the evaluation year?	NO	There are currently insufficient internal and external resources
4.1	Has the company established a full-time or part-time corporate social responsibility (CSR) promotion unit to conduct risk assessments on environment, social or corporate governance issues related to the company's operations, and to develop risk management policies or strategies in accordance with important principles, and disclose such information on the company's website and annual report?	NO	Improvement expected by 2024
4.2	Does the company establish a dedicated or part-time unit to promote corporate social responsibility and ethical business best practices, and disclose the operation and implementation of the unit in the annual report and on the company website, and report regularly to the board of directors?	NO	Improvement expected by 2024
4.3	Does the company regularly disclose its specific plans and implementation results for corporate social responsibility in its annual report and company website?	NO	Improvement expected by 2024
4.7	Has the company published an English version of its sustainability report on the Public Information Observation System (PIOS) and the company's website?	NO	There are currently insufficient internal and external resources
4.12	Has the company formulated policies for energy conservation, carbon reduction, greenhouse gas reduction, water reduction, or waste management?	NO	Improvement expected by 2024
4.13	Has the company obtained ISO 14001, ISO 50001, or similar environmental or energy management system certifications?	NO	Expected to take place in 2024.
4.17	Has the company disclosed its supplier management policy on its website or in its CSR report, which requires suppliers to comply with relevant regulations on environmental protection, occupational safety and health, or labor rights, and provided information on the status of implementation?	NO	There are currently insufficient internal and external resources
4.18	Do you disclose information related to the company's governance of climate-related risks and opportunities, strategies, risk management, metrics and targets according to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) framework?	NO	There are currently insufficient internal and external resources

3.4.4.Composition, Responsibilities and Operations of the Remuneration Committee on August 25, 2011, the company established a "Remuneration Committee" and created the "Remuneration Committee Organization Regulations". The purpose of this committee is to assist the Board of Directors in formulating and regularly reviewing policies, systems, standards, and structures for evaluating the performance and remuneration of directors and executives. The committee also conducts regular evaluations and sets remuneration for directors and executives

I.Member of Remuneration Committee

Date: 2023/04/23

Job Title	Qualification / Name	Professional Qualifications and Experience	Independence Analysis	Number of other public companies at which the person concurrently serves as remuneration committee member
Independent Director (Convener)	Wu, Zhi-Chi	· Possesses working experience in commerce, legal person, finance, accounting, or corporate business operations. · Graduated from the Accounting Department of Shih Chien University and obtained CPA certification. · Serving as the Managing of Cometrue Consulting Limited 、Independent Director of Global View Co. Ltd. and Independent Director of Cen Link Co. Ltd · None of the circumstances specified in Article 30 of the Company Act apply.	· Remuneration Committee member meets the independence criteria: 。 · The independent director, their spouse, and second-degree relatives have not served as directors, supervisors, or employees of our company or other related enterprises; they do not hold shares of our company and do not serve as directors, supervisors, or employees of specific related companies. · The independent director has not provided any business, legal, financial, accounting or other services to our company or any of our related enterprises in the past two years.	2
Independent Director	Gong, Xin-Jie	· Possesses working experience in commerce, legal person, finance, accounting, or corporate business operations. · Graduated with a Master of Laws degree from the University of Minnesota Law School, and obtained a Bachelor of Laws degree from National Chengchi University. Also obtained a lawyer's certificate. · Lawyer at Global Network Commerce Legal. · None of the circumstances specified in Article 30 of the Company Act apply.	· Remuneration Committee member meets the independence criteria: 。 · The independent director, their spouse, and second-degree relatives have not served as directors, supervisors, or employees of our company or other related enterprises; they do not hold shares of our company and do not serve as directors, supervisors, or employees of specific related companies. · The independent director has not provided any business, legal, financial, accounting or other services to our company or any of our related enterprises in the past two years.	0
Independent Director	Chen, Feng-Yun	· Possesses working experience in commerce, legal person, finance, accounting, or corporate business operations. · Graduated with a Ph.D. in economics from Xiamen University and an EMBA degree from National Chengchi University. · Former lecturer at the Listing and Business Department of the Taiwan Securities and Futures Bureau. · Current Independent Director of Sea Mild Biotech · None of the circumstances specified in Article 30 of the Company Act apply.	· Remuneration Committee member meets the independence criteria: 。 · The independent director, their spouse, and second-degree relatives have not served as directors, supervisors, or employees of our company or other related enterprises; they do not hold shares of our company and do not serve as directors, supervisors, or employees of specific related companies. · The independent director has not provided any business, legal, financial, accounting or other services to our company or any of our related enterprises in the past two years.	1

II.Operations of the Remuneration Committee

The committee operates in accordance with the company's "Remuneration Committee Organization Regulations," which stipulate that at least two regular meetings must be held each year.

(1)The sixth of Remuneration Committee has a total of 3 members.

(2)The original term of the fifth audit committee was from July 7, 2021 to July 6, 2013, but it was dismissed on October 21, 2022 due to the overall director election. In the year 2022, the fifth audit committee held a total of 2 meetings. The sixth audit committee's term runs from October 21, 2022 to October 20, 2025. In the year 2022, the sixth audit committee held 1 meeting, and the attendance of each committee member is as follows:

<table>
<tr><th>Title</th><th>Name</th><th>No. of meetings attended in person</th><th>No. of meetings attended by proxy</th><th>In-person attendance rate (%)</th><th>Remarks</th></tr>
<tr><td>Convenor</td><td>Wu, Zhi-Chi</td><td>1</td><td>0</td><td>100</td><td rowspan="3">The sixth</td></tr>
<tr><td>Member</td><td>Gong, Xin-Jie</td><td>1</td><td>0</td><td>100</td></tr>
<tr><td>Member</td><td>Chen, Feng-Yun</td><td>1</td><td>0</td><td>100</td></tr>
<tr><td>Convenor</td><td>Tsai Zhen-teng</td><td>2</td><td>0</td><td>100</td><td rowspan="3">The fifth</td></tr>
<tr><td>Member</td><td>Peng Quan</td><td>2</td><td>0</td><td>100</td></tr>
<tr><td>Member</td><td>Liao Shu-zhong</td><td>2</td><td>0</td><td>100</td></tr>
</table>

The discussion topics and resolution results of the remuneration committee, as well as the company's handling of members' opinions.

Date: 2022/12/31

<table>
<tr><th>Remuneration Committee
Term
Date of meeting</th><th>Board of Directors
Term
Date of meeting</th><th>Proposal</th><th>Resolution</th></tr>
<tr><td rowspan="3">5th Session
1st meeting
2022/01/21</td><td rowspan="3">8th Session
4th meeting
2022/03/25</td><td>The distribution of year-end bonuses for managers and general employees in year 2021</td><td rowspan="5">Remuneration Committee:
All relevant proposals were approved by the attending committee members and submitted to the board of directors for resolution

Board of Directors:
Approved by all attending directors</td></tr>
<tr><td>Salary adjustment plan for the year 2022</td></tr>
<tr><td>Estimated proposal for director and employee remuneration in year 2022</td></tr>
<tr><td>5th Session
2nd meeting
2022/03/25</td><td>8th Session
4th meeting
2022/03/25</td><td>Bonuses of Employees and Directors in year 2021</td></tr>
<tr><td>6th Session
1st meeting
2022/11/08</td><td>9th Session
2nd meeting
2022/11/08</td><td>Remuneration proposal for newly appointed managers</td></tr>
</table>

Other information required to be disclosed:

The remuneration committee resolved with no objections or reservations from members and no records or written statements.

III.Scope of authority of the Remuneration Committee.

The committee shall exercise due care of a good administrator and faithfully perform the following duties, and submit its recommendations to the Board for discussion:

(1)The Remuneration Committee should regularly review its organizational regulations and provide suggestions for any necessary amendments.

(2)Develop and periodically review the performance evaluation criteria, annual performance goals, and policies, systems, standards, and structures of the Directors and senior executives' remuneration and disclose the content of the performance evaluation criteria in the annual report.

(3)Periodically evaluate the achievement of performance goals for the Company's Directors and senior executives, and based on the evaluation results obtained from the performance evaluation criteria, determine the content and amount of their remuneration. The remuneration of the Directors and senior executives shall be disclosed in the annual report in accordance with the regulations.

3.4.5. Promotion of Sustainable Development – Implementation Status and Deviations from the Sustainable Development Best Practice Principles for TWSE/TPEx Listed Companies and the Reasons

Evaluation Item	Implementation Status			Deviations from the Sustainable Development Best Practice Principles for TWSE/TPEx Listed Companies and the Reasons
	YES	NO	Summary Description	
1.Has the Company established a governance framework for promoting sustainable development, and established an exclusively (or concurrently) dedicated unit to be in charge of promoting sustainable development? Has the board of directors authorized senior management to handle related matters under the supervision of the board?	✓		The company established the ESG Sustainable Management Project Team on March 21, 2022, with the Corporate Governance Officer serving as the project leader. The team comprises part-time units from different functions, including marketing, research and development, finance, and quality assurance, and reports on its execution status to the board of directors every quarter. In addition, the board of directors regularly listens to relevant reports on operations, finance, corporate governance, and sustainability issues, providing extensive and professional opinions based on the members' diverse experiences to assist the company in making appropriate decisions and formulating clear strategic directions.	None
2.Does the company conduct risk assessments of environmental, social and corporate governance (ESG) issues related to the company's operations in accordance with the materiality principle, and formulate relevant risk management policies or strategies?		✓	The company has not yet established a dedicated unit for promoting corporate social responsibility. However, it has tasked the Management Center and Human Resources department with promoting CSR on a part-time basis. In the future, relevant risk strategies will be formulated according to operational needs.	None
3.Environmental Issues				
(1)Has the Company set an environmental management system designed to industry characteristics?	✓		(1)The company has tasked the General Management Division with implementing related environmental operations and ensuring control of the ISO 14001 environmental management system	(1)None
(2)Does the Company endeavor to use energy more efficiently and to use renewable materials with low environmental impact?	✓		(2)Company actively promotes paperless and electronic office environment, and implements policies for recycling waste paper. The entire factory enforces a waste classification and resource recovery system, including the recycling of lubricating oil, to enhance environmental awareness towards green initiatives。	(2)None
(3)Has the Company evaluated the potential risks and opportunities posed by climate change for its business now and in the future and adopted relevant measures to address them?	✓		(3)Actively implementing energy-saving and carbon reduction operations, such as turning off lights when not in use, creating a paperless office environment, planting trees in open spaces, and using energy-efficient lighting in office buildings and data centers, to mitigate global warming.	(3)None
(4)Did the company collect data for the past two years on greenhouse gas emissions, volume of water consumption, and the total weight of waste, and establish policies for greenhouse gas reduction, reduction of water consumption, or management of other wastes?	✓		(4)The company is a waste electronic and electrical equipment processing plant and follows the guidelines set forth in the "Audit and Certification Procedures for Waste Recovery, Removal, and Treatment" issued by the Environmental Protection Administration. The company contributes to the circular economy, renewable energy, and corporate social responsibility. In 2021, the company consumed 1,302,019 kg CO_2 and in 2022, it consumed 1,724,475 kg CO_2 (only considering electricity usage). Water consumption was 17,431 degrees in 2021 and 12,290 degrees in 2022. As for waste management, 720 tons were generated in 2021 and 600 tons were generated in 2022.	(4)None
4.Social Issues				
(1)Has the company formulated relevant management policies and procedures in accordance with relevant laws and regulations and international human rights conventions?	✓		(1)The company has established personnel management rules and employee work rules in accordance with relevant labor laws such as the Labor Standards Act, and has handled employee labor insurance, national health insurance, and retirement benefits in accordance with related regulations. In addition, the company has established the "Measures for the Prevention and Punishment of Sexual Harassment" in accordance with the Sexual Harassment Prevention Act and the Gender Equality in Employment Act, to provide employees with a work and service environment free from sexual harassment.	(1)None
(2)Has the Company established and implemented reasonable employee welfare measures (include salary/compensation, leave, and other benefits), and are business performance or results appropriately reflected in employee salary/compensation?	✓		(2)The employee remuneration policy of the company is based on individual abilities, contributions to the company, performance, competitiveness, and consideration of future operational risks. According to the company's articles of incorporation, if the company earns profits in a fiscal year, 2% should be allocated for employee remuneration. The allocation is decided by the board of directors and can be distributed in the form of stocks or cash to eligible employees, including those from subsidiary companies. The board of directors may also allocate up to 5% of the profit for director and supervisor remuneration.	(2)None
(3)Does the Company provide employees with a safe and healthy working environment, and implement regular safety and health education for employees?	✓		(3)Company follows regulations and laws related to occupational safety and health to provide necessary safety and health education, disaster prevention training, and health management for our employees. Emergency escape routes and exits are set up in the office, and elevator equipment is regularly maintained. Additionally, fire-fighting facilities are available in the workplace, and fire drills, disinfection and cleaning of the work environment, and water quality testing are regularly conducted. Access control	(3)None

<table>
<tr><th rowspan="2">Evaluation Item</th><th colspan="3">Implementation Status</th><th rowspan="2">Deviations from the Sustainable Development Best Practice Principles for TWSE/TPEx Listed Companies and the Reasons</th></tr>
<tr><th>YES</th><th>NO</th><th>Summary Description</th></tr>
<tr><td></td><td></td><td></td><td>measures are also implemented to ensure the safety of employees. Other measures to protect the personal safety of employees are carried out in accordance with labor-related regulations and various internal welfare protection measures of the company. Regular health check-ups are also provided to employees to show the company’s concern for their physical health.</td><td></td></tr>
<tr><td>(4)Has the Company established effective career development training programs for employees?</td><td>✓</td><td></td><td>(4)All departments of the company cooperate with external training to enhance their professional skills according to their job responsibilities. We provide comprehensive and diverse resources to assist our colleagues in continuously improving their knowledge and broaden their horizons. Building a complete and diversified career development path is our continuous effort.</td><td>(4)None</td></tr>
<tr><td>(5)Does the company comply with the relevant laws and international standards with regards to customer health and safety, customer privacy, and marketing and labeling of products and services, and implement consumer protection and grievance policies?</td><td>✓</td><td></td><td>(5)Our company highly values customer feedback and takes various measures to gather it, such as attending exhibitions and visits, providing product complaint contact channels and email, and conducting customer satisfaction surveys. These efforts help us understand how customers perceive our company, and the feedback we receive helps to strengthen our relationship with customers and achieve mutual benefits.</td><td>(5)None</td></tr>
<tr><td>(6)Has the company formulated supplier management policies requiring suppliers to comply with relevant regulations on issues such as environmental protection, occupational safety and health, or labor rights, and what is the status of their implementation?</td><td>✓</td><td></td><td>(6)As a company providing environmental protection services such as waste removal and treatment, we have a positive impact on the environment and society. However, since we do not handle chemical waste that has a significant impact on the environment, we do not include relevant terms in our supplier contracts. We have integrated the concepts and management indicators of sustainable development management into our supplier management system, incorporating requirements for social responsibility, environmental responsibility, and occupational health and safety, to establish a high-quality supply chain management system.</td><td>(6)None</td></tr>
<tr><td>5.Does the company refer to international reporting standards or guidelines when preparing its sustainability report and other reports disclosing non-financial information? Does the company obtain third party assurance or certification for the reports above?</td><td></td><td>✓</td><td>The company has not yet prepared a sustainability report, but will consider timely preparation based on international trends and market changes.</td><td>Nones, but the company still takes a proactive approach to corporate social responsibility in areas such as product quality, labor safety and welfare, environmental protection, social welfare and services, and consumer rights.</td></tr>
<tr><td colspan="5">6.If the Company has adopted its own sustainable development best practice principles based on the Sustainable Development Best Practice Principles for TWSE/TPEx Listed Companies, please describe any deviation from the principles in the Company’s operations:
As of now, the company has not officially established its own sustainability guidelines. However, we are committed to the principles of corporate social responsibility, including contributing to society, being a part of society, sustainable management, and actively operating in areas such as product quality, occupational safety and welfare, environmental protection, social welfare and services, and consumer rights.</td></tr>
<tr><td colspan="5">7.Other important information to facilitate better understanding of the company’s promotion of sustainable development:
1. The company places great emphasis on environmental protection and green awareness, and therefore incorporates and implements the spirit of ISO 14001 environmental management system into its daily operations. It regularly and irregularly promotes and implements relevant environmental protection measures through various management practices.
2. To ensure employee rights, welfare, and safety, the company has established a labor welfare committee and set up a workplace safety office.
3. The company has built a community temple in the Chuansing Industrial Park to provide a religious site for local residents, while also continuously donating to social welfare organizations and caring for vulnerable groups. In addition, the company organizes various activities in the name of the founder, Chairman Zhang, Shao-Quan's scholarship fund to give back to the community.
4. The company regularly collaborates with blood donation centers to organize a company-wide blood donation drive about once every quarter, and encourages employees to actively participate in various social welfare activities.
5. The company has established an application and service department to provide various services to customers before, during, and after sales, and to address complaints to ensure the rights and interests of both buyers and sellers.
6. The company has established "Related Party Transaction Management Procedures" in its internal control system, strictly requiring all related parties to avoid situations of conflicts of interest.
7. The company allocates funds annually to participate in the Child Sponsorship Program of the Children's Hope Foundation by sponsoring two children
8. By implementing proposal improvement activities and carrying out energy-saving and waste-reducing activities, the company has achieved significant results, such as recycling and reusing waste iron generated from larger products to produce smaller products. The air conditioners used in the production process and office areas use recycled water, and the wastewater is recycled and reused, which has achieved remarkable results and helped improve the quality of water environment. The company has also installed recycling devices in the processing area to recycle waste iron.
9. By implementing 5S environmental and safety operations, the company has established cross-departmental employee representatives to conduct periodic inspections of the on-site environment and safety and remind of unsafe behaviors and investigate false alarms. In addition, each unit's employees take turns to conduct monthly safety and health education and promotional activities in order to cultivate employee's autonomous safety behavior. Furthermore, the company introduced the FPS autonomous research and management activity in 2008 and is currently carrying out factory process improvement activities, aiming to achieve smooth, automated, and efficient processes in the future, reduce employee labor and fatigue.</td></tr>
</table>

3.4.6.Climate-related information of TWSE/TPEx Listed Company

Item	Implementation Status
1. Describe the board of directors' and management's oversight and governance of climate-related risks and opportunities. 2. Describe how the identified climate risks and opportunities affect the business, strategy, and finances of the business (short, medium, and long term). 3. Describe the financial impact of extreme weather events and transformative actions. 4. Describe how climate risk identification, assessment, and management processes are integrated into the overall risk management system. 5. If scenario analysis is used to assess resilience to climate change risks, the scenarios, parameters, assumptions, analysis factors and major financial impacts used should be described. 6. If there is a transition plan for managing climate-related risks, describe the content of the plan, and the indicators and targets used to identify and manage physical risks and transition risks. 7. If internal carbon pricing is used as a planning tool, the basis for setting the price should be stated. 8. If climate-related targets have been set, the activities covered, the scope of greenhouse gas emissions, the planning horizon, and the progress achieved each year should be specified. If carbon credits or renewable energy certificates (RECs) are used to achieve relevant targets, the source and quantity of carbon credits or RECs to be offset should be specified. 9. Greenhouse gas inventory and assurance status (separately fill out in point 1-1 below).	The company has not yet reached disclosure standards.

3.4.6.1.Greenhouse Gas Inventory and Assurance Status

Basic information of the Company	Minimum required disclosure under the Sustainable Development Roadmap for TWSE/TPEx Listed Companies:
☐Capital of NT$10 billion or more, iron and steel industry, or cement industry ☐Capital of NT$5 billion or more but less than NT$10 billion ☑Capital of less than NT$5 billion	☐Individual inventory of the parent company ☐Consolidated financial statement subsidiary audit ☐Individual Assurance of the Parent Company ☐Confirmation of subsidiaries' financial statements for consolidation ☑The company has not yet met the disclosure standards required.

Scope 1	Total Emissions (Metric tons CO2e)	Intensity (Metric tons CO2e /NT$ 1 million dollar)	Assurance Body	Description of assurance status
Parent	-	-	-	Company has not yet reached the disclosure standards required
Subsidiary(ies)	-	-		
Total	-	-		
Scope 2	Total Emissions (Metric tons CO2e)	Intensity (Metric tons CO2e /NT$ 1 million dollar)	Assurance Body	Description of assurance status
Parent Company	-	-	-	Company has not yet reached the disclosure standards required
Subsidiaries	-	-		
Total	-	-		
Scope 3	Company has not yet reached the disclosure standards required			

3.4.7.Ethical Corporate Management - Implementation Status and Deviations from the Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies and the Reasons

Evaluation Item	Implementation Status			Deviations from the Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies and the Reasons
	Yes	No	Summary Description	
1.Establishment of ethical corporate management policies and programs				
(1)Does the company have an ethical corporate management policy approved by its Board of Directors, and bylaws and publicly available documents addressing its corporate conduct and ethics policy and measures, and commitment regarding implementation of such policy from the Board of Directors and the top management team?		✓	(1)Company has already established a code of ethics and an employee code of conduct. The Board of Directors and management carry out their duties with prudence in conducting business. Additionally, the company's internal audit department conducts periodic checks.	While the company has not yet formally established a business integrity policy or a code of conduct, the management team has always upheld high moral standards in managing the company and colleagues. The company operates based on the belief of business integrity and sustainable development, and therefore, its spirit is no different from that of other listed companies
(2)Whether the company has established an assessment mechanism for the risk of unethical conduct; regularly analyzes and evaluates, within a business context, the business activities with a higher risk of unethical conduct; has formulated a program to prevent unethical conduct with a scope no less than the activities prescribed in Article 7, paragraph 2 of the Ethical Corporate Management Best Practice Principles for TWSE/TPE Listed Companies?		✓	(2)Company has established and implemented a code of ethics and a code of conduct for employees.	
(3)Does the company clearly set out the operating procedures, behavior guidelines, and punishment and appeal system for violations in the unethical conduct prevention program, implement it, and regularly review and revise the plan?		✓	(3)The company has currently established a code of ethics and a code of conduct for employees, and is implementing them.	
2.Ethical Management Best Practice				
(1)Does the company assess the ethics records of those it has business relationships with and include ethical conduct related clauses in the business contracts?	✓		(1)The company includes clauses related to business integrity in all commercial contracts to safeguard the rights and obligations of both parties.	None.
(2)Has the company set up a dedicated unit to promote ethical corporate management under the board of directors, and does it regularly (at least once a year) report to the board of directors on its ethical corporate management policy and program to prevent unethical conduct and monitor their implementation?	✓		(2)The company has established a specialized unit under the General Management Department to promote business integrity. The Board of Directors will be informed of the company's integrity policies, measures to prevent dishonest behavior, and their implementation at least once a year. The Board of Directors and Supervisors will collaborate in overseeing these efforts.	
(3)Has the company established policies to prevent conflict of interests, provided appropriate communication and complaint channels, and properly implemented such policies?	✓		(3)The company will task the General Management Department to establish a reporting channel for conflicts of interest. The company's code of ethics and employee code of conduct already contain provisions to prevent conflicts of interest. In addition, the company will soon develop operating procedures and behavioral guidelines for promoting business integrity.	
(4)Does the company have effective accounting and internal control systems in place to enforce ethical corporate management? Does the internal audit unit follow the results of unethical conduct risk assessments and devise audit plans to audit compliance with the systems to prevent unethical conduct or hire outside accountants to perform the audits?	✓		(4)Company has established effective accounting and internal control systems in accordance with regulations, and implemented relevant provisions. Internal auditors also conduct audits and prepare reports in accordance with relevant regulations.	
(5)Does the company provide internal and external ethical corporate management training programs on a regular basis?	✓		(5)The company has established and implemented a code of ethics and employee code of conduct, and reinforced communication with directors, supervisors, and employees in every morning meeting following each board meeting and at least every two days.	
3.Implementation of Complaint Procedures				
(1)Has the company established specific whistle-blowing and reward procedures, set up conveniently accessible whistle-blowing channels, and appointed appropriate personnel specifically responsible for handling complaints received from whistle-blowers?	✓		The Company has instructed the General Management Department to establish regulations and procedures related to the reporting channel for violations of the Code of Conduct and the operation of disciplinary and appeal systems.	None.
(2)Has the company established standard operation procedures for investigating the complaints received, follow-up measures taken after investigation, and mechanisms ensuring such complaints are handled in a confidential manner?	✓			
(3)Has the company adopted proper measures to protect whistle-blowers from retaliation for filing complaints?	✓			
4.Strengthening Information Disclosure				
(1)Does the company disclose its ethical corporate management policies and the results of their implementation on its website and the Market Observation Post System (MOPS)?	✓		This company has disclosed relevant information on its website and the Public Information Observation System in accordance with the requirements for publicly traded companies (over-the-counter companies).	None
5.If the company has adopted its own ethical corporate management best practice principles based on the Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies, please describe any deviations between the principles and their implementation: The Company has not yet formally established a Code of Conduct or a set of guidelines for ethical business best practices. However, the management team has always been committed to managing the company and its employees with high ethical standards, and operates the company based on the principles of integrity and sustainable development. Therefore, its spirit is no different from that of other listed companies that have established their				

Evaluation Item	Implementation Status			Deviations from the Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies and the Reasons
	Yes	No	Summary Description	
own Code of Conduct based on the Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies.				
6.Other important information to facilitate a better understanding of the status of operation of the company's ethical corporate management policies (e.g., the company's reviewing and amending of its ethical corporate management best practice principles): 1. Compliance with laws and regulations: Company has always adhered to and complied with relevant government laws, regulations, and policies. Systems, regulations, and procedures have been established in accordance with the requirements of the competent authorities (such as codes of ethics, internal trading prevention management procedures, rules on the scope of the duties of supervisors, and internal management systems) to regulate the interests of stakeholders and ensure that we conduct business with integrity and sustainable development. 2. Social Responsibility: The company is actively engaged in various social responsibility initiatives, despite not having established a specific policy or system for corporate social responsibility. For more information on our efforts, please refer to section (VI) on our social responsibility practices 3. Information Disclosure: The company has established clear accounting and internal control systems in compliance with legal requirements. These systems are regularly audited by external auditors and internal auditors, who issue relevant audit reports, financial statements, and internal control statements as required for investor reference and regulatory oversight. Additionally, company has disclosed relevant information on the Public Information Observation System and our company website (http://doc.chevalier.com.tw:8080/share.cgi?ssid=0vDAynQ) in accordance with the obligations of publicly listed companies on the Over-the-Counter Market. 4. Remuneration: The company's director and supervisor remuneration and employee bonuses are clearly stipulated in Articles 24-1 and 28 of the company's bylaws. They are determined based on the company's operating status and industry norms, and relevant information on remuneration and dividends is disclosed in the annual report and on the Public Information Observation System. In compliance with regulatory requirements, the company established a Remuneration Committee on October 25th, 2011, to determine the remuneration levels for directors, supervisors, and executives, and to establish policies, systems, standards, and structures for the company's remuneration. The committee bases its decisions on the company's bylaws, operating status, and industry norms. 5. Corporate Governance: The company currently does not have a formal "Corporate Governance Best Practice Guidelines," but it does adhere to the provisions and principles of the "Corporate Governance Best Practice Guidelines for Listed and Over-the-Counter Companies." Please refer to section (IV) of the company's corporate governance operations for more information on its best practices and differences with the guidelines. 6. Integrity Operating Guidelines and Code of Conduct: Although the company has not yet formally established a "Code of Ethics and Conduct Guidelines," the company's management and administrative departments are responsible for promoting ethical business best practices and have established relevant regulations and conducted related training. For over forty years, the management team and colleagues of the company have been managed under high moral standards, and the company has been operated with the belief in ethical business best practices and sustainable development. This has allowed the company to overcome various crises and establish a prominent position in the machine tool industry. Moving forward, the company's management and all colleagues will scrutinize themselves with even higher moral standards to ensure ethical business best practices and achieve the company's management philosophy of "Prudent operation, striving for excellence, international reputation, and shared prosperity."				

3.4.8.If the company has established corporate governance guidelines and related regulations, the method for accessing them should be disclosed on the company's website:

The company has not yet established its own corporate governance guidelines, but it still operates in compliance with the relevant regulations. The method for accessing these regulations should be disclosed on the company's website. Furthermore, the company has developed its own regulations for corporate governance based on its specific needs. These regulations cover various aspects, including rules for shareholder meetings, board meetings, election of directors and supervisors, the scope of authority for supervisors and independent directors, procedures for handling internal significant information, procedures for acquiring or disposing of assets, procedures for endorsing and guaranteeing, procedures for engaging in derivative trading, procedures for lending funds to others, codes of ethics, employee codes of conduct, internal audit organization and operation, management procedures for preventing insider trading, and regulations for the organization of the remuneration committee, among others. In addition to disclosing these regulations in accordance with the rules and regulations of the competent authority on the Public Information Observation System/Corporate Governance Zone/related regulations on corporate governance, the company also discloses detailed information on its official website's investor relations zone/corporate governance zone/rules and regulations related to corporate governance.

3.4.9.Other important information that can enhance understanding of the company's governance practices includes:

1. In addition to attending training courses related to corporate governance, the company's General Management Office is responsible for handling the laws and regulatory interpretations of the competent authorities. Also, the company has assigned personnel to participate in relevant promotional conferences held by the competent authorities, and provide timely information to the board of directors as a reference for corporate governance decision-making.
2. Market Observation Post: http://mops.twse.com.tw/mops/web/index
3. Official website of investor relations section on the company: http://doc.chevalier.com.tw:8080/share.cgi?ssid=0vDAynQ

3.4.10.Implementation status of internal control system:

I.Status of Internal Control

Falcon Machines Tools Co., Ltd.

Statement of Internal Control System

Date:2023/03/21

Based on the self-evaluation, we hereby declare the following regarding the internal control system of company for the year 2022:

1. The company is fully aware that it is the responsibility of the board of directors and management to establish, implement, and maintain an internal control system. As such, the company has established this system to achieve objectives such as improving operational effectiveness and efficiency (including profitability, performance, and asset security), ensuring reliable and timely reporting, transparency, and compliance with relevant regulations and laws. This system provides reasonable assurance to stakeholders.
2. The internal control system has inherent limitations, and even with a well-designed system, it can only provide reasonable assurance of achieving the three objectives mentioned above. Moreover, the effectiveness of the internal control system may change due to changes in the environment or circumstances. The internal control system has a mechanism for self-supervision, and corrective action is taken promptly upon identification of any deficiency.
3. The Guidelines divide internal control systems into five components: (1) Control Environment, (2) Risk Assessment, (3) Control Activities, (4) Information and Communication, and (5) Monitoring Activities. Each component includes several items, which can be referred to in the Guidelines for further details. The effectiveness of the internal control system was evaluated based on these “Guidelines”.
4. The above internal control system evaluation criteria have been adopted by our company to assess the effectiveness of the design and implementation of the internal control system.
5. Based on the evaluation results, it is believed that the internal control system (including the supervision and management of subsidiaries) of the company as of December 31, 2022, which includes understanding the effectiveness of operations and the degree of achieving efficiency targets, reliable reporting, timely, transparent and compliance with relevant regulations and laws, and the design and implementation of internal control systems are effective. It can reasonably ensure the achievement of the above objectives.
6. This statement serves as the primary content of our annual report and public disclosure and is available to the public. Any false, misleading, or concealed information in this disclosure may result in legal liability under the Securities and Exchange Act, including but not limited to Articles 20, 32, 171, and 174.
7. This statement has been approved by the board of directors of the company on March 21, 2023. Out of 7 directors present, None expressed opposition and all agreed to the contents of this statement.

Falcom Machine Tools CO., Ltd.

Chairman: Lin, Tsung-Lin

General Manager: Tung, Shang-Yu

II.This statement declares that there is no accountant's review report to be disclosed regarding the appointment of an accountant to review the internal control system.

3.4.11. Recently, up until the printing date of the annual report, the company and its internal personnel have been subject to legal sanctions or penalties by the company for violations of internal control system regulations. These penalties may have a significant impact on shareholder equity or security prices. It is important to disclose the specific details of the penalties, major deficiencies identified, and the measures taken for improvement: None

3.4.12. Recent important resolutions of the shareholders' meeting and board of directors until the printing date of the annual report are as follows:

The 2022 Annual Shareholder Meeting was held on June 22, 2022 at No. 34, Xinggong Rd., Shengang Township, Changhua County 509004, Taiwan (R.O.C.) (Falcon Machine Tools Co., Ltd.) Resolved issues at the meeting and their implementation status are as follows:
Acknowledged and discussed matters:

Issue 1

Proposal Item:	Acknowledgement of the operating report and financial statements of our company for the year 2021.
Resolution:	After voting, the number of approving votes exceeded the required legal amount, and the motion was passed.
Implementation:	The important resolutions of the shareholder meeting were announced on the same day

Issue 2

Proposal Item:	Acknowledgement of the Profit Distribution Plan for the year 2021 of the company.
Resolution:	The resolution has been approved with a number of votes exceeding the legal requirement.
Implementation:	The important decision of the shareholders' meeting was announced as a major event on the same day.

Issue 3

Proposal Item:	Amendment of certain provisions of the company's "Asset Acquisition or Disposal Procedure" for discussion.
Resolution:	The vote results show that the number of approving votes exceeds the statutory threshold, and the proposal is passed.
Implementation:	Relevant operations are conducted in accordance with the revised management procedures, and the revised provisions are disclosed on the company's website.

The first extraordinary shareholders' meeting of the year 2022 was held on October 21, 2022, at No. 34, Xinggong Rd., Shengang Township, Changhua County 509004, Taiwan (R.O.C.) (Falcon Machine Tools Co., Ltd.). Resolved issues at the meeting and their implementation status are as follows:
Acknowledged and discussed matters:

Issue 1

Proposal Item:	Proposal for comprehensive director election and election results.
Resolution:	The result of the vote showed that the agreed number exceeded the statutory quota, and all the candidates for directors were elected.
Implementation:	The important resolution of the shareholders' meeting was announced on the same day.

Issue 2

Proposal Item:	Proposal for lifting the non-compete restriction of the newly appointed director and their representative, to be discussed.
Resolution:	The proposal was passed with a vote count exceeding the legal requirement.
Implementation:	The important resolution of the shareholders' meeting was announced as a significant event on the same day.

Here are the significant resolutions made by the board of directors up to the date of printing the annual report for the year 2022.

2022/03/25(8th Session,4th meeting)

Proposal Item:	Discussion requested regarding the financial statements for the year 2021 and the operational plan for the year 2022 of the company.
Result:	It was approved as proposed.
Proposal Item:	Discussion requested regarding the distribution of profits for the year 2021 of the company.
Result:	It was approved as proposed.
Proposal Item:	Discussion requested regarding the remuneration plan for employees and directors for the year 2021 of the company.
Result:	It was approved as proposed.
Proposal Item:	Discussion requested regarding the internal control system statement for the year 2021 of the company.
Result:	It was approved as proposed.
Proposal Item:	Discussion requested regarding that the overdue amounts of accounts receivable and other outstanding balances as of the end of December 2021 of the company are not related to loan transactions
Result:	It was approved as proposed.
Proposal Item:	Discussion requested regarding the plan to increase investment in the subsidiary through debt-to-equity conversion
Result:	It was approved as proposed.
Proposal Item:	Discussion requested regarding the estimated remuneration plan for employees and directors for the year 2022 of the company
Result:	It was approved as proposed.
Proposal Item:	Discussion requested regarding the revision of certain provisions of the 'Asset Acquisition or Disposal Procedure' of the company.
Result:	It was approved as proposed.
Proposal Item:	Discussion requested regarding the matters related to convening the shareholder's meeting for the year 2022 of the company.
Result:	It was approved as proposed.

2022/05/11(8th session, 5th meeting)

Proposal Item:	Discussion requested regarding the evaluation report on the independence and qualifications of the company's signing certified public accountant
Result:	It was approved as proposed.
Proposal Item:	Discussion requested regarding the credit agreement between the company and financial institutions
Result:	It was approved as proposed.

2022/07/29(8th session, 6th meeting)

Proposal Item:	Due to the notification received from Linju Investment Co., Ltd., Better Life Group Co., LTD., and Liu Fang-jun regarding their public tender offer to acquire ordinary shares of company, it has been proposed to discuss the verification and review the identity and financial condition of the tender offeror, the fairness of the tender offer conditions, the reasonableness of the source of funds for the tender offer, and to provide recommendations to the shareholders about this acquisition in accordance with Article 14 of the 'Regulations Governing Public Tender Offers for Securities of Public Issuing Companies'."
Result:	It is found that the tender offer price falls within the reasonable price range recommended by the accountants of both parties after the investigation and review. Even the identity and financial condition of the tender offeror, as well as the sources of the funds for the tender offer are considered reasonable, but also urge those shareholders to read the "Risks Associated with Participation in the Tender Offer" carefully as described in the public tender offer announcement and the tender offer prospectus, and make the decisions on whether to participate in the tender offer or not. This recommendation is provided as reference only, and those shareholders should evaluate and consider own investment needs and financial and tax situations, and assume the risks associated.

2022/08/10(8th session,7th meeting)

Proposal Item:	Discussion requested regarding the overdue receivables and other outstanding amounts as of the end of June of 2022, which do not constitute loans, by the company.
Result:	It was approved as proposed.

2022/09/02(8th session,8th meeting)

Proposal Item:	Discussion requested regarding the proposal for a comprehensive election of directors
Result:	It was approved as proposed.
Proposal Item:	Discussion requested regarding the matters related to convening the first extraordinary shareholders' meeting of the company for the year 2022.
Result:	It was approved as proposed.
Proposal Item:	Discussion regarding the nomination period, number of positions to be elected, and the place of acceptance for the candidates director (including independent directors) nomination.
Result:	It was approved as proposed.

2022/09/23(8th session,9th meeting)

Proposal Item:	Discussion requested regarding on the proposed resolution to nominate a list of director candidates (including independent directors) for consideration.
Result:	It was approved as proposed.

2022/10/21(9th session,1st meeting)

Proposal Item:	Proposal for the election of a new Chairman, Vice Chairman, and General Manager, and related matters for discussion and resolution.
Result:	It was approved as proposed.
Proposal Item:	Discussion requested regarding the appointment of members for the sixth-term Remuneration Committee of the company.
Result:	It was approved as proposed.

2022/11/08(9th session,2nd meeting)

Proposal Item:	Discussion and resolution on the proposal to change the positions of the financial supervisor, accounting supervisor, spokesperson, and deputy spokesperson of the company
Result:	It was approved as proposed.
Proposal Item:	Discussion and resolution regarding the proposal to replace the accountant as part of the internal adjustment of Ernst & Young Accounting Firm.
Result:	It was approved as proposed.
Proposal Item:	Resolution to approve the consolidated financial statements for the third quarter of the year 2022.
Result:	It was approved as proposed.
Proposal Item:	Proposal to approve the company’s internal audit plan for the year 2023.
Result:	It was approved as proposed.
Proposal Item:	Discussion and resolution regarding the Proposal to Amend Certain Articles of "Rules and Procedures of Shareholders’ Meeting" of the company.
Result:	It was approved as proposed.
Proposal Item:	Discussion and resolution regarding the proposal to revise certain articles of the "Board Meeting Rules" of the company.
Result:	It was approved as proposed.
Proposal Item:	Discussion and resolution regarding the proposal to amend certain provisions of the "Internal Control System and Related Operations" and establishment of the "Detailed Rules for the Management of Consolidated Financial Statement Preparation Processes"
Result:	It was approved as proposed.
Proposal Item:	Discussion and resolution regarding the participate in the bidding process for the joint development project with Taiwan Sugar Corporation.
Result:	It was approved as proposed.
Proposal Item:	Resolution to lift the non-compete agreement for company's executives.
Result:	It was approved as proposed.
Proposal Item:	Propose to discuss and make a resolution regarding the remuneration for the 9th term of directors (including independent directors)
Result:	It was approved as proposed.
Proposal Item:	Discussion and resolution requested regarding the retirement benefits by former Chairman and CEO Mr. Zhang, Po-Ming
Result:	It was approved as proposed.
Proposal Item:	Discussion and resolution regarding the remuneration plan for the newly appointed executives.
Result:	It was approved as proposed.

2022/12/22(9th session, 3rd meeting)

Proposal Item:	Resolution to retroactively approve the application for a performance bond joint guarantee letter to King's Town Bank
Result：	It was approved as proposed.
Proposal Item:	Discussion and resolution regarding the proposal to dispose of the company's real estate and its related equipment.
Result：	It was approved as proposed.

2023/01/17(9th session,4th meeting)

Proposal Item:	Discussion and Resolution regarding the proposal to apply for a five-year medium-to-long term credit from Bank of Panshin
Result：	It was approved as proposed.
Proposal Item:	Proposal to approve the budgeted allocation ratios for director and employee remuneration for the year 2023.
Result：	It was approved as proposed.
Proposal Item:	Resolution for the distribution of the annual bonus for the management personnel of the company for the year 2022.
Result:	It was approved as proposed.

2023/03/21(9th session,5th meeting)

Proposal Item:	Discussion requested regarding the proposal for approval of the 2022 Annual Report and Financial Statements of the Company for the year ended December 31, 2022.
Result：	It was approved as proposed.
Proposal Item:	Discussion requested regarding the proposal to approve the allocation of losses for the fiscal year 2022
Result：	It was approved as proposed.
Significant Resolution：	Discussion requested regarding the proposal to establish the process and general policy for obtaining the prior consent of Ernst & Young Accounting Firm and its affiliated enterprises for non-audit services, submitted for resolution.
Result：	It was approved as proposed.
Proposal Item:	Discussion requested regarding the resolution on the Assessment Report of the Independence and Competence of the Accountant.
Result：	It was approved as proposed.
Proposal Item:	Discussion requested regarding the proposal for the internal control system statement of the Company for year 2022
Result：	It was approved as proposed.
Proposal Item:	Discussion and resolution regarding the company proposes to reapply for a five-year joint credit plan.
Result：	It was approved as proposed.
Proposal Item:	Discussion and resolution regarding the proposal to adjust the organizational structure of the company, and seek resolution.
Result：	It was approved as proposed.
Proposal Item:	Resolution and revising the "Articles of Incorporation" and changing the business registration address of the Company
Result：	It was approved as proposed.
Proposal Item:	Discussion and resolution regarding the proposal to revise the "Shareholders' Meeting Rules" of the Company
Result：	It was approved as proposed.
Proposal Item:	Proposal to set the Proposal for the 2023 Annual Shareholders' Meeting and to address matters related to accepting proposals from shareholders.
Result：	It was approved as proposed.

3.4.13. Record or written statement from any directors or supervisors who expressed disagreement with any important resolutions passed by the board of directors up to the date of printing the latest annual report: None

3.4.14. Summary of Resignations and Dismissals of Key Personnel of the Company

Job Title	Name	Date of Appointment	Date of Termination	Reason for Resignation or Dismissal
Chairman General Manager	Zhang, Po-Ming	2021.07.07 2010.04.28	2022.10.21 2022.10.21	Full Election of Director Personal Career Planning
Director of Finance and Accounting	Chang Shun-fu	2019.08.12	2022.11.08	Job reassignment

3.5.Information on CPA (External Auditor) Professional Fees

Unit : NT$ thousands

<table>
<tr><th>Name of Accounting Firm</th><th>Name of CPAs</th><th>Period Covered by the CPA Audit</th><th>Audit Fee</th><th>Non-Audit Fees</th><th>Total</th><th>Remarks</th></tr>
<tr><td rowspan="4">Ernst & Young</td><td>Aero Huang</td><td>2022.1.1~2022.09.30</td><td rowspan="4">2,300</td><td rowspan="4">150</td><td rowspan="4">2,450</td><td rowspan="4">Non-audit fees service content: Tax certification services for NTD 150,000.</td></tr>
<tr><td>Jonathan Chen</td><td>2022.1.1~2022.09.30</td></tr>
<tr><td>Cheng, Zheng-Chu</td><td>2022.1.1~2022.12.31</td></tr>
<tr><td>Hong, Guo-Sen</td><td>2022.1.1~2022.12.31</td></tr>
</table>

3.6.Information on Replacement of CPAs

3.6.1.Information regarding the former CPAs

<table>
<tr><td>Date of replacement</td><td colspan="4">2022/10/01</td></tr>
<tr><td>Reason for replacement and explanation</td><td colspan="4">Due to internal restructuring at Ernst & Young Accounting firm.</td></tr>
<tr><td rowspan="3">Describe whether the Company terminated or the CPAs terminated or did not accept the engagement</td><td colspan="2">Parties
Circumstances</td><td>CPAs</td><td>The Company</td></tr>
<tr><td colspan="2">Terminated the engagement</td><td>Not applicable</td><td>Not applicable</td></tr>
<tr><td colspan="2">No longer accepted (discontinued) the engagement</td><td>Not applicable</td><td>Not applicable</td></tr>
<tr><td>If the CPAs issued an audit report expressing any opinion other than an unqualified opinion during the 2 most recent years, specify the opinion and the reasons</td><td colspan="4">None</td></tr>
<tr><td rowspan="6">Disagreement with the Company?</td><td rowspan="4">Yes</td><td></td><td colspan="2">Accounting principles or best practices</td></tr>
<tr><td></td><td colspan="2">Disclosure of Financial Statements</td></tr>
<tr><td></td><td colspan="2">Audit scope or steps</td></tr>
<tr><td></td><td colspan="2">Others</td></tr>
<tr><td>No</td><td colspan="3">✓</td></tr>
<tr><td colspan="4">Specify details: None</td></tr>
<tr><td>Other disclosures (Any matters required to be disclosed under sub-items d to g of Article 10.6.A)</td><td colspan="4">None</td></tr>
</table>

3.6.2.Information Regarding the Successor CPAs

Name of accounting firm	Ernst & Young
Name of CPAs	Chen, Zheng-Chu Hong, Guo-Sen
Date of engagement	2022/11/08
Subjects discussed and results of any consultation with the CPAs prior to the engagement, regarding the accounting treatment of or application of accounting principles to any specified transaction, or the type of audit opinion that might be issued on the company's financial report	None
Successor CPAs' written opinion regarding the matters of disagreement between the Company and the former CPAs	None

3.6.3.Response from the former accountant: Not Applicable.

3.7.Information on the Employment of the Company's Chairman, General Manager, manager in Charge of Finance or Accounting in the Affiliated Accounting Firm to its Related Enterprises within the past year: NONE

3.8.Changes in Shareholding of Directors, Supervisors, Managerial Officers, and Major Shareholders Holding More Than 10% of the Company's total share

3.8.1.Changes in shareholding of directors, executives, and shareholders with ownership exceeding 10%.

Unit: Shares

Job Title	Name	2022		Current fiscal year as of 2023/04/23	
		Shareholding increase (or decrease)	Pledged shareholding increase (or decrease)	Shareholding increase (or decrease)	Pledged shareholding increase (or decrease)
Chairman	Lin, Tsung-Lin (Engagement date:2022/10/21)	0	0	0	0
Vice Chairman and General Manager	Tung, Shang-Yu (Engagement date:2022/10/21)	231,000	0	0	0
Legal Director Person	Lin Yi-zhen (Engagement date:2022/10/21)	9,980,000	8,300,000	81,000	0
Legal Director Person	Zhang Yu-Xin (Engagement date:2022/10/21)	0	0	0	0
Legal Director (shareholder owning more than 10%)	Linju Investment Co., Ltd. (Engagement date:2022/10/21)	0	0	0	0
Independent Director	Wu, Zhi-Chi (Engagement date:2022/10/21)	0	0	0	0
Independent Director	Gong, Xin-Jie (Engagement date:2022/10/21)	0	0	0	0
Independent Director	Chen, Feng-Yun (Engagement date:2022/10/21)				
Deputy General Manager & Corporate Governance Officer	Chen Shih-en	0	0	0	0
Deputy General Manager	Chang Ming-lun	0	0	0	0
Deputy General Manager	Chang Che-hua	0	0	0	0
Deputy Manager & Financial Accounting Supervisor	Pei, Yu-Wen Engagement date:2021/11/08)	0	0	0	0
Deputy Manager	Chen Shih-Chang	0	0	0	0
Deputy Manager and Spokeman	Chen Wen-wei (Dismissal date:2022/10/21)	0	0	0	0
Chairman and CEO	Zhang, Po-Ming (Dismissal date:2022/10/21)	0	0	0	0
Deputy Chairman	Zhang, Po-Yuan (Dismissal date:2022/10/21)	(945,000)	0	0	0
Director	Liu Hua (Dismissal date:2022/10/21)	0	0	0	0
Director	Chen Zheng-yun (Dismissal date:2022/10/21)	0	0	0	0
Independent Director	Tsai Zhen-teng (Dismissal date:2022/10/21)	0	0	0	0
Independent Director	Peng Quan (Dismissal date:2022/10/21)	(10,000)	0	0	0
Independent Director	Chang Yong-he (Dismissal date:2022/10/21)	0	0	0	0
Deputy Manager	Chang Zhi-huang (Dismissal date:2023/01/09)	0	0	0	0
Financial Accounting Manager	Chang Shun-fu (Dismissal date:2022/11/08)	0	0	0	0

3.8.2.Information on Transfers of Shareholding: None

3.8.3.Information on Pledges of Shareholding:

Name	Reason for Pledge Change	Date of Change	Counterparty	Relationship between Counterparty and Directors, Managers, and Shareholders with Ownership Exceeding 10%	Number of Shares	Shareholding Percentage (%)	Pledge Ratio (%)	Amount Of Pledge (Redemption)
Linju Investment Co., Ltd.	Pledge	2022.08.23	TAICHUNG COMMERCIAL BANK Co., Ltd.(Zhongli Branch)	NA	8,300,000	13.09	82.50	-

3.9.Relationships Among the Top 10 Shareholders

Date: 2023/04/23

Name	Shareholding		Shareholding of spouse and minor children		Total shareholding by nominee arrangements		Specify the name of the entity or person and their relationship to any of the other top 10 shareholders with which the person is a related party or has a relationship of spouse or relative within the 2nd degree		Remarks
	Shares	%	Shares	%	Shares	%	Name of entity or individual	Relationship	
Linju Investment Co., Ltd Representative: Lin, Tsung-Lin	10,061,000	13.09%	0	0%	0	0%	None	None	None
Lyu, Chin-Fa	3,905,000	5.08%	0	0%	0	0%	None	None	None
Better Life Group Representative: Chung His-chi	3,850,000	5.01%	0	0%	0	0%	Zhang, Po-Yuan Chang Yan-zhu	Second-degree kin Second-degree kin	None
Liu, Fang-Jun	3,850,000	5.01%	0	0%	0	0%	Zhang, Po-Ming Zhang, Po-Yuan	Second-degree kin Second-degree kin	None
Hou, Chia-Chang	3,600,000	4.68%	0	0%	0	0%	None	None	None
Zhang, Po-Yuan	2,416,437	3.14%	1,020,740	1.33%	0	0%	Zhang, Po-Ming Zhang Yan-Zhu	Second-degree kin	None
Zhang, Hsuan-Jung	2,000,000	2.60%	0	0%	0	0%	None	None	None
Zhang, Po-Ming	1,922,128	2.50%	89,000	0.12%	0	0%	Zhang, Po-Yuan Zhang, Yan-Zhu	Second-degree kin	None
Focus CNC Co., Ltd Representative: Zhang, Po-Ming	1,593,000	2.07%	0	0%	0	0%	Zhang, Po-Ming	Chairman of Focus CNC Co., Ltd	None
Zhang, Yan-Zhu	1,573,951	2.05%	30,891	0.04%	0	0%	Zhang, Po-Ming Zhang, Po-Yuan	Second-degree kin	None

3.10.Total Ownership of Shares in Investee Enterprises

Date: 2023/04/23 Unit: Shares/%

Investee enterprise (Note)	Investment by the Company		Investment by the Directors, Supervisors, Managerial Officers and Directly or Indirectly Controlled Entities of the Company		Total Investment	
	Shares	Shareholding ratio	Shares	Shareholding ratio	Shares	Shareholding ratio
CHEVALIER MACHINERY,INC	2,120	100.00%	0	0%	2,120	100.00%
LUCKY INVESTMENT (B.V.I) SERVICES LTD.	12,342	100.00%	0	0%	12,342	100.00%
Lin Yu International Industrial CO., LTD	5,000	100.00%	0	0%	5,000	100.00%
FOCUS CNC CO., LTD.	8,337	39.18%	0	0%	8,337	39.18%
HWANG KANG MACHINERY CO., LTD.	2,287	40.18%	0	0%	2,287	40.18%

Note: This is an equity-method investment of the company.

IV.Capital Overview

4.1.Capital and Shares

4.1.1.Source of Capital

I.Issued Shares

Date: 2023/04/23

Month/ Year	Issued price (NT$)	Authorized Capital		Paid-in Capital		Remarks		
		Shares	Amount (NT$)	Shares	Amount (NT$)	Sources of Capital	Capital paid in by assets other than cash	Other
1978.04	1000	3,000	3,000,000	3,000	3,000,000	Initial authorized capital	None	None
1990.02	1000	100,000	100,000,000	100,000	100,000,000	Capital increase of NT$33,000,000 from retained earnings and NT$25,000,000 from cash subscription	None	None
1991.10	10	15,000,000	150,000,000	15,000,000	150,000,000	Capital increase of NT$10,000,000 from retained earnings and NT$40,000,000 from cash subscription	None	None
1994.12	10	19,900,000	19,900,000	19,900,000	199,000,000	Capital increase of NT$24,000,000 from retained earnings and NT$25,000,000 from cash subscription	None	None
1995.06	10	26,000,000	260,000,000	26,000,000	260,000,000	Capital increase of NT$15,920,000 from capital surplus, NT$9,950,000 from retained earnings, and NT$35,130,000 from cash subscription.	None	Note1
1996.05	10	32,500,000	325,000,000	32,500,000	325,000,000	Capital increase of NT$26,000,000 from retained earnings and NT$39,000,000 from cash subscription	None	Note2
1997.07	10	40,500,000	405,000,000	40,500,000	405,000,000	Capital increase of NT$48,750,000 from retained earnings and NT$31,250,000 from cash subscription	None	Note3
1998.09	10	100,000,000	1,000,000,000	60,653,000	606,530,000	Capital increase of NT$101,250,000 from retained earnings, NT$98,000,000 from cash subscription, and NT$2,280,000 from employee bonus converted to capital	None	Note4
1999.07	10	100,000,000	1,000,000,000	72,995,700	729,957,000	Capital increase of NT$90,979,500 from retained earnings, NT$30,326,500 from capital surplus, and NT$2,121,000 from employee bonus converted to capital	None	Note5
2006.04	10	135,000,000	1,350,000,000	71,869,700	718,697,000	Stock cancellation of 1,126,000 shares	None	Note 6
2006.07	10	135,000,000	1,350,000,000	69,503,700	695,037,000	Stock cancellation of 2,366,000 shares	None	Note 7
2006.11	10	135,000,000	1,350,000,000	67,382,300	673,823,000	Stock cancellation of 2,121,400 shares	None	Note 8
2008.04	10	135,000,000	1,350,000,000	66,000,300	660,003,000	Stock cancellation of 1,382,000 shares	None	Note 9
2009.04	10	135,000,000	1,350,000,000	64,880,300	648,803,000	Stock cancellation of 1,120,000 shares	None	Note10
2012.04	10	135,000,000	1,350,000,000	76,880,300	768,803,000	Cash capital increase NT$120,000,000	None	Note11

Note 1:No. 37777 from TSCDC (1) on June 30, 1995
Note2:No. 38224 from TSCDC (1) on June 14,1996
Note 3:No. 49304 from TSCDC (1) on June 20, 1997
Note 4:No.66873 from TSCDC (1) on August 06, 1998
Note 5:No.49946 from TSCDC (1) on May 29,1999
Note 6:Letter of Appointment No. 09501060910 dated April 10, 2006
Note 7:Letter of Appointment No. 09501143130 dated July 10,2006
Note 8:Letter of Appointment No. 09501265110 dated November 28,2006
Note 9:Letter of Appointment No. 09701093350 dated April 21,2008
Note 10:Letter of Appointment No. 09801079000 dated April ,22 2009
Note 11:Letter of Appointment No. 10101053610 March,28 2012

II.Type of Stock

Date:2023/04/23 Unit: Shares

Type of stock	Authorized Capital			Remarks
	Outstanding shares	Unissued Shares	Total	
Common Share	76,880,300	58,119,700	135,000,000	-

Note: OTC Stocks of Listed Company

4.1.2.Status of Shareholders

Date:2023/04/23 Unit: Person: Shares

Structure / Quantity	Government Agencies	Financial Institution	Other Juridical Persons	Foreign Institutions & Natural Persons	Independence	Stock	Total
Number of Shareholders	0	1	195	23	17,493	0	17,712
Shareholding	0	1,400	17,771,484	2,473,851	56,633,565	0	76,880,300
Percentage	0.00%	0.00%	23.12%	3.22%	73.66%	0.00%	100.00%

4.1.3.Shareholding Distribution Status

Date:2023/04/23 Unit: Person: Shares

Class of Shareholding	Number of Shareholders	Shareholding (Shares)	Percentage
1-999	15,643	179,513	0.23%
1,000-5,000	1,359	2,954,753	3.84%
5,001-10,000	273	2,272,243	2.96%
10,001-15,000	92	1,202,257	1.56%
15,001-20,000	69	1,280,707	1.67%
20,001-30,000	63	1,623,062	2.11%
30,001-40,000	47	1,692,332	2.20%
40,001-50,000	27	1,268,826	1.65%
50,001-100,000	60	4,653,577	6.05%
100,001-200,000	32	4,640,378	6.04%
200,001-400,000	17	4,701,067	6.11%
400,001-600,000	8	3,892,227	5.06%
600,001-800,000	4	2,903,596	3.78%
800,001-1,000,000	4	3,877,681	5.04%
1,000,001or above	14	39,738,081	51.70%
Total	17,712	76,880,300	100.00%

4.1.4.List of Major Shareholders

Date: 2023/04/23 Unit: Shares:%

Shareholding / Shareholder’s Name	Shares	Shareholding Ratio
Linju Investment Co., Ltd. Legal Representative：Lin,Cong-Lin	10,061,000	13.09%
Lyu, Chin-Fa	3,905,000	5.08%
Better Life Group Legal Representative：Jhong,Si-Ji	3,850,000	5.01%
Liu, Fang-Jun	3,850,000	5.01%
Hou, Chia-Chang	3,600,000	4.68%
Zhang, Po-Yuan	2,416,437	3.14%
Zhang, Hsuan-Jung	2,000,000	2.60%
Zhang, Po-Ming	1,922,128	2.50%
Focus CNC Co., Ltd Legal Representative: Zhang, Po-Ming	1,593,000	2.07%
Zhang, Yan-Zhu	1,573,951	2.05%

4.1.5.Market Price, Net Worth, Earnings and Dividends per share of recent two-year

Unit: NT$, Share,%

Items	Fiscal Year		2021	2022	2023/01/01-2023/03/31
Market Price per share (Note 1)	Highest		17.70	29.45	22.55
	Lowest		8.18	13.35	18.10
	Average		11.06	21.41	19.68
Net Worth per Share (Note 2)	Before Distribution		10.55	10.68	-
	After Distribution		-	-	-
Earnings per Share	Weighted Average Shares		76,880,300	76,880,300	-
	Earnings Per Share		0.44	(0.30)	-
Dividends per Share	Cash Dividends (Note3)		-	-	-
	Stock Dividends	-	-	-	-
		-	-	-	-
	Accumulated Undistributed Dividends (Note4)		-	-	-
Return on Investment analysis	Price / Earnings Ratio (Note5)		25.14	(71.37)	-
	Price / Dividend Ratio (Note 6)		-	-	-
	Cash Dividend Yield (Note7)		-	-	-

*If the company increases its capital by issuing bonus shares through profit or capital reserve, it must disclose the corresponding market price adjustments and cash dividend information, in order to trace the changes in the number of shares issued.

Note 1: List the highest and lowest market price of common shares in each fiscal year and calculate the average market price by weighing transacted prices against transacted volumes in each respective fiscal year.

Note 2: Calculate the net worth per share based on the number of outstanding shares at year-end. Calculate the amount of distribution based on the amount resolved by the board of directors or resolved in the next year's shareholders meeting.

Note 3: If retrospective adjustments are required because of issuance of stock dividends, the earnings per share should be disclosed in the amounts before and after the retrospective adjustments.

Note 4: If equity securities are issued with terms that allow undistributed dividends to be accrued and accumulated until the year the Company makes profit, the amount of cumulative undistributed dividends up until the current year should be disclosed separately.

Note 5: Price/earnings ratio = average closing price per share for the year / earnings per share.

Note 6: Price / dividend ratio = average closing price per share for the year / cash dividends per share.

Note 7: Cash dividend yield = cash dividend per share / average closing price per share for the year.

4.1.6.Dividend Policy and Implementation Status

I.Dividend Policy

According to Article 29 of the company's articles of incorporation, if the company generates profits during the fiscal year, it shall reserve no less than 2% of the profits for employee remuneration, to be distributed by the Board of Directors in cash or stock. The Board of Directors may decide to allocate no more than 5% of the profits as director remuneration. The distribution of employee and director remuneration shall be reported and discussed at the shareholder meeting. However, if the company has accumulated losses, a portion of the profits should first be reserved to offset the losses, before allocating employee and director remuneration in accordance with the aforementioned ratio.

If the company generates profits in its annual financial statements, it shall first offset the accumulated losses and then set aside 10% of the remaining balance as legal reserve funds for profits (except when the legal reserve funds for profits have reached the amount of the company's paid-in capital). The company shall then follow the regulations to allocate or convert the special reserve funds for profits. If there is still a remaining balance, the company may consider retaining it as undistributed profits, or distribute it according to a proposed allocation plan by the board of directors and submit it to the shareholders' meeting for resolution.

As the company is currently in the "growth phase" of its business lifecycle and to ensure sustainable development based on capital expenditures, business expansion needs, and sound financial planning, our dividend policy will be determined based on the company's future capital expenditure budget and funding requirements. The distribution of dividends to shareholders will not exceed 80% of the distributable profits, and the cash dividend ratio shall not be lower than 10% of the total shareholder dividend amount.

II.Proposed Distribution of Dividend

Due to a loss in the year 2022 of the company, the board of directors decided on March 21, 2023 not to distribute cash dividends.

4.1.7.Effect of proposed bonus share issuance on company's operating performance and earnings per share: Not applicable.

4.1.8.Remuneration of Employees, Directors and Supervisors

1. Information Relating to Remuneration of Employees, Directors and Supervisors in the Articles of Incorporation: Please refer to the explanation in (vi)1. according to the dividend policy established under Article 29 of company's bylaws.
2. Accounting treatment for any differences between the estimated and actual amounts of employee and director remuneration expenses, the calculation basis for employee remuneration in the form of stock distribution, and the number of shares used in the calculation.
   (1)The estimated basis for employee and director remuneration expenses is based on the percentage range stipulated in the company's articles of association.
   (2)Calculation basis for stock dividends distribution: No stock dividends were distributed by the Company in year 2022.
   (3)The actual distribution amount determined by the board of directors and the estimated amount: No difference.
3. Distribution of remuneration approved by the board of directors:
   (1)The amount of employee and director remuneration distributed in cash or stock: The employee and director remuneration for the year 2022of the company, which was approved by the Board of Directors on March 21, 2023 of the Republic of China, will not be distributed, and there is no difference from the estimated amount.
   (2)The amount of employee remuneration distributed in the form of stock and the proportion of such amount to the post-tax net income of the current period and the total amount of employee remuneration are not applicable.
4. Distribution of Remuneration of Employees, Directors and Supervisors in the previous year, (including the number of shares, amount, and share price) should be disclosed, along with any differences between the recognized employee and director remuneration and the actual distribution, the amount of the difference, the reasons for the difference, and the corresponding handling measures.
   Distribution of Remuneration of Employees, Directors and Supervisors of year 2022

Unit: NT$ Thousands

Item	Estimated amount recognized for the year	Board-approved distribution amount	Actual distribution amount	Difference	Explanation for difference
Directors’ and Supervisors’ Remuneration	0	0	0	0	No difference
Employee Remuneration	0	0	0	0	No difference
Total	0	0	0	0	No difference

4.1.9 Share repurchases by the company: Not applicable.

4.2.Bonds: None

4.3.Preferred Stock Issuance Status: None

4.4.Global Depository Receipts: None

4.5.Employee Stock Options: None

4.6.Status of New Shares Issuance in Connection with Mergers and Acquisitions: None

4.7.Financing Plans and Implementation: None

V.Operational Highlights

5.1.Business Activities

5.1.1.Business Scope

I.Main areas of business operations:

(1) Manufacturing, sales, and after-sales service of precision grinders.
(2) Manufacturing, sales, and after-sales service of tool grinders.
(3) Manufacturing, sales, and after-sales service of CNC (Computer Numerical Control) grinders.
(4) Manufacturing, sales, and after-sales service of milling machines.
(5) Manufacturing, sales, and after-sales service of CNC milling machines.
(6) Manufacturing, sales, and after-sales service of CNC lathes.
(7) Manufacturing, sales, and after-sales service of Vertical Machining Centers.
(8) Domestic and international distribution of related products as an agent.
(9) Manufacturing, sales and after sales service of various work holding devices
(10) Aerospace and precision component processing services.
(11) Manufacturing of various mechanical parts and import, export trade.
(12) Manufacturing and trading of computer peripherals, computer components and electronic components.

II.Main Product sales distribution of the Company (Group Consolidated):

Unit: NT$ Thousand

Product Categories	2021		2022	
	Amount	Percentage	Amount	Percentage
Precision Grinders	464,458	28.90%	551,519	34.24%
CNC Surface Grinders	278,779	17.35%	268,925	16.70%
Vertical Machining Centers	449,394	27.96%	302,018	18.75%
CNC Lathe	84,819	5.28%	81,223	5.04%
Vertical Turning Lathe	20,871	1.30%	56,120	3.48%
Double Column Grinding Machine	84,427	5.25%	103,859	6.45%
Double Column Milling Machine	0	0.00%	0	0.00%
Others(Note)	224,343	13.96%	246,887	15.33%
Total	1,607,091	100.00%	1,610,552	100.00%

Note: Other products include the sales of components, the purchase and sales of goods, and income from service andmaintenance.

III.Main products:

Product Categories	Description
Precision Grinders	FSG-2A、FSG-3A、FSG-AD、FSG-SP、FSG-M Product Series
CNC Surface Grinders	FMG-CNC、FVGC、FGP-LM、FSG-CNC、SMART、HYDRO、FDG Product Series
Vertical Machining Centers	QP Product Series、EM Product Series
CNC Lathe	FBL、FCL、FNL Product Series
Vertical Turning Lathe	FVL、FVL-VTC、FVL-8/12/20/24 Product Series
Double Column Grinding Machines	FPG-DC、FSG-DC Product Series

Note: Please visit the official website at http://www.chevalier.com.tw for more information.

IV.New products development in year 2023:

R&D Projects	Content	Description
Grinding Machine	Research and development of surface grinder	1. Development of a grinder for the aerospace industry. 2. Development of SMART grinder software technology. 3. Execution of oil-static pressure spindle prototype project 4. Smart grinder machine function planning and Industry 4.0 integration 5. Commercialization of AD IV intelligent grinder 6. Commercialization of Double Shield Fine Grinders 7. Development of High-waist grinder 8. Grinding machine automation planning 9. SMART IV grinder commercialization with 15-inch screen (spindle balancing/intelligent direction switching) 10. Development of dynamic pressure spindle 11. Grinding end detection for grinder 12. Commercialization of FSG-2064ADIV grinder 13. Commercialization of FSG-2048ADIV grinder 14. Development of SMART-20 model 15. Development of SMART-24 series model 16. Development of FSG-24 series model 17. Development of FAUNC IHMI 18. Expansion of iMCS communication protocol with PROFINET 19. Plug in Semi-Auto program Machine 20. Development of Extrusion molding mechanism
	Research and development of double column grinding machine	1. Commercialization of vertical grinder models 2. Improvement project for the 60-series double column grinding machine 3. Development of built-in spindle
Milling Machine	Development of Machining Centers Product	1. Enhancement project on the quality and stability of QP machines 2. Commercialization of UNi5X-400 5Axes Machining Center. 3. Development of QP intelligent technology (SMART/FANUC) 4. Commercialization of UNi5X-800 5Axes Gantry Type Vertical Machining Center 5. Development project for #40/50 ultrasonic spindle 6. Development project for single-machine automation of lathe-milling machines. 7. Development project of FPM-500G Gantry-Type Milling Machine. 8. Commercialization of QP Milling Machine for the 3C Industry 9. Development of FAUNC IHMI 10. Expansion of iMCS communication protocol with PROFINET 11. Plug in Semi-Auto program Machine
Turning Machine	Vertical Lathe Series Product Development	1. Development project for the automation of single-turret lathe 2. Development of FAUNC IHMI 3. Expansion of iMCS communication protocol with PROFINET 4. Plug in Semi-Auto program Machine

5.1.2.Industry Overview

I.Macroeconomic Environment

The Ministry of Finance, Customs Administration has released the preliminary statistics for import and export trade for December 2022. According to the Taiwan Association of Machinery Industry, the cumulative export value of machine tools in 2022 was USD 3.023 billion, representing a growth of 8.6% from the same period in 2021. Among them, the export value of metal cutting machine tool products was about USD 2.543 billion, with a growth of 10.4% compared to the same period last year. The export value of metal forming machine tool products was USD 480 million, representing a growth of 0.2% from the same period last year.

Looking at the export performance of a single month, the export amount of Taiwan's machine tool industry in December 2022 was $260 million US dollars, a slight decrease of 0.5% from November 2022, but remained the same as the same period last year. Among them, the export amount of metal cutting machine tools in December 2022 was $219 million US dollars, a decrease of 1.4% from November 2022, while the export amount of metal forming machine tools was $40.96 million US dollars, an increase of 4.6% from November 2022. Please refer to Table 1 for related data.

The top ten countries of Taiwan's machine tool exports from January to December 2022, sorted by export amount, were China (including Hong Kong), the United States, Turkey, Vietnam, the Netherlands, Italy, Russia, India, Thailand, and Germany. Mainland China (including Hong Kong) accounted for 26.7% of the overall export market share, with an export amount of nearly $809 million US dollars, a decrease of 11.2% from the same period last year. The United States ranked second, accounting for 14.7% of the export market share, with an export amount of approximately $445 million US dollars, an increase of 37.7% from the same period last year. Turkey was the third largest exporting country, accounting for 8.4% of the overall export market share, with an export amount of approximately $254 million US dollars, a growth of 5.4% from the same period last year. Please refer to Table 1, Table 2, and Figure 1 for related data.

The percentage of major exporting countries in 2022

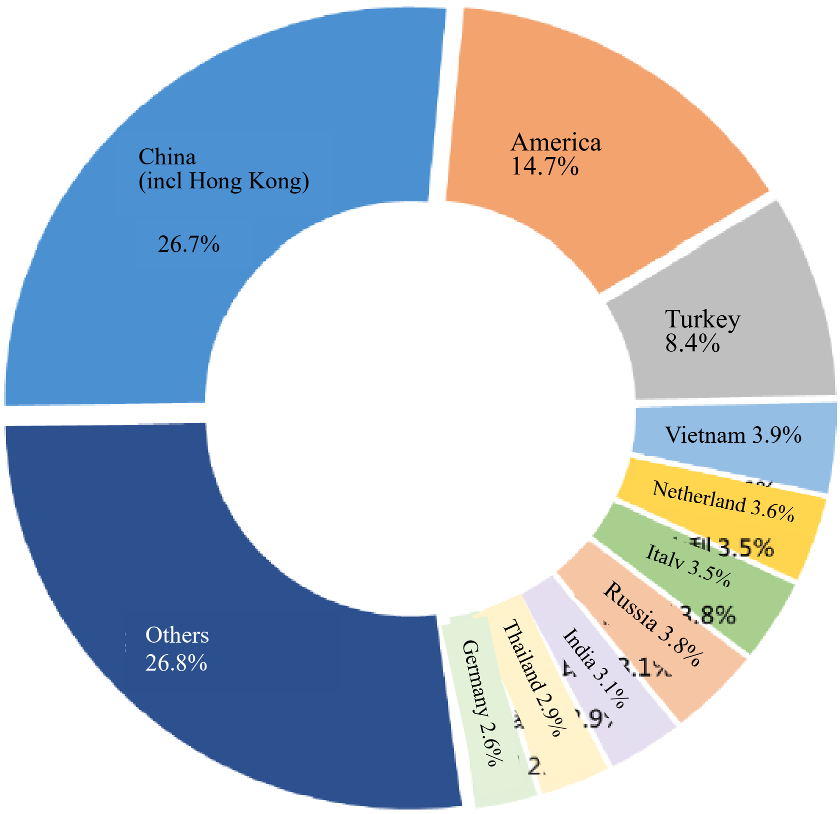


Table 1: Export statistics of Taiwan's machine tool industry for January to December 2022.

Unit: US$ Thousands

Type of Machine	Amount of 2022/12	Amount of 2022/11	M-o-M	Amount from 2022/01-2022/12	Amount from 2021/01-2021/12	Y-o-Y
EDM (Electrical Discharge Machining), laser, and ultrasonic tools	26,800	26,561	0.9%	182.508	147,682	23.6%
Comprehensive Processing Machines	84,410	85,568	-1.4%	1,044,192	941,238	10.9%
Lathe	63,221	61,992	2.0%	685,184	590,434	16.0%
Drilling, boring, milling, and threading machine tools	11,997	13,751	-12.8%	205,637	243,366	-15.5%
Grinding machines	22,358	23,231	-3.8%	277,723	245,889	12.9%
Planning, shaping, broaching, and gear-cutting machine tools	10,337	11,080	-6.7%	147,759	135,335	9.2%
Metal cutting machine tools	219,123	222,183	-1.4%	2,543,003	2,303,944	10.4%
Forging, stamping, and punching machine tools	32,147	32,088	0.2%	376,454	378,385	-0.5%
Other forming machine tools	8,811	7,071	24.6%	103,595	100,821	2.8%
Metal forming machine tools	40,958	39,159	4.6%	480,049	479,206	0.2%
Total	**260,081**	**261,342**	**-0.5%**	**3,023,052**	**2,783,150**	**8.6%**

Source:Ministry of Finance of the Republic of China, Customs Appeal Tribunal；Organize: Taiwan Machine Tool & Accessory Builder's Association(TMBA)

Table 2: Top Export Destinations for Taiwan Machine Tools for January to December 2022.

Unit: US$ Thousands

Grade	Destination	Amount of 2022/12	Amount of 2022/11	M-o-M		Amount from 2022/01-2022/12	Amount from 2021/01-2021/12	Y-o-Y	
1	China(Include Hong Kong)	81,393	69,895	16.4%	▲	808,492	911,021	-11.3%	▼
2	United State	35,964	43,096	-16.5%	▼	445,184	323,282	37.7%	▲
3	Turkey	16,672	22,891	-27.2%	▼	254,359	241,364	5.4%	▲
4	Vietnam	13,716	12,066	13.7%	▲	116,801	102,251	14.2%	▲
5	Netherland	9,554	6,101	56.6%	▲	108,750	82,593	31.7%	▲
6	Italy	6,781	9,497	-28.6%	▼	104,596	74,347	40.7%	▲
7	Russia	18,121	16,829	7.7%	▲	114,620	103,960	10.3%	▲
8	India	8,570	10,571	-18.9%	▼	93,494	94,219	-0.8%	▼
9	Thailand	5,187	6,428	-19.3%	▼	87,637	98,655	-11.2%	▼
10	Germany	3,207	5,994	-46.5%	▼	79,199	60,376	30.4%	▲
	Other Countries	60,926	57,974	5.1%	▲	809,920	690,712	17.3%	▲
	Total	**260,081**	**261,342**	**-0.5%**	▼	**3,023,052**	**2,783,150**	**8.6%**	▲

Source:Ministry of Finance of the Republic of China, Customs Appeal Tribunal；Organize: Taiwan Machine Tool & Accessory Builder's Association(TMBA)

Taiwan machine tool industry heavily relies on exports, with over 75% of its products sold outside of Taiwan. To meet the growing demand for machine tools in developing countries such as China, Central and South America, and India, the industry has established a Precision Machinery R&D Center and is collaborating with the Industrial Technology Research Institute to advance precision machinery technology. In addition, the Ministry of Economic Affairs has selected precision machine tools as a high-value-added emerging technology industry under the "Asia-Pacific Manufacturing Center Promotion Program," and industry players are working with the government and research institutions to promote the industry's development.

The Industrial Development Bureau of the Ministry of Economic Affairs will continue to assist industry players in diversifying their development, expanding into new application areas and new machine models, and developing high-end products such as horizontal machining centers, car-mill composite machines, precision gear machining machines, five-axis machining machines, and high-precision gantry machining machines. The bureau will also provide guidance to manufacturers in improving machine performance and developing intelligent value-added software, basic processes, heat affinity, mechanical performance testing capabilities, software, and cutting application technology. It will also strongly promote the emergence of five to ten machine tool giants with annual revenue of billions of dollars and enhance the added value of existing products such as lathes, vertical machining centers, and mold processing machines through software. By assisting in the development of new products, performance enhancement, and promoting industry-academic-research cooperation, the industry's technology and product quality are expected to improve.

Machine tools, also known as the "mother of machinery," encompass a wide range of processing capabilities, including turning, milling, grinding, shearing, laser processing, and PCB drilling and wafer cutting for the technology industry. They are an indispensable part of the manufacturing sector. According to analysis by the Machine Tool Association, next year's industry is expected to experience a decline in global production value and consumption amount due to ongoing economic and political uncertainties. The estimated figures for next year are USD 841 billion and USD 794 billion, respectively, representing a decline of approximately 3% to 6% compared to the current year.

Further analysis of the four major markets for the tooling industry in Taiwan shows that Southeast Asia and the United States are relatively prosperous markets. Taiwan, being in close proximity to the Southeast Asian market and benefiting from supply chain diversification after the pandemic, is expected to see an increase in tooling machine consumption. The United States market is also expected to benefit from the reshoring of manufacturing. However, the situation in the Chinese market is uncertain despite the lifting of restrictions, and the European market is suppressed due to the ongoing conflict between Russia and Ukraine.

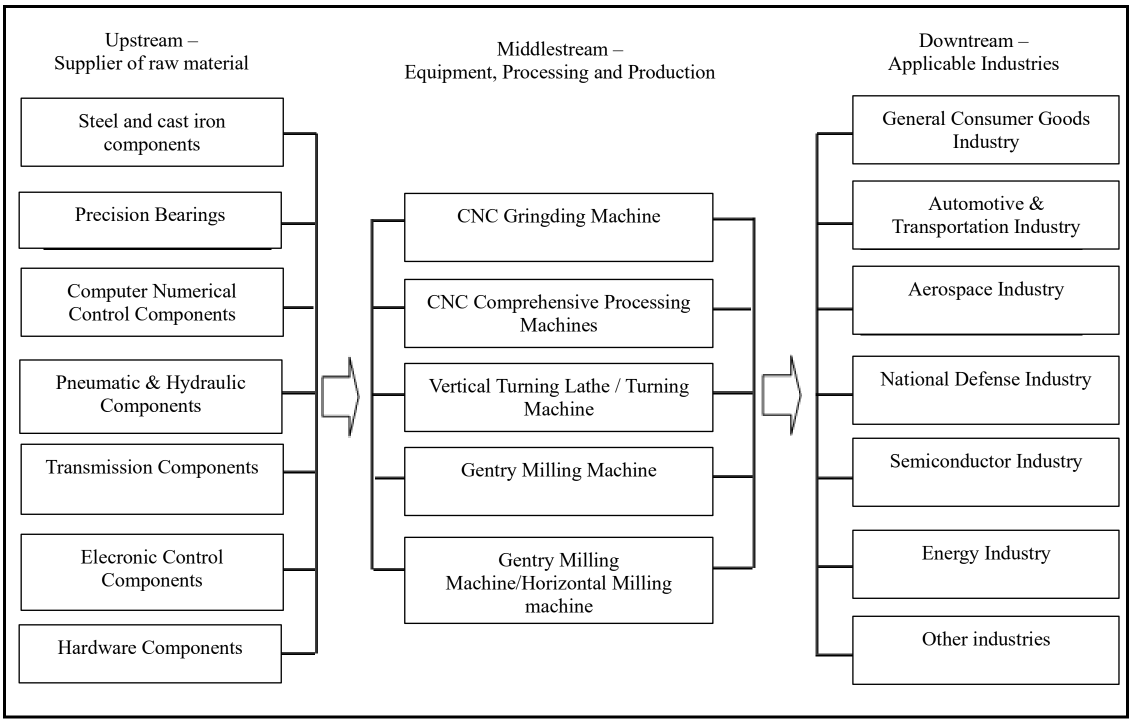
Outlook of this year's global market is quite challenging, mainly due to the negative impact of inflation caused by the pandemic and energy crisis, fiscal tightening, and financial pressure. Even though governments around the world are trying to minimize the impact, it seems difficult to avoid the economic slowdown, and the impact is expected to be felt in the first half of the year. However, looking at recent manufacturing Purchasing Managers' Index (PMI) data in Europe, Asia, and other regions, although it is still lower than the boom line that symbolizes economic growth, the rate of contraction is gradually easing. Additionally, the shrinkage rate of output and new orders has begun to slow down. Furthermore, the post-pandemic economic recovery in China is also a positive sign that can boost the industry's confidence in the future market outlook.

II.Relationship with Up-, Middle- and Downstream Companies

The machine tool is a manufacturing machine that combines various hardware and software components such as castings, precision materials, electrical control systems, and computerized digital controllers into a production and processing equipment, making it a crucial element in various industries such as general industrial, transportation, aerospace, defense, and semiconductor. Therefore, the machine tool industry plays a critical role in industrial development.

The domestic machine tool industry involves a complex manufacturing process, requiring numerous types and quantities of components. While some key components need to be purchased from foreign manufacturers, the remaining components can be supplied and processed by domestic cooperative manufacturers. Each manufacturer's central factory is responsible for assembly, testing, and other operations, thus closely integrating the production and manufacturing of machine tools through this professional division of labor.

The relationships with up-, middle- and downstream in the machine tool industry are as follows:



III.Various Product Development Trends

(1)Work remotely and remote customer service will become essential post-pandemic business models, driving the continuous growth of industrial robots, service robots, semiconductor equipment, and automation equipment demand.

(2)Responding to new opportunities in fields such as electric vehicles, low-orbit satellites, aerospace, green energy, healthcare, and semiconductors, the tooling industry will see high growth in application areas. While current mainstay products such as gantry grinders, precision surface grinders, and CNC grinders will remain popular, new technology trends such as mobile column precision surface forming grinders and composite vertical grinding centers will mature and become mainstay products.

(3)In the coming years, there will be a steady development of Industry 4.0. After the integration of IoT technology into production lines and cloud-based analysis, integration with ERP, supply chain, and CIM systems will lead to trends in more automated machinery and 3D printing.

(4)Businesses should accelerate the establishment of cross-border, cross-region, and diversified production bases to reduce supply chain risks and implement digital manufacturing. Establishing digital platforms and enhancing supply chain resilience will also be important.

IV.Products Competition

(1)Machine tool industry in Taiwan must actively respond to the changing demands of the Chinese market by aiming to enhance the processing accuracy (≦0.001mm) and reliability of machine tools, while developing multi-axis and compound functional machine tool products, such as horizontal machining centres, 5-axis machining centres, turn-mill centres, horizontal boring mills, and precision presses. By doing so, the industry can widen the technology gap with mainland China and maintain Taiwan's competitive advantage in the Chinese market.

(2)Taiwan's machine tool industry primarily targets the mid-range and low-end markets by emphasizing the high price-to-performance ratio (or C/P value). In contrast, Japanese machine tool manufacturers focus on the high-end and mid-high-end markets. Consequently, the depreciation of the Japanese yen has a significant impact on Taiwan's high-end machine tools, such as CNC vertical lathes or 5-axis integrated machining centres. The most fiercely competitive market will be the European and American markets that demand precision machining equipment. It is recommended that Taiwanese manufacturers avoid direct competition with Japanese machine tools in the short term and instead emphasize customization or after-sales service to increase product added value.

(3)Machine tool manufacturers in Taiwan mainly set up subsidiaries, dealerships, and offices in the US market, targeting local small and medium-sized outsourcing manufacturers scattered across various states. The US market increasingly values the intelligence of machine tools, and machine tool manufacturers around the world are gradually focusing on developing more intelligent solutions.

(4)Through mergers or acquisitions, machine tool industry players can integrate their resources and capabilities to expand their market presence and attract new customers. Going forward, the machine tool industry is expected to focus on developing automation machines, advanced control/motion control systems, digitization, Industry 4.0, and artificial intelligence in order to remain competitive in the global marketplace.

5.1.3.Research and Development

I.Research and development expenditures and the percentage of those expenditures to net operating revenue for the most recent fiscal year and the current fiscal year up to the date of printing: (consolidated)

Unit:NT$ Thousands, %

Year	2021	2022
Expenses of Research and Development	62,483	54,492
Net Operating Revenue	1,607,091	1,610,552
Intensity Ratio	3.89%	3.38%

II.Products developed

Year	Product developed
2007 | 2022	1. Development of oil hydrostatic track machines. 2. Development of high-speed precision steel track machining machines. 3. Development of QP series BBT40 8000rmp spindle. 4. Development of FVL-20DT vertical lathes. 5. Development of heavy-duty gantry grinding machines (moving and fixed beams) 6. Development of FVG-1616 vertical grinding center 7. Development of 818HD lifting oil hydrostatic machines. 8. Development of the new AD grinder 1224TS series 9. Development of heavy duty gantry milling machines 10. Development of FTH-2436W wheel-specific machine tools 11. Development of QP3560/3572 series. 12. Development of FVL-1600 vertical lathes. 13. Development of heavy duty horizontal boring mills. 14. Development of heavy duty gantry FVM-DCL series.. 15. Development of FAG-4040 vertical grinding machines. 16. Development of nano oil hydrostatic CNC grinders. 17. Development of gantry five-axis machining centers. 18. Development of heavy-duty gantry grinding machines. 19. Development of FVL-2000 vertical lathes. 20. Development of universal grinders FSG-TS series. 21. Development of QP SMART integrated machining centers. 22. Development of FVM-3016DCL gantry milling machines. 23. Development of FVM-4016DCL gantry milling machines. 24. Development of 13-meter heavy duty gantry grinding machines. 25. Development of oil hydrostatic screw drive gantry grinding machines. 26. Development of Ultimate ultra-precision surface grinders 27. Development of vertical lathes FVL-850ATC. 28. Development of large lathes with rotary gear drive mechanisms. 29. Development of fixed beam-double column milling. 30. Development of SMART III CNC surface grinders.Development of automated production lines. 31. Development of EM series Vertical Machining Center. 32. Development of QP5X-400 five-axis Vertical Machining Center. 33. Development of FVM-B3116LB/LG. 34. Development of FBB-110 machines 35. Development of FVL-8P vertical lathes 36. Development of 2040/2460ADS 37. Development of FVM-3016DCL II. 38. Development of UNi5x-800 gantry five-axis machines 39. Shoemaking mold processing project 40. ADIV smart grinders 41. Double sided Fine grinder development 42. Development of FVL-15P vertical lathes. 43. Development of QP SMART II smart human-machine interface project 44. Development of FVM-40/50 series gantry grinding machine beam structure. 45. Development of FVG-10i internal grinding 46. Graphite processing machine development 47. Drilling machine development。 48. iBox software development。 49. Development of FMG-B1224 high-waist type。 50. Development of FVM-60 series gantry grinding machine beam structure。 51. Development of FMG-B1640 high-waist type. 52. SMART iControl 4 hardware and software features. 53. Development of FSG-2064ADIV grinder. 54. Fanuc AI thermal displacement correction. 55. Intelligent grinding auxiliary system. 56. Development of FSG-2448ADIV grinder. 57. Development of FSG-2464ADIV grinder. 58. Development of FSG-2480ADIV grinder.

III.Future Development

The R&D department of Falcon Machine Tools CO., Ltd. uses advanced 3D software to effectively correct and inspect finite element analysis and dynamic simulation during the design process, ensuring that all machine models have optimal precision, toughness, and rigidity. The company maintains close cooperation with government agencies, private organizations, universities, and research institutions to maintain its leading position in professional technology.

High-speed cutting and high-precision feeding are the pursuit of machine tools, and the development of large-scale machine tools in response to market demand has become a new trend. Therefore, the company actively accumulates design and application technology to develop high-speed, high-precision, highly flexible, highly rigid, and high-value-added technology-based machine tools as the focus of research and development. The company also places control software and intelligent automated production lines as the focus of future R&D.

(1) Research Project and Desciption

Research Project	Research Content	Description
Grinding Machine	Development of Surface Grinder	1. Development of a grinder for the aerospace industry. 2. Development of SMART grinder software technology. 3. Execution of oil-static pressure spindle prototype project 4. Smart grinder machine function planning and Industry 4.0 integration 5. Commercialization of AD IV intelligent grinder 6. Commercialization of Double Shield Fine Grinders 7. Development of High-waist grinder 8. Grinding machine automation planning 9. SMART IV grinder commercialization with 15-inch screen (spindle balancing/intelligent direction switching) 10. Development of dynamic pressure spindle 11. Grinding end detection for grinder 12. Commercialization of FSG-2064ADIV grinder 13. Commercialization of FSG-2048ADIV grinder 14. Development of SMART-20 model 15. Development of SMART-24 series model 16. Development of FSG-24 series model 17. Development of FAUNC IHMI 18. Expansion of iMCS communication protocol with PROFINET 19. Plug in Semi-Auto program Machine 20. Development of Extrusion molding mechanism
	Development of Double Column Moving Beam Grinding Machine	1. Commercialization of vertical grinder models 2. Improvement project for the 60-series double column grinding machine 3. Development of built-in spindle
Milling Machine	Development of Machining Centers Product	1. Enhancement project on the quality and stability of QP machines 2. Commercialization of UNi5X-400 5 Axis Machining Center. 3. Development of QP intelligent technology (SMART/FANUC) 4. Commercialization of UNi5X-800 5Axes Gantry Type Vertical Machining Center 5. Development project for #40/50 ultrasonic spindle 6. Development project for single-machine automation of lathe-milling machines. 7. Development project of FPM-500G Gantry-Type Milling Machine. 8. Commercialization of QP Milling Machine for the 3C Industry 9. Development of FAUNC IHMI 10. Expansion of iMCS communication protocol with PROFINET 11. Plug in Semi-Auto program Machine
Turning Machine	Vertical Lathe Series Product Development	1. Development project for the automation of single-turret lathe 2. Development of FAUNC IHMI 3. Expansion of iMCS communication protocol with PROFINET 4. Plug in Semi-Auto program Machine

(2) Current progress, expected investment in R&D, estimated completion timeline, and key success factors for future R&D initiatives.

Unit:NT$ Thousands

R&D Projects	Project Title	Current Progress	Expected investment in R&D	Estimated Completion Timeline	Key success factors for future R&D initiatives
Grinding Machine	Development of Surface Grinder	Development of SMART intelligent machinery.	200	2023/06/30	1. Development of automated grinding mode 2. Software technology 3. Design for enhance mechanical rigidity of the main body
		Development of hydrostatic spindle	100	2023/04/30	1. Design for enhanced mechanical rigidity 2. Reduction of vibration frequency 3. High damping and cutting capacity 4. Extended spindle lifespan
		Development of SMART 20 machinery.	150	2023/12/30	1. Automated grinding mode 2. Intelligent pressure control 3. Workpiece can be ground on both sides simultaneously 4. Independent direct drive for upper and lower grinding disks and center gears, with forward and reverse rotation capability.
		Development of SMART 24 machinery.	300	2023/12/30	1. Automated grinding mode 2. Intelligent pressure control 3. Dual-sided grinding capability for workpieces 4. Independent direct drive of the upper and lower grinding disks and center gear with reversible operation.
		FSG-24ADIV series grinding machines	150	2023/6/30	1. Automated grinding mode 2. Intelligent pressure control 3. Dual-sided grinding capability for workpieces 4. Independent direct drive of the upper and lower grinding disks and center gear with reversible operation.
		Development of intelligent machine networking	300	2023/10/31	1.Intelligent development 2.Human-machine interface design.
		Development of Green Energy Consumption Statistics	150	2023/05/31	1.Intelligent development 2.Human-machine interface design.
	Double Column Fixed Crossrail Surface Grinder FSG-DC	Development of built-in spindle	320	2023/06/30	1.Development of built-in spindles 2.Enhanced rigidity 3.Reduced vibration frequency.
Milling Machine	Integrated Machining Center Product Development	QP Milling Machine (Commercialization for 3C Industries)	200	2023/08/30	1. Customized special interface 2. Dust-proof design 3. Special fixtures for the 3C industry 4. Control of spindle temperature rise
		Single-machine automation for lathe-milling machines	150	2023/12/30	1. Fixture design 2. Safety protection design 3. Machine stability 4. Cutting and chip removal design
		Commercialization of QP-SMARTII 15-inch	150	2023/06/30	1.Development of intelligent systems 2.Human-machine interface design
Turning Machine	Development of small vertical lathe series products	Development of Single Lathe Automation System	200	2023/12/30	1.High-rigidity box-type integral-formed column structure 2.Japanese-made alloy steel hard rail 3.High-rigidity spindle to maintain high precision 4.Equipped with automation 5.Robot arm with a smaller rotation radius

5.1.4.Long-term and Short-term Development

Item	Short-term Development	Long-term Development
Production, R&D, and Product Development Strategies	1. Standardization Tooling product and mass production: To meet the demand for multifunctional applications and shorten lead times, it is necessary to strengthen the standardization and mass production of tooling products to avoid over-customization that may lead to difficult production and delayed delivery. 2. Development of component commonality: Inventory risk of spare parts can be reduced through component commonality 3. Reduce waiting time and ensure accurate delivery: Communicate with supply chain vendors to improve the supply schedule, reduce waiting time, and ensure smooth production and accurate delivery. 4. Improve the development and improvement capabilities of mass-produced models: Actively develop and improve mass-produced models that are in line with mainstream market demand to increase business revenue. 5. Continue with FPS management: Improve the production process, reduce production costs, and improve the company's profitability through continuous FPS management.	1. Implementation of production capacity utilization to improve production efficiency: Based on customer demand, effective production planning and capacity utilization can be arranged, reducing ineffective working hours, and thus reducing production costs and improving the company's profitability. 2. Self-made or substitution of key components: Continued cooperation with industry, government, and academia to jointly develop key components to reduce reliance on foreign key components. 3. Establish a complete supply chain system: Establish a supply chain strategic alliance with upstream and downstream satellite factories to strengthen the professional division of labor system and enhance the value of the machine tool industry. 4. Development of high value-added products: Collaborate with academia to enhance the technical level and develop high value-added products to strengthen the company's competitiveness and ensure sustainable operation. 5. Product quality and automation: Through the introduction of new technologies and concepts, and the integration of high-tech automated equipment, continuous quality improvement and implementation of quality management are carried out to ensure high-quality products.
Marketing Strategy	1. Strengthen customer service capability and enhance customer satisfaction: Enhance education and training for marketing and customer service personnel, provide comprehensive training and guidance to dealers, implement after-sales service system, and establish good communication channels with customers to ensure the interests of both parties and enhance customer satisfaction. 2. Target special order needs and actively develop potential customers at home and abroad: Through product customization services and providing high-value-added high-spec products, actively develop potential customers at home and abroad and create competitive advantages. 3. Diversify customer base, adjust product lines and channels: Diversify order sources and production schedules, adjust product lines according to market demand and industry trends, and develop diversified channels based on product characteristics and production and sales flexibility to avoid operational risks caused by changes in the business environment and other factors.	1. Strengthening the company image: By improving the sales and service system, offering high-quality products, and enhancing the company's image, we aim to maintain the leading position of our grinding machines and elevate the brand value of "CHEVALIER". 2. Expanding overseas markets and promoting the "CHEVALIER" brand: Actively expand into the mainland China market and develop emerging markets while strengthening the global marketing service network. Additionally, we improve the management and operation of the official website for marketing to promote the "CHEVALIER" brand worldwide. 3. Increasing market share: By building a strong company image, enhancing brand value, and improving the production and sales system, we aim to gain customer trust and increase market share. 4. Managing customer credit: Implement effective credit management for customers, shorten the accounts receivable cycle, and reduce credit risks.
Financial Development Strategy	1. Reduce inventory and increasing operating cash flow: Effective production and sales management, along with efficient inventory control, will help to reduce inventory levels, increase cash flow, and improve working capital. 2. Improve financial ratios: By utilizing idle assets, reducing bank borrowing, and improving cost management and revenue growth, we can improve our financial structure and attract more investments to benefit all shareholders.	1. Strengthen the company's financial structure: Establish positive relationships with financial institutions, implement effective credit control measures, and manage various financial risks. 2. Fundraising: Exploring the capital market for low-cost capital has been pursued as a means of obtaining the funds necessary for future development 3. Investment planning: Evaluation and implementation of investment plans will strengthen the company's financial position, increase profitability, and provide benefits to shareholders and employees.

5.2.Market and Sales Overview

5.2.1.Market Analysis

I.Sales and service regions for the main products: (After the merger with Falcon)

Unit: NT$ Thousands

Region	2022		2021	
	Total	%	Total	%
Americas	590,203	36.65%	515,103	32.05%
Mainland China	522,717	32.46%	581,541	36.18%
Europe	95,399	5.92%	106,514	6.63%
Taiwan	135,204	8.39%	186,565	11.61%
Others	267,029	16.58%	217,368	13.53%
Total	1,610,552	100.00%	1,607,091	100.00%

II.Market Shares

Unit: NT$ Thousands

Item	2022	2021
Total sales value of metal cutting machine tools	97,517,732	93,204,286
Falcon individual business sales revenue	1,191,535	1,055,120
Market Shares of Company	1.22%	1.13%

Source: Compiled by Chevalier Machinery Inc. from the Statistics Department of the Ministry of Economic Affairs.

Explanation:The company’s major product categories are metal cutting machine tools. According to the statistical analysis information from the Statistics Department of the Ministry of Economic Affairs, the total sales value of metal cutting machine tools in Taiwan in 2022 and 2021 was NTD 97,517,732 thousand and NTD 93,204,286 thousand, respectively. Therefore, according the individual sales values in 2022 and 2021, the market share of company's main product in the domestic metal cutting machine tool market was 1.22% and 1.13%, respectively.

III.Future supply and demand situation and growth potential of the market

The machine tool industry, often referred to as the "mother of machinery," plays a crucial role in various manufacturing processes, including automobile, milling, grinding, cutting, laser processing, and high-tech industries such as PCB drilling and wafer cutting. With the continuous development of global IT, information communication, aerospace, semiconductor, energy, transportation, and medical equipment industries, the demand for machine tools is expected to increase. Additionally, the rapid growth of industries such as automobiles, aerospace, electronics, IT, telecommunications, transportation infrastructure, and alternative energy in the mainland China region further contributes to the increased demand for machine tools. Despite the influence of economic fluctuations on global machine tool demand, as the economy stabilizes and related industries continue to progress and grow, the market demand for machine tools is expected to increase.

In the first half of 2022, the overall performance of Taiwan's machine tool industry was outstanding. The total export value from January to October 2022 reached $2.502 billion, representing a growth of 11.4% compared to the same period last year. However, the outbreak of the Russo-Ukrainian conflict at the end of February led to global geopolitical instability and a European energy crisis. The shortage of raw materials not only affected production costs and consumer prices but also caused delivery disruptions. Inflation led to aggressive interest rate hikes by the U.S. Federal Reserve, resulting in reduced consumer spending. The appreciation of the Japanese yen also reduced the competitiveness of Taiwanese machine tool components in the international market. These factors have led to a shift in expectations from optimism at the beginning of 2022 to a more cautious outlook by the end of the year. According to the prediction by the Industrial Technology Research Institute (2022/10), Taiwan's machine tool exports in 2023 are estimated to decline by 4.0% to $2.71 billion. This is primarily due to the unstable political and economic situation in the main export market, mainland China, and recent policy changes related to the pandemic, which will impact the sluggish business environment in the first half of 2023.

However, India is expected to become a major consumer electronics and automobile manufacturing country in 2023, potentially driving the demand and development of the machine tool industry. Additionally, India's population dividend and government support create opportunities for it to become a leading manufacturing nation. Despite the inflationary challenges faced by the United States, industries such as aerospace, automotive, and defense continue to demonstrate steady demand for machine tools. Furthermore, as the net-zero carbon emission trend emerges, customers in the machine tool industry will focus not only on price and efficiency but also on energy-saving and carbon reduction performance. Therefore, green machine tools with energy-saving features will become a key focus of competition in the machine tool industry in the next decade. These are all key development areas for Fuyu Corporation, instilling confidence in its operations for 2023 and creating promising prospects for the future.

IV.Competitive advantages of company

(1) Industry status - "Stable foundation as a leading grinding machine company": Falcon Machine Tools CO., LTD has become the leading company in Taiwan's professional cutting tool grinding machine industry in terms of product line completeness, grinding machine technology research and development, and product marketability. The company also has considerable recognition in the international market.

(2) Quality advantage - "Self-created brand with excellent reputation 'CHEVALIER'": Falcon Machine Tools CO., LTD product brand "CHEVALIER" represents the advantage of excellent quality in the industry and user perception. The company has also obtained international standard product quality system certification, ISO 9001, and EU CE certification, as well as 57 patents and 66 trademark registrations.

(3) Product innovation: The company's development department has a complete talent pool and extensive design experience, enabling the company to design special specification machines that meet customer needs in a short time, which gives the company more opportunities to compete for orders with special requirements. The company's oil hydrostatic grinder has been developed and is available for customer needs, and its accuracy can meet the future demands of the nanotechnology market. In addition, the company's series of vertical lathes manufactured in cooperation with a well-known Japanese manufacturer has received automation and technology support from Japan, with great potential to contribute to sales revenue.

(4) Production of grinding, milling, and turning machines for molds or production purposes: As the demand for high-precision and high-quality products continues to grow in the market, the company's products are superior in terms of quality and precision compared to other competitors, providing a competitive advantage in the industry. In particular, the company has developed sub-micron, nanometer, and high-speed line grinding machines to meet the grinding needs of the IT industry.

(5) The company has established a global marketing network, sales and service system, and high-efficiency sales and service capabilities, allowing customers to use our products with confidence. The company has also strengthened the establishment of sales channels for large-scale and composite machines and strengthened sales and application capabilities. The company has expanded into key industries such as the electronics industry, stamping dies, aerospace, green energy, various transportation-related industries, and the IT industry, and provides orders for customized turnkey engineering projects, further enhancing its competitive advantages.

V.Favorable factors for the future development of the market:

(1) Competitiveness of Taiwan's Machine Tool Industry in China's Market:
Accelerated restructuring in China and new opportunities in emerging Southeast Asian markets. Due to changes in China's epidemic policies, the first quarter was weak, but as the epidemic situation improves, there is a chance of a turnaround in the second quarter, and exports are expected to begin to improve in the third quarter.

(2) Complete industrial center-satellite system:
The related center-satellite system of Taiwan's machine tool industry is fully complete. Except for a few key components that still need to be imported from abroad, all other related components can be self-sufficient, and supply can be completed within tens of kilometers. A good and sound center-satellite system helps Taiwan's machine tool industry to compete internationally.

(3) Increased demand in China for mid-to-high-end machine tools
Since 2003, China has become the world's largest importer of machine tools, indicating that China's demand for the machine tool market is gradually increasing. Currently, low-end machine tool demand in China is mainly met by local manufacturers improving quality and government support for Chinese-made machine tools. However, the high-precision and high-efficiency demands of mid-to-high-end machine tools still rely on imports from Germany, Japan, Taiwan, Switzerland, and other countries. Therefore, China's huge demand for machine tools has become a major market for countries to promote the affordability of high-end machine tools.

(4) Mature technology for self-made PC-BASED controllers:
Due to the ease of learning, operation, and maintenance, as well as relatively low cost, the PC-BASED controller for machine tools has great growth potential. Currently, the market demand for PC-BASED controllers is growing rapidly, and Taiwan, as a major producer of personal computers, has easier and lower-cost access to controllers and software than other countries. In addition, the ECFA has a sunset clause for imported controller products, so the development space for our self-made PC-BASED controllers is more helpful.

(5) "Dominate Europe and the United States, and look to Asia and Greater China":
Company's sales target markets include North America, Asia, Europe, Australia, China, Taiwan, and other regions. Among them, North America, Western Europe, and China are the main sales regions. Looking ahead, the demand for machine tools in Europe and the United States is still growing after the financial storm. At the same time, emerging markets such as China, India, Turkey, Vietnam, South Korea, Brazil, Mexico, and Russia have high demand for machine tools and are also niche markets for our company's future growth. Other markets such as Eastern Europe and Central and South America also have great development potential. China is the fastest-growing market. After years of extensive and meticulous market layout, the visibility of our products has improved significantly in a short period of time. The growth opportunities are also relatively large, especially in recent years, the rapid growth of China's automotive industry and various transportation equipment has driven the high-speed growth of machine tool demand, so the development potential of the Chinese market cannot be ignored. With the addition of our factory in China, the development space for our products in the Chinese market is further expanded.

VI.Adverse factors and coping strategies for market development prospects:

(1) Domestic shortage of technical talent and experienced labor in the market has led to the dilemma of insufficient productivity. In addition, the government is gradually adjusting welfare policies, increasing national health insurance premiums, and raising the basic wage, causing an increase in operating costs.
【Countermeasures】:
1. Hiring foreign workers and actively strengthening employee education, technical training, and improving the overall working environment, allowing employees to work safely and comfortably in the company. Also, outsourcing operations to make up for the shortage of manpower.
2. Increase investment in automation equipment to reduce labor demand. Adopting FPS and refined production methods to improve work efficiency and reduce

production costs.

(2) The demand for precision, quality, and performance of machine tools in the market is increasing, and some technical levels cannot be overcome by domestic or internal capabilities, making it more difficult to develop new products.

【Countermeasures】:

1. Cooperate with foreign companies with higher technical levels to introduce advanced technology to enhance product performance, increase precision, and strengthen competitiveness.
2. Collaborate with domestic academic research units to overcome the shortage of technical capabilities through continuous research and development, improvement, and impact of new knowledge and new thinking to ensure product quality, consolidate brand advantages, and corporate reputation.

(3) The company's products are mainly exported, so exchange rate fluctuations have a greater impact on the company. Machine tool exports are facing more complicated international competition and are facing a significant depreciation of the Japanese yen by more than 35%, which will affect international buyers' orders from Taiwan.

【Countermeasures】:

1. When setting prices for the company's products, consider exchange rate factors. If there is significant exchange rate volatility, adopt forward foreign exchange sales or adjust product prices to make the exchange rate risk moderately shared by dealers or buyers.
2. Collect information on exchange rate fluctuations at any time, fully grasp the trend of exchange rate fluctuations to avoid risks.

(4) Some components rely on foreign suppliers. Currently, the domestic machine tool key component controller relies on foreign manufacturers to supply. The controller system is the core of the machine tool and is controlled by foreign companies, which is not conducive to the development of the industry.

【Countermeasures】:

1. Diversify risks by purchasing from Japanese companies, as well as other countries such as the United States, Germany, and Spain.
2. Devote to cultivating and rooting the talent of the electrical control system and actively promote the development of self-developed PC-BASED controllers.
3. The development of 5-axis machine tools has been completed. Currently, it is still expanding to universal grinding machines and comprehensive processing machines. Also, it continues to improve and enhance hardware and software functions. Combining the cooperation of domestic production, government, research, and academic circles to develop key technologies to reduce dependence on foreign controllers.

5.2.2. Supply of Main Raw Materials

The main products rely on domestically sourced components such as cast iron, sheet metal parts, controllers, motors, and precision bearings, with some components sourced from abroad. The company has maintained good relationships with suppliers, ensuring stable prices. Overall, there are multiple domestic and international suppliers for the main raw materials, enabling stable prices and quality. However, to mitigate procurement risks, the company periodically seeks to diversify the supplier base.

Details of the usage and supply of these materials are presented in the table below:

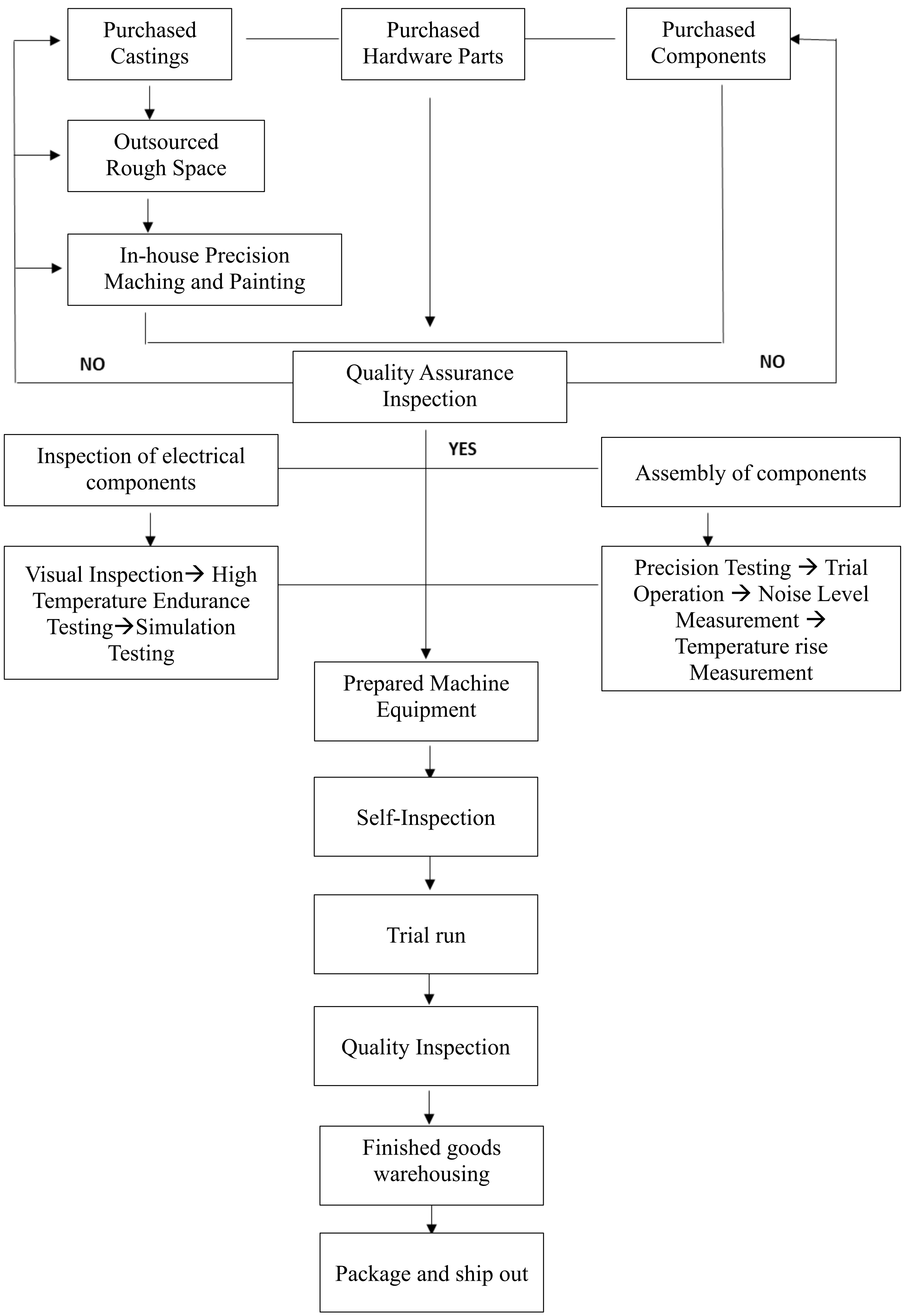
Name of Raw Material	Main Source	Supply Situation
Castings	Domestic casting suppliers	Production lead time of three months, delivery based on order delivery date
Sheet metal parts	Domestic sheet metal suppliers	Delivery based on order delivery date
Numerical controllers	Imported from Japan's FANUC company and Mitsubishi (ordered through Taiwan's FANUC and Mitsubishi) Europe: Heidenhain, Siemens, and FAG controllers	Delivery lead time: 4-5 months for FANUC, 2-3 months for Mitsubishi, 6-8 months for Siemens, 6 months for Heidenhain, and 3 months for FAG
Motors	Domestic suppliers such as Delta and Fuji Electric (excluding stepper and servo motors)	Delivery based on order delivery date
Precision bearings	Domestic component suppliers, imported from Japan's NSK and NTN, and from Europe's SKF and Schaeffler	Delivery based on order delivery date, with a delivery time of three months for orders

5.2.3.Production Procedures of Main Products

I.Major Products and Their Main Uses

Products	Function	Applicable Industries	Features and Characteristics
Grinding Machine	Sharpens cutting tools such as drills, milling cutters, and lathe tools, as well as grinding metal and non-metal parts with high-precision flat and groove forming	Suitable for the grinding processing industry, grinding superhard materials, precision mold industry, semiconductor industry, and various kinds of punch grinding and continuous mold.	High precision, high rigidity, easy operation, and automation.
CNC Grinding Machine	Shapes and grinds metal and non-metal parts into special shapes, such as deep cuts and relief grinding.	Suitable for the electronics industry, aerospace industry, mold industry, 3C industry, punch and bar industry, automotive and motorcycle parts industry, precision parts industry, grinding processing industry, molding contour grinding, etc.	Complex grinding processing and automated production processing, high rigidity, high precision, molding grinding, wheel shape trimming, heavy cutting processing, and efficiency improvement. Suitable for heavy cutting grinding, high surface quality, or high hardness material needs.
Portal Grinding Machine	Suitable for grinding large metal and non-metal machine tool bases, large template workpieces, rail precision grinding, and large castings	Heavy duty of grinding processing industry, large-scale casting plane & rail, ultra-large automotive grinding tool industry, TFT grinding tool industry.	Large-scale flat, high-height concave and convex precision flat processing, beam-type mobile door-type, independent "square group" door-type design, optimal design, high precision, and high rigidity.
CNC Turning Machine	Suitable for circular workpieces, shapes, thread, and taper processing of metal and non-metal parts.	Automotive industry, petrochemical industry, hardware industry, 3C electronics industry, general processing industry, turning processing industry, and general circular workpiece processing	An ergonomic design for human-machine operation interface, high rigidity mechanical structure design, Japanese technical cooperation, fast and accurate positioning, and rapid processing of large circular workpieces with a simple appearance.
Vertical lathe	circular workpieces, shapes, thread, and taper processing of metal and non-metal parts.	Suitable for turning processing industry, general circular workpiece processing industry, automatic production line wiring processing industry, automotive and motorcycle parts, electrical industry parts, wheel industry, brake discs, petroleum (oil energy) industry, wind power generator industry	Short workpiece, high precision processing, automatic scheduling processing, small floor space, increased factory utilization efficiency, well-designed chip removal, special square hard steel rail design, providing the best cutting steel properties. Multiple machines can be used for joint layout, making operation and workpiece lifting more efficient. It has super high precision and high steel properties and can perform automatic production line mass production operations.
CNC Vertical machining centers	suitable for milling, drilling, tapping, and special shaping of metal and non-metal parts	widely used in the automotive industry, hardware, mold processing industry, aerospace industry, electronic industry, home appliances industry, hydraulic components, and general parts processing industry. These machines are ideal for general machining, and they are designed with excellent rigidity to eliminate vibrations caused by heavy cutting. The feed system also offers high rigidity and accuracy	High rigidity and accuracy in their feed system, making them suitable for high-efficiency machining and achieving high surface quality even for parts with high hardness. Additionally, they are easy to operate and allow for fast workpiece changeover.

II.Major Products and Their Production Processes



5.2.4.The top 10% suppliers or customers based on their purchasing or sales amounts as a percentage of the total amount in any one of the past two years, including their names, purchase or sales amounts, and corresponding percentages.

I.Major sales customer's information in the most recent 2 fiscal years:

Unit: NT$ Thousands

Year	2021				2022			
Item	Name	Amount	Percentage of net sales for the entire year (%)	Relation with Issuer	Name	Amount	Percentage of net sales for the entire year (%)	Percentage of net sales for the entire year (%)
	Net Sales	1,607,091	100.00	None	Net Sales	1,610,552	100.00	None

Note: Sales to individual customers whose sales amount does not exceed 10% of the total sales amount are not included.

II.Major supplier's information in the most recent 2 fiscal years:

Unit: NT$ Thousands

Year	2021				Year			
Item	Name	Amount	Percentage of net sales for the entire year (%)	Relation with Issuer	Name	Amount	Percentage of net sales for the entire year (%)	Relation with Issuer
	Net Purchase	1,086,465	100.00	None	Net Purchase	1,076,636	100.00	None

Note: Individual supplier's purchases accounted for less than 10% of the total purchase amount.

5.2.5.Production Volume and Value in the Most Recent 2 Fiscal Years:

Unit: Machone: NT$ Thousands

Year / Major Product	2022			2021		
	Production Capacity	Production Quantity	Production Value	Production Capacity	Production Quantity	Production Value
General Grinding Machine	610	470	449,418	250	194	455,903
CNC Grinding Machine	100	57	122,634	300	230	146,460
CNC Machine Center	120	123	134,809	200	125	189,751
CNC Turning Machine	50	33	36,814	50	15	24,998
Vertical Turning Lathe	50	15	54,531	36	1	7,490
Gantry Grinding Machine	10	15	81,511	5	4	24,133
Gantry Milling Machine	10	0	1,209	5	0	0
Others	0	0	250,665	0	0	82,983
Total	950	713	1,131,590	846	569	931,719

5.2.6.Sales Volume and Value in the Most Recent 2 Fiscal Years

Unit: Machone: NT$ Thousands

Year / Major Product	2022				2021			
	Local		Export		Local		Export	
	Volume	Amount	Volume	Amount	Volume	Amount	Volume	Amount
General Grinding Machine	8	17,608	505	533,911	21	27,159	480	437,299
CNC Grinding Machine	11	48,440	80	220,484	12	42,964	110	235,815
CNC Machine Center	18	29,289	170	272,729	38	65,175	300	384,219
CNC Turning Machine	0	0	49	81,223	0	0	53	84,819
Vertical Turning Lathe	0	0	16	56,120	1	7,490	3	13,381
Gantry Grinding Machine	0	0	14	103,859	1	7,379	13	77,048
Gantry Milling Machine	0	0	0	0	0	0	0	0
Others	0	39,987	0	206,901	0	36,399	0	187,944
Total	23	135,324	658	1,475,228	73	186,565	959	1,420,526

5.3.Human Resource

5.3.1.Employee Statistic for the Most Recent 2 Fiscal Years up to the Annual Report Publication Date of Falcon Machine Tools CO., LTD:

Fiscal Year		2021	2022	As of 2023/03/31 of the current fiscal year
Number of Employees	Direct Labor	15	20	20
	Indirect Labor	146	147	144
	Total	161	167	164
Average Age		43.01	45.35	45.05
Average Year of Service		12.15	12.42	12.28
Education distribution percentage	Ph.D.	0%	0%	0%
	Master’s degree	8.92%	10.77%	10.98%
	College	60.51%	59.28%	60.36%
	Senior High School	28.66%	28.74%	27.43%
	Below Senior High	1.91%	1.21%	1.23%

Note: This analysis data is for a single company, the parent company Falcon Machine Tool CO., LTD which is not include students from vocational schools and foreign workers.

5.4.Environmental Protection Expenditure

5.4.1.In recent years and up to the date of printing this annual report, the company's environmental protection operation at the factory has been operating normally, and no pollution disputes or losses or remuneration due to environmental pollution have occurred.

5.4.2.Countermeasures

1. Future countermeasures (including improvement measures) and possible expenses: None.
2. The company has established relevant management measures for various environmental protection measures, such as wastewater discharge management, air pollution prevention and control, labor safety and health, and occupational hazard prevention and treatment, to ensure the safety of employees and prevent environmental pollution.
3. The EU's Restriction of Hazardous Substances Directive (RoHS) does not apply to the products produced by the company.

5.5.Labor Relations

5.5.1.Employee welfare measures, retirement system implementation, and the situation of agreements between labor and management in the company:

I.Employee Benefit Plans

The company was approved for establishment by the Taichung County Government on June 29, 1989 under letter No. 913 of the Labor and Welfare Bureau, and is committed to promoting various employee benefit plans, as follows:

(1)Employee insurance, national health insurance, and regular body check-ups.
(2)Nutritionally balanced meals provided by dedicated food service personnel.
(3)Single dormitory rooms are available, with free 24-hour hot water and air conditioning.
(4)Birthday celebrations with a gift for the celebrant.
(5)Provision of work uniforms.
(6)Welfare funds are allocated to the employee welfare committee for beneficial activities such as outings, competitions, and other mental and physical activities.
(7)Wedding, funeral, and other celebratory occasions are acknowledged with gifts and condolences.
(8)The company provides gifts to all employees during Labor Day and three major festivals.
(9)Employees who have completed five years of service receive a bonus and the opportunity to travel overseas.
(10)Periodic in-house training activities are held and are open for voluntary participation.
(11)When the company is profitable, employee remuneration is allocated in accordance with the law.

II.Retirement system and the status of their implementation

Before 1987, the company set aside a retirement reserve fund of 3% of the total salary paid annually, which was listed as a liability. After 1987, in accordance with the provisions of the Labor Standards Act, the company set aside a retirement reserve fund of 2% of the total salary paid annually, which was deposited and used in a special account supervised by the Labor Retirement Reserve Supervision Committee. Since September 2010, the retirement reserve fund contribution rate has been raised from 2% to 6% of the total salary paid annually to enrich the retirement reserve fund. The company has been following the Financial Accounting Standards Board Statement No.18 "Accounting Treatment for Retirement Benefits" since the end of 1996. The Labor Retirement Benefits Act was implemented by the company since July 1, 2005, with a defined contribution plan. After implementation, employees can choose to apply the retirement benefits regulations under the Labor Standards Act or the retirement benefits system under the Labor Retirement Benefits Act and retain their work seniority before the implementation of the Act. For employees covered by the Act, the company's monthly contribution rate for employee retirement benefits shall not be less than 6% of the employee's monthly salary.

The company calculates the amount of the old retirement reserve fund to be fully funded at the end of the year and sets aside the necessary amount of the old retirement reserve fund in accordance with the law. In 2022, the company set aside more than 20.2 million NT dollars for retirement reserve fund. In 2021, the company set aside more than 23.7 million NT dollars for retirement reserve fund.

III.Continuing Education and Training

(1) To enhance the quality of human resources and develop competitive advantages, the company has established "Employee Education and Training Regulations" and "Internal Lecturer Appointment and Removal Regulations" as a foundation for sustainable management and development.
(2) The company provides internal and external training programs, including pre-job training for new employees, and arranges courses based on employees' job-related fields. Employees may also apply for training subsidies based on their interests, abilities, and career plans.
(3) The company actively collaborates with multiple schools, including National Shiou Shuei Senior Industrial Vocational High School and National Formosa University to cultivate talent in the mechanical and other related fields.
(4) The company maintains good labor-management relationships with smooth communication and has not experienced any major labor disputes.

Falcon Machines Tool CO. LTD
Internal and External Continuing Education and Training in Year 2022

Education and Training	Internal	External
Number of training courses	67	8
Total training hours (HR)	181.5	63
Expenditure (NTD thousands)	0(Note)	30.7 NTD Thousands
Name of Training	FVGC Silicon Carbide Processing Sharing Concept of Fixture Design Common Industrial Ethernet Communication Protocols Three-dimensional Measurement Teaching (Basic Concepts and Operations, Practical Grinding Block Testing) Introduction to FSG-2048/2064 New Product Mechanism and Workpiece Application Brief Introduction to Siemens Additional Axis Installation Introduction to Drawing Labeling Notes Teaching of Lathe Screw Shaft Bearing Assembly Sharing of Double-sided Grinding Process Difference between FANUC System MACRO Program and SMART System MACRO Program Writing AI Empowerment for Winning Green Machinery Integration of Robot Arms and Machine Tools Specification/Trade Terms/Cabinet Unloading Method for Strategic High-tech Product Exports Design Sharing of Dynamic Pressure Spindle 4+1 Axis Machining Operation Instructions Calculation of Cutting Capacity for Lathe/Milling FANUC Spindle Initialization Assembly of Dragon Grinding Hydraulic Cylinder ... Total of 67 courses.	Precision Measurement Analysis and Application of Smart Manufacturing Supplier Carbon Audit Training Program- Machine Tool/Machinery Industry Exploring the Metaverse of Grinding Regulatory Analysis and Audit Focus of Board of Directors and Functional Committees (Audit, Remuneration) Practical Audit of Subsidiaries Explanation Meeting on 2022 Year Autonomous Promotion of Hazardous Chemical Operation Environmental Monitoring Subsidy Operation .... A total of 8 items

Note: Expenses related to internal and external education and training that lack official receipts cannot be recognized as training expenses. As a result, they will be recognized under other expenses.

5.5.2.Any losses suffered by the company due to labor disputes in the past two years and estimated amount or measures need to be taken in the future: None

Explanation: The company is committed to complying with all government regulations and has made every effort to promote employee welfare measures. The company has a safety and health management team, which includes safety and health personnel, to ensure the safety and health of workers in the workplace. The safety and health committee meets regularly every quarter (or as needed for emergency meetings). In addition, the company has a project team for labor-management communication in the General Administration Office (consisting of labor representatives from various departments and management representatives), which enables effective communication, coordination, and a harmonious working environment between labor and management. Therefore, there have been no labor disputes and None are anticipated in the future.

5.5.3.Employee Conduct or Code of Ethics

The company established the "Employee Code of Conduct" on December 12, 2012, which includes the principles of integrity, fairness, working environment, prevention of conflicts of interest, avoidance of opportunities for personal gain, fair trade, prevention of insider trading, confidentiality, information integrity, protection and appropriate use of company assets, political donations and activities, copyright, encouragement to report any illegal or violation of the code of conduct, disciplinary measures and exemption procedures, etc. All employees of the company (including subsidiaries) are subject to this code of conduct and regulated by it. In addition, the company has also established employee work rules and various internal management regulations and measures as guidelines and follow-up for employees' daily work behaviors. At the same time, to implement these regulations and measures, the company also has a sound system of rewards, disciplinary measures, and personnel evaluation committees. All cases of rewards and disciplinary measures are processed in accordance with the principles of fairness, impartiality, and openness and are included as the basis for mid-year and year-end assessments. (Please visit the "Investor Relations/Corporate Governance" section of our official website at http://doc.chevalier.com.tw:8080/share.cgi?ssid=0vDAynQ to check the content of the Employee Code of Conduct.)

5.5.4.Environmental and employee safety protection measures

(1) The company has a safety office whose members hold a license as labor safety and health managers. The company also strictly complies with labor laws and regulations, including the Labor Standards Act and the Occupational Safety and Health Act, to ensure a safe and healthy working environment for its employees.
(2) According to the regulations on public safety inspection and reporting of buildings, a professional company is commissioned every two or four years to conduct public safety inspections. In addition, the company also outsources annual fire safety inspections and regularly maintains and inspects various equipment such as air conditioning, fire extinguishers, and evacuation facilities in accordance with labor safety and health regulations.
(3) The company regularly conducts environmental monitoring of air, water quality, noise, and lighting in the workplace in accordance with the "Operational Environment Monitoring Management Procedure". In addition, the company also regularly inspects and tests various equipment or facilities in the workplace with potential hazards to comply with or exceed regulatory requirements, to ensure the health and safety of its employees and to prevent harm.
(4) Safety warning signs and symbols are placed throughout the company's factory to remind employees to pay attention to their own safety.
(5) The company regularly conducts self-defense and firefighting drills, evacuation drills, basic first aid training, and emergency response drills every year to ensure that employees can take correct measures during emergency situations, protect their own safety, and reduce company losses in case of disasters. After each training, deficiencies are identified, and improvement measures are taken.
(6) To ensure employee safety, the company is legally insured for labor insurance (including occupational accident insurance), national health insurance, travel insurance, and group insurance. The company also regularly conducts health checkups for its employees. In the event of an employee injury or accident, the personnel department will assist with related insurance matters.
(7) The company has established SOP procedures and manuals for various work operations (e.g., crane operation SOP, forklift operation SOP, various types of machinery operation SOP, electrical equipment operation SOP, etc.) and requires employees to follow them during their work. In addition, the company periodically holds various internal SOP education and training sessions to reduce the probability of work safety incidents and to ensure that employees perform their duties safely.
(8) The company provides equal job opportunities to job seekers and all employees, safeguarding employees' basic human rights. The company also periodically promotes policies and measures to prevent sexual harassment and gender equality in the workplace and provides channels for labor complaints to create a working environment with gender equality.
(9) Through the operation of the company's employee welfare committee, outdoor trips, family days, parties, movie screenings, and other activities are organized, and various activity clubs (badminton club, fishing club, baseball club, etc.) are established to improve employees' physical and mental health and enrich their lives.
(10) The company has a labor-management committee that coordinates labor-management relations through meetings, communication, and counseling, promotes labor-management cooperation, improves working conditions, prevents labor-management problems from occurring in advance, and improves work efficiency and guarantees the rights and obligations of both labor and management.

5.6.Cyber Security Management

5.6.1.Cyber Security Risk Management Framework:

The cyber security is responsible for the organizational management of information security risk in the company. The department consists of one information director and several professional information security personnel, who are responsible for developing internal information security policies, planning and implementing information security operations, promoting and implementing information security policies, and regularly reporting the company's information security governance to the Audit Committee.

The Audit Department of the company plays the role of supervisory unit for cybersecurity risk and is responsible for overseeing the implementation of internal information security. The department is headed by one audit supervisor. If any deficiencies are identified during the audit process, the audited unit is required to propose appropriate improvement plans and take concrete actions to address them. The Audit Department regularly monitors the effectiveness of these improvements to mitigate internal information security risks

Related cooperating companies:

Company Name	TEL	Task Scope
IBM	04-23241533 0800-055055	AS/400 mainframe hardware and software
DATA SYSTEMS CONSULTING CO., LTD.	04-23267345	TIPTOP server software/hardware and electronic form.
Symphox Information.	04-23280881	Firewall
Chunghwa Telecom Co., Ltd.	04-25266744	Internet dedicated line, VPN connection

5.6.2.Cyber Security Policies

The cyber security policies and specific plans of the company include three aspects:

(1)Regulatory framework: The company has established an information security management system to regulate the behavior of personnel in their work.

(2)Technological applications: The company has implemented information security management equipment and measures, to ensure the security of company information.

(3)Staff training: The company regularly conducts information security education and training to enhance the awareness and knowledge of all employees regarding information security.

Concrete Management Programs:

(1)System crash processing procedures:

I.Notify relevant department personnel to go offline and suspend all operations.

II.The information team interprets the ERROR CODE on the host panel according to the IBM/TIPTOP maintenance manual and handles it.

III.If the information team is unable to handle it, immediately contact the IBM/TIPTOP maintenance personnel by phone to guide the information team on the troubleshooting method to eliminate the fault.

IV.If the above steps cannot be handled, contact IBM/TIPTOP maintenance personnel to come to the company for repair, testing and recovery until completion.

(2)Natural disaster handling

I.The computer room is equipped with drainage facilities and fire extinguishers, and the building is equipped with lightning rods.

II.If the host is damaged: perform data backup monthly and system backup quarterly for recovery and testing.

III.If the host is damaged: a contract is signed with IBM/TIPTOP to enable the company's computers to operate normally in the shortest time.

(3)Recovery Testing

I.OS testing: guided by IBM/TIPTOP information team or IBM/TIPTOP maintenance personnel.

II.Application system testing: conducted by the information team.
III.Record the test result.

5.6.3.The company has not suffered in the most recent fiscal year and up to the annual report publication date due to significant cyber security incidents, the possible impacts therefrom, and measures being or to be taken.

5.7.Important Contracts

The contracting parties, major content, restrictive clauses, and the commencement dates and expiration dates of supply/distribution contracts, technical cooperation contracts, engineering/construction contracts, long-term loan contracts, and other contracts that would affect shareholders' equity, where said contracts were either still effective as of the date of publication of the annual report, or expired in the most recent fiscal year:

<table>
<tr><th>Nature of contract</th><th>commencement dates and expiration dates of supply contract</th><th>Major Content</th><th>Restrictive clauses</th></tr>
<tr><td>Joint Credit Agreement</td><td>2020.02.17
|
2025.02.16</td><td rowspan="3">1. Credit limit: NT$950 million.
2-1.Loan interest rate: The interest rate is calculated by adding 1.30% per annum to the reference interest rate (Taipei Interbank Offered Rate 3-month period or 6-month fixed rate).
2-2.During the credit period, the interest rate for each credit shall not be lower than 1.85% per annum; otherwise, the loan interest rate shall be 1.85% per annum before tax.
2-3.According to the annual/semi-annual consolidated financial statements audited/reviewed by the accountant, if the pre-tax net interest rate is greater than or equal to 5% for each half-year, an additional interest rate of 1.2% per annum shall be added; if the pre-tax net interest rate is greater than or equal to 0% but less than 5% for each half-year, an additional interest rate of 1.3% per annum shall be added; if the pre-tax net interest rate is less than 0% for each half-year, an additional interest rate of 1.5% per annum shall be added.
2-4. The loan interest rate for Credit A shall be adjusted on the interest payment dates every March, June, September, and December each year.
3-1.The total amount of Credit A's 5-year medium-term loan (including a secured loan of NT$450 million) is NT$450 million (non-revolving). The first installment payment shall be made upon the expiration of 24 months from the date of utilization, and then every 3 months shall be one installment (a total of 13 installments). The repayment amount is 6.25% for the first 4 installments, 7.5% for the next 4 installments, and 9% for the remaining 5 installments. The unused portion of the credit limit shall be automatically cancelled if it is not fully utilized within 3 months from the date of the first utilization.
3-2. The total amount of Credit B's 5-year medium-term loan is NT$500 million (revolving), and the first installment payment shall be made upon the expiration of 36 months from the date of utilization, and then every 3 months shall be one installment (a total of 9 installments). For the first 8 installments, the credit limit shall be reduced by 6.25% each installment, and for the 9th installment, the credit limit shall be reduced by 50%. In addition, the loan period for each utilization of Credit B shall not exceed 180 days, and the due date shall not exceed the expiration date of the credit period.</td><td rowspan="3">1. Financial Ratio
A. Current Ratio (Current Assets/Current Liabilities) shall not be less than 100%.
B. Debt Ratio (Total Liabilities/Tangible Net Worth) shall not exceed 200%.
C. Interest Coverage Ratio shall not be less than 3 times.
D. Tangible Net Worth shall not be less than NT$800 million.
1-1.The financial ratios are based on the annual audited consolidated financial statements and the semi-annual reviewed consolidated financial statements by certified public accountants, and are checked twice a year.
1-2. The financial statements are checked as of March 31 for annual statements and August 15 for semi-annual statements.
1-3. If any of the financial ratios fails to meet the requirements, the borrower shall pay an additional interest rate of 0.25% on the outstanding and subsequent balances from the day after the checking date until the day that the financial ratios are met, and this shall not be considered a breach of the financial ratio covenant by the borrower during the period.</td></tr>
<tr><td colspan="2">Contract Parties</td></tr>
<tr><td colspan="2">There are a total of 8 financial institutions:
1. Cooperative Bank, Commercial Bank (Houmei Branch)
2. Bank of Taiwan (Tanzi Branch)
3. Hua Nan Commercial Bank (Fengyuan Branch)
4. Mega International Commercial Bank (Baocheng Branch)
5. Taichung Commercial Bank (Daya Branch)
6. Taiwan Land Bank (Yuanlin Branch)
7. Shanghai Commercial and Savings Bank (Taichung Branch)
8. Chang Hwa Commercial Bank (Nantou Branch)</td></tr>
<tr><td>Contract for Co-Construction of House</td><td>Sign on 2021.12.05</td><td rowspan="3">Land co-development project of No. 401, Wudong Section, Guiren District, Tainan City.</td><td rowspan="3">None</td></tr>
<tr><td colspan="2">Contract Parties</td></tr>
<tr><td colspan="2">Taiwan Sugar Cooperation</td></tr>
<tr><td>Comprehensive Credit Agreement</td><td>2022.11.29
|
2025.11.29</td><td rowspan="3">Land co-development project of No. 401, Wudong section, GuiRen District, Tainan City.</td><td rowspan="3">None</td></tr>
<tr><td colspan="2">Contract Parties</td></tr>
<tr><td colspan="2">King’s Town Bank</td></tr>
</table>

VI.Financial Information

6.1.Five-Year Financial Summary

6.1.1.Condensed Balance Sheet of Comprehensive Income

Unit: NT$ Thousands

Item \ Year		Financial Information for Most Recent 5 Fiscal Years				
		2018	2019	2020	2021	2022
Current Assets		1,031,169	893,858	881,472	1,032,114	1,117,540
Property, Plant and Equipment		356,744	330,220	307,649	302,057	190,914
Intangible assets		5,745	5,744	6,006	9,459	10,769
Other assets		809,766	775,087	788,769	795,115	759,941
Total assets		2,203,424	2,004,909	1,983,896	2,138,745	2,079,164
Current liabilities	Before distribution	708,991	867,812	589,444	672,882	865,772
	After distribution	708,991	867,812	589,444	672,882	865,772
Noncurrent liabilities		569,021	302,739	612,012	654,732	392,419
Total liabilities	Before distribution	1,278,012	1,170,551	1,201,456	1,327,614	1,258,191
	After distribution	1,278,012	1,170,551	1,201,456	1,327,614	1,258,191
Equity attributable to owners of the parent company		No applicable	No applicable	No applicable	No applicable	No applicable
Capital Stock		768,803	768,803	768,803	768,803	768,803
Capital surplus		11,460	11,460	11,460	11,460	11,460
Retained Earnings	Before distribution	162,966	90,642	50,314	84,784	64,561
	After distribution	162,966	90,642	50,314	84,784	64,561
Other equity		(17,817)	(36,547)	(48,137)	(53,916)	(23,851)
Non-controlling interest		No applicable	No applicable	No applicable	No applicable	No applicable
Total equity	Before distribution	925,412	834,358	782,440	811,131	820,973
	After distribution	925,412	834,358	782,440	811,131	820,973

6.1.2.Condensed Statement of Comprehensive Income

Unit: NT$ Thousands/Earning per share

Item \ Year	Financial Information for Most Recent 5 Fiscal Years				
	2018	2019	2020	2021	2022
Revenue	1,532,143	921,540	690,828	1,055,120	1,191,535
Gross profit	323,306	208,957	125,100	203,807	242,688
Operating Income	81,120	5,757	(32,635)	21,780	20,567
Non-operating Income and Expenses	21,898	(16,204)	(6,583)	12,869	(22,771)
Profit Before Income Tax	103,018	(10,447)	(39,218)	34,649	(2,204)
Net income from the period from continuing operations	97,461	(12,515)	(38,882)	33,900	(22,995)
Ner income(loss) for the period	97,461	(12,515)	(38,882)	33,900	(22,995)
Other comprehensive income (loss) for the period (net of income tax)	2,325	(17,035)	(13,036)	(5,209)	32,837
Total comprehensive income for the period	99,786	(29,550)	(51,918)	28,691	9,842
Net Income Attributable to shareholders of the parent	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Net Income (Loss) Attributable to Non-Controlling Interest	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Total comprehensive income attributable to owners of parent	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Total comprehensive income, attributable to non-controlling interest	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Earnings Per Share	1.27	(0.16)	(0.51)	0.44	(0.30)

6.1.3.Condensed Balance Sheet and Income Statement – Enterprise Accounting Standards of the R.O.C

Unit: NT$ Thousands

Item \ Years		Financial Information for Most Recent 5 Fiscal Years				
		2018	2019	2020	2021	2022
Current assets		1,689,231	1,471,995	1,486,041	1,737,809	1,790,097
Property, Plant and Equipment		516,867	465,001	425,247	408,086	293,688
Intangible assets		6,280	6,130	6,006	9,588	10,960
Other assets		313,723	381,370	401,881	375,123	378,479
Total assets		2,526,101	2,324,496	2,319,175	2,530,606	2,473,224
Current liabilities	Before distribution	930,203	1,033,515	866,817	934,697	1,143,551
	After distribution	930,203	1,033,515	866,817	934,697	1,143,551
Non-current liabilities		670,486	456,623	669,864	784,778	508,700
Total liabilities	Before distribution	1,600,689	1,490,138	1,536,735	1,719,475	1,652,251
	After distribution	1,600,689	1,490,138	1,536,735	1,719,475	1,652,251
Equity attributable to shareholders of the parent		925,412	834,358	782,440	811,131	820,973
Share capital		768,803	768,803	768,803	768,803	768,803
Capital surplus		11,460	11,460	11,460	11,460	11,460
Retained earnings	Before distribution	162,966	90,642	50,314	84,784	64,561
	After distribution	162,966	90,642	50,314	84,784	64,561
Other equity interest		(17,817)	(36,547)	(48,137)	(53,916)	(23,851)
Treasury stock		0	0	0	0	0
Total equity	Before distribution	925,412	834,358	782,440	811,131	820,973
	After distribution	925,412	834,358	782,440	811,131	820,973

6.1.4.Condensed Comprehensive Income Statement - Enterprise Accounting Standards of the R.O.C

Unit: NT$ Thousands/Earning per share

Item \ Years	Financial Summary for The Last Five Years				
	2018	2019	2020	2021	2022
Operating revenue	2,056,050	1,376,241	1,116,868	1,607,091	1,610,552
Gross profit	541,506	374,845	256,095	389,264	403,869
Operating income	2022,823	1,610	(37,937)	45,977	15,336
Non-operating income and expenses	2,731	(4,158)	(1,897)	6,301	(2,651)
Net income (net loss) before tax	114,554	(2,548)	(39,834)	52,278	12,685
Income or loss from continuing operations	97,461	(12,515)	(38,882)	33,900	(22,995)
Net income (loss) for the period	97,461	(12,515)	(38,882)	33,900	(22,995)
Other comprehensive income or loss for the period	2,325	(17,035)	(13,036)	(5,209)	32,837
Total comprehensive income or loss for the period	99,786	(29,550)	(29,550)	28,691	9,842
Net income attributable to owners of parent	97,461	(12,515)	(38,882)	33,900	(22,995)
Net income (loss) attributable to non-controlling interests	0	0	0	0	0
Total comprehensive income attributable to owners of parent	99,786	(29,550)	(51,918)	28,691	9,842
Total comprehensive income, attributable to non-controlling interests	0	0	0	0	0
Earnings per share	1.27	(0.16)	(0.51)	0.44	(0.30)

6.1.5.Auditors’ Opinions from 2018 to 2022

Year	Accounting Firm	CPA	Auditor’s Opinion	Remark
2018	Ernst & Young	Tony Huang, Stephen Tu	Unqualified opinion	None
2019	Ernst & Young	Tony Huang, Jonathan Chen	Unqualified opinion	None
2020	Ernst & Young	Tony Huang, Jonathan Chen	Unqualified opinion	None
2021	Ernst & Young	Tony Huang, Jonathan Chen	Unqualified opinion	None
2022	Ernst & Young	Chen, Zheng-Chu,Hong, Guo-Sen	Unqualified opinion	None

6.2.Five-Year Financial Analysis

6.2.1.Individual Financial Analysis

Item	Years	Financial Analysis for the Last Five Years				
		2018	2019	2020	2021	2022
Financial structure (%)	Debt to assets ratio	58.00	58.38	60.56	62.07	60.51
	Ratio of long-term capital to property, plant and equipment	392.48	344.35	426.65	485.29	635.57
Solvency (%)	Current ratio	145.44	103.00	149.54	153.39	129.08
	Quick ratio	53.23	34.35	63.90	64.53	64.49
	Interest earned ratio (times)	5.67	0.49	0.96	2.79	0.90
Operating performance	Accounts receivable turnover (times)	5.71	5.70	5.47	5.88	4.75
	Average collection days	63.92	64.04	66.73	62.07	76.84
	Inventory turnover (times)	1.97	1.16	1.04	1.56	1.66
	Accounts payable turnover (times)	4.31	3.21	3.87	3.85	4.07
	Average days in sales	185.27	314.66	350.96	233.97	219.88
	Property, plant and equipment turnover (times)	4.33	2.68	2.10	3.46	4.83
	Total assets turnover (times)	0.70	0.44	0.35	0.51	0.56
Profitability	Return on total assets (%)	5.22	0.18	(1.14)	2.40	(0.26)
	Return on equity (%)	11.13	(1.42)	(4.81)	4.25	(2.82)
	Ratio of income before tax to paid-in capital (%)	13.40	(1.36)	(5.10)	4.51	(0.29)
	Net profit margin (%)	6.36	(1.36)	(5.63)	3.21	(1.93)
	Earnings per share (NT$)	1.27	(0.16)	(0.51)	0.44	(0.30)
Cash flow	Cash flow ratio (%)	(3.29)	0.13	7.14	5.26	(15.55)
	Cash flow adequacy ratio (%)	51.20	0.51	0.56	42.48	16.08
	Cash reinvestment ratio (%)	(1.14)	0.06	8.70	2.42	(11.32)
Leverage	Operating leverage	0.33	7.79	1.98	2.32	3.32
	Financial leverage	1.37	(0.39)	0.62	9.14	(14.32)

Please explain the causes of changes in the financial ratios in the most recent 2 fiscal years. (Analysis is not required if the increase or decrease is less than 20%.)

1. Financial Structure: The ratio of long-term funds to property, plant and equipment has increased, mainly due to the disposal of fixed assets of the Daya Factory in 2022, and the value of property, plant and equipment is relatively stable, resulting in an increase in the ratio.
2. Solvency: The interest coverage ratio has decreased due to an increase in the provision for inventory reserve and a decrease in pre-tax profit in 2022, which resulted in a decrease in pre-tax profit and interest expenses remaining unchanged or increasing, resulting in a decrease in the interest coverage ratio.
3. Operating Performance: The turnover rate of property, plant and equipment has increased due to the disposal of fixed assets of the Daya Factory in 2022, resulting in a decrease in the size of fixed assets and no corresponding decrease in revenue, resulting in an increase in the turnover rate. The average collection period has increased due to the early remittance of accounts receivable from the US subsidiary, mainly because the funds were received earlier than the collection period, resulting in an increase in the average collection period.
4. Profitability: The profitability indicators such as return on assets, return on equity, pre-tax profit to paid-in capital ratio, net profit margin, and earnings per share have all declined due to the company's loss after tax in 2022, resulting in a decrease in overall profitability.
5. Cash Flow: The cash flow ratio and cash reinvestment ratio have decreased mainly due to the net cash outflow from operating activities caused by the loss in 2021 and the increase in the provision for income tax, resulting in a decrease in the cash flow ratio and cash reinvestment ratio.
6. Leverage: The operating leverage has increased mainly due to the increase in sales cost. The financial leverage has decreased mainly due to the increase in interest expenses caused by the rise in interest rates.

Note 1: The following formulas for the calculation of the financial ratios shall be listed below this table in the annual report:

(1) Financial structure
- I. Debt to assets ratio = total liabilities / total assets.
- II. Ratio of long-term capital to property, plant and equipment = (total equity + non-current liabilities) / net property, plant and equipment.

(2) Solvency
- I. Current ratio = current assets / current liabilities.
- II. Quick ratio = (current assets - inventory - prepaid expenses) / current liabilities.
- III. Times interest earned = earnings before tax and interest expenses / current interest expenses.

(3) Operating performance
- I. Accounts receivable (including accounts receivable and notes receivable arising from business activities) turnover = net sales / average accounts receivable balance (including accounts receivable and notes receivable arising from business activities).
- II. Average collection days = 365 / accounts receivable turnover.

III. Inventory turnover = cost of goods sold / average inventory.
IV. Accounts payable (including accounts payable and notes payable arising from business activities) turnover = cost of goods sold / average accounts payable balance (including accounts payable and notes payable arising from business activities).
V. Average days in sales = 365 / inventory turnover.
VI. Property, plant and equipment turnover = net sales / average net property, plant and equipment.
VII. Total asset turnover = net sales / average total assets.

(4) Profitability
I. Return on total assets = (net income + interest expenses * (1 - effective tax rate)) / average total assets.
II. Return on equity = net income after tax / average total equity.
III. Net profit margin = net income after tax / net sales.
IV. Earnings per share = (income attributable to owners of parent - preferred stock dividends) / weighted average number of shares outstanding. (Note 4)

(5) Cash flow
I. Cash flow ratio = net cash flows from operating activities / current liabilities.
II. Net cash flow adequacy ratio = 5-year sum of net cash flow from operating activities / 5-year sum of (capital expenditures + increases in inventory + cash dividends).
III. Cash reinvestment ratio = (cash from operating activities - cash dividends) / (gross property, plant and equipment + long-term investments + other non-current assets + working capital). (Note 5)

(6) Leverage
I. Operating leverage = (net operating revenue – variable operating costs and expenses) / operating income (Note 6).
II. Financial leverage = operating income / (operating income – interest expenses).

6.2.2 Financial Analysis - Enterprise Accounting Standards of the R.O.C.

Item	Year	Financial Analysis for the Past Five Years				
		2018	2019	2020	2021	2022
Financial structure (%)	Debt to assets ratio	63.37	64.11	66.26	67.95	66.81
	Ratio of long-term capital to fixed assets	308.76	277.63	326.77	391.07	452.75
Solvency (%)	Current ratio	181.60	142.43	171.43	185.92	156.54
	Quick ratio	60.22	49.49	70.16	71.79	68.03
	Interest earned ratio (times)	4.94	0.92	(0.45)	3.08	1.43
Operating performance	Accounts receivable turnover (times)	5.77	4.87	4.36	5.50	5.13
	Average collection period	63.25	74.95	83.72	66.36	71.15
	Inventory turnover (times)	3.30	3.98	0.97	1.31	1.21
	Accounts payable turnover (times)	1.92	1.00	2.86	3.86	3.66
	Average days in sales	190.10	365.00	376.29	278.63	301.65
	Fixed assets turnover (times)	3.93	2.80	2.46	3.86	4.59
	Total assets turnover (times)	0.80	0.57	0.48	0.66	0.64
Profitability	Return on total assets (%)	4.67	0.48	(0.75)	2.23	(1.86)
	Return on stockholders' equity (%)	11.13	(1.42)	(4.81)	4.25	(2.82)
	Ratio to issued capital of pre-tax income(%)	14.90	(0.33)	(5.18)	6.80	1.65
	Profit ratio (%)	4.74	(0.91)	(3.48)	2.11	(1.43)
	Earnings per share (NT$)	1.27	(0.16)	(0.51)	0.44	(0.30)
Cash flow	Cash flow ratio (%)	4.51	13.99	3.64	8.08	(7.77)
	Cash flow adequacy ratio (%)	116.17	0.77	259.63	131.27	0.78
	Cash reinvestment ratio (%)	1.87	0.07	4.78	0.05	(0.07)
Leverage	Operating leverage	1.45	42.75	(0.12)	2.41	5.01
	Financial leverage	1.35	(0.06)	0.59	2.21	0.34

Please explain the causes of changes in the financial ratios in the most recent 2 fiscal years. (Analysis is not required if the increase or decrease is less than 20%.)

1. Solvency: The interest coverage ratio decreased due to an increase in inventory provisions and a decrease in pre-tax profits in 2022.
2. Profitability: Due to the net loss in 2022, all profitability indicators, including return on assets, return on equity, pre-tax profit to paid-in capital ratio, net profit margin, and earnings per share, declined.
3. Cash flow: The decline in cash flow ratio and cash reinvestment ratio is due to the net cash outflow from operating activities and an increase in income tax provisions in 2022
4. Leverage: The increase in operating leverage is mainly due to an increase in cost of goods sold. The decrease in financial leverage is mainly due to an increase in interest expenses caused by rising interest rates.

Note 1: The calculation formulas are the same as those in Table (1).

6.3.Audit Committee’s Review Report for the Most Recent Year

Audit Committee’s Review Report

The company's operating report, financial statements, and deficit offsetting plan for the year 2022 have been audited by Ernst & Young, with Mr. Chen, Zheng-Chu and Mr. Hong, Guo-Sen as the accountants in charge, and they have issued an audit report. These reports have also been audited by our audit committee and found to be in compliance. Therefore, in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act, we hereby report the above and request your attention.

Yours truly,

Shareholders' Meeting of Falcon Machine Tools CO., LTD. As of year 2023.

Supervisor of Audit Committee

Wu, Zhi-Chi

2023/03/21

6.4.Financial Statements with auditor's signature for the latest year

Falcon Machine Tools Company Limited.

Declaration

The entities that are required to be included in the combined financial statements of Falcon Machine Tools Company Limited as of and for the year ended December 31, 2022, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standard 10, “Consolidated Financial Statements”. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Falcon Machine Tools Company Limited and Subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

FALCON MACHINE TOOLS COMPANY LIMITED.

By

LIN, TSUNG-LIN

21 March 2023

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

<u>*Notice to Readers*</u>

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					
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	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
1XXX	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 Unrealised gains/losses		2,878	-	3,741	-
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: NT$ '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					
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)	-	-	-
8349	Income tax related to items that may not be reclassified subsequently to profit or loss		(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)	-
8370	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	-
8399	Items that may be reclassified subsequently to income tax		(10,301)	(1)	-	-
	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		$28,691	
	Earnings per share (NT$)	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 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
			Retained Earnings			Other Equity Interests		
	Common Stock	Capital Reserve	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: NT$ '000

Content	Year 2022	Year 2021
Cash flows from operating activities:		
Net income before tax	$12,685	$52,278
Adjustments to reconcile net income (loss) before tax to net cash:		
Provided by (used in) operating activities:		
Depreciation	58,703	60,262
Amortization	2,748	4,746
Expected credit loss (gain)	16,588	(197)
Interest expenses	29,272	25,136
Interest income from bank deposits	(820)	(225)
Dividend revenue	(10)	-
Share of profit of associates & joint ventures accounted for using equity method	(17,091)	(11,944)
Gain from disposal of property, plant and equipment	(289)	(1,933)
Non-financial asset impairment loss	785	-
Loss for market price decline and obsolete and slow-moving inventories	60,031	20,619
Profit from lease modification	(103)	-
Unrealized foreign currency exchange (gains) losses	(3,773)	871
Changes in operating assets and liabilities:		
Reduce in notes receivables	29,221	12,722
Reduce in notes receivables - related parties	996	404
Increase in account receivables	(40,024)	(65,358)
Reduce in account receivables - related parties	1,053	-
Other receivables	7,183	(1,500)
Inventories	(9,278)	(198,129)
Prepayments	21,128	(21,017)
Other current assets	8,184	(2,091)
Reduce in notes payable	(2,924)	(746)
Reduce in notes payable - related parties	(330)	(1)
Account payable	(128,005)	162,196
Account paybles - 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

Content	Year 2022	Year 2021
Cash flow of investment activities:		
Financial assets measured at fair value through other comprehensive income	(25,020)	-
Financial assets measured at amortized cost	-	(7,611)
Disposal of financial assets measured at amortized cost	7,932	-
Property, plant and equipment	(8,031)	(8,422)
Disposal of property, plant and equipment	1,499	2,444
Intangible assets	(362)	(8,965)
Prepayment for equipments	2,278	7,278
Dividend received (cash dividend of the year of investments accounted for using equity method)	2,501	-
Repayment of reduction of capital from investees for using equity method	23	-
Loss (gain) of other noncurrent assets	18	(8,405)
Investment activities - net cash outflow	(19,162)	(23,681)
Cash flow of financing activities		
Increase in short-term borrowings	1,059,983	1,042,759
Decrease in short-term borrowings	(884,777)	(1,146,695)
Increase in short-term notes payable	120,430	120,360
Decrease in short-term notes payable	(150,385)	(120,331)
Long-term loans	505,419	227,090
Long-term loans payments	(541,475)	(143,128)
Lease liabilities payments	(20,002)	(18,756)
Net cash flow of financing activities	89,193	(38,701)
Effect of exchange rate at cash and cash equivalents	54,217	(9,402)
Increase in cash and cash equivalents	35,424	4,655
Beginning balance of cash and cash equivalents	304,853	300,198
Ending balance of cash and cash equivalents	$340,277	$304,853

(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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

1. GENERAL

Falcon Machine Tools Company Limited (the Company) was incorporated in 1978 as Falcon Manufacturing Company Limited. The company's primary businesses are manufacturing, processing and sale of grinders, lathes, millers, planers, drill presses, saw machines etc., and their surrounding businesses, as well as manufacturing and trading of computer accessories and electronic parts.

In response to the international business environment and our diversification development strategy, we renamed the Company to the current name. The Company listed on Taipei Exchange since March 25, 1998. Although our registered address is at Tai Chung City, our main operating business address is at No.34, Xinggong Road, Shengang, Changhua County 509, Taiwan (R.O.C.).

2. THE AUTHORIZATION OF FINANCIAL STATEMENTS

The accompanying consolidated financial statements were approved and authorized for issue by the Board of Directors of Falcon Machine Tools Company Limited and Subsidiaries (collectively as the Group) on March 21, 2023.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

1. Effect on the accounting policy due to the initial application of the International Financial Reporting Standards (IFRS).

   The initial application of the amendments to the IFRS, International Accounting Standards (IAS), IFRIC and SIC Interpretations (SIC) (collectively, "IFRSs") endorsed and issued into effect since January 1, 2022 by Financial Supervisory Commission (FSC) did not have significant effect on the Group's accounting policies.

2. Up to the date of the Group's financial statements were approved and authorized for issue, the Group did not adopt the following IFRSs issued by International Accounting Standards Board (IASB) and endorsed by FSC.

Item	New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB
1	Amendments to IAS 1 "Disclosure of Accounting Polices"	January 1, 2023
2	Amendments to IAS 8 "Definition of Accounting Estimates"	January 1, 2023
3	Amendments to IAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction"	January 1, 2023

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

(1) Amendments to IAS 1 “Disclosure of Accounting Polices”

The amendments improve the disclosures of accounting policies in order to provide more useful information to the users of the financial statements.

(2) Amendments to IAS 8 “Definition of Accounting Estimates”

The amendments provide a clearer definition for accounting estimates, and amended IAS 8 regarding the “accounting policies, changes in accounting estimates and errors” in order to assist corporates to distinguish the differences between the changes in accounting policies and the changes in accounting estimates.

(3) Amendments to IAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction”

The amendments narrow the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 so that it no longer applies to transactions that, on initial recognition, give rise to equal taxation and deductible temporary differences.

The Group judged that the abovementioned standards and interpretations issued by IASB and endorsed by FSC on January 1, 2023 and applicable to the financial years thereafter have no material impact on the Group.

3. Standards or interpretations issued, revised or amended, by IASB which are not endorsed by FSC, and not yet adopted by the Group as at the end of the reporting period when the Group’s financial statements were approved and authorized for issue are listed below:

Items	New, Revised or Amended Standards and Interpretations	Effective Date issued by IASB
1	IFRS 10 “Consolidated Financial statements” and IAS 28 Investments in Associates and Joint Ventures”— Sale or Contribution of Assets between an Investor and its Associates or Joint Ventures	To be determined by IASB
2	IFRS 17 Insurance Contracts	January 1, 2023
3	Classification of Liabilities as Current or Noncurrent – Amendments to IAS 1	January 1, 2024
4	IFRS 16 - Lease Liability Measurement in Sale and Leaseback	January 1, 2024
5	Noncurrent Liabilities with Covenants (Amendments to IFRS 1)	January 1, 2024

(1) IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associates or Joint Ventures

The amendments address the inconsistency between the requirements in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associates or joint ventures. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full.

IFRS 10 was also amended so that the gains or losses resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors' interests in the associate or joint venture.

(2) IFRS 17 "Insurance Contracts"

IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects (including recognition, measurement, presentation and disclosure requirements). The core of IFRS 17 is the General (building block) Model, under this model, on initial recognition, an entity shall measure a group of insurance contracts at the total of the fulfillment cash flows and the contractual service margin. The carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage and the liability for incurred claims.

Other than the General Model, the standard also provides a specific adaptation for contracts with direct participation features (the Variable Fee Approach) and a simplified approach (Premium Allocation Approach) mainly for short-duration contracts.

IFRS 17 was issued in May 2017 and was amended in 2021, and 2020. The amendments include deferral of the date of initial application of IFRS 17 by two years to annual beginning on or after January 1, 2023 (from the original effective date of January 1, 2021); providing additional transition reliefs; simplifying some requirements to reduce the costs of applying IFRS 17 and revise some requirements to make the results easier to explain. IFRS 17 replaces an interim Standard – IFRS 4 Insurance Contracts – from annual reporting periods beginning or after January 1, 2023.

(3) Classification of Liabilities as Current or Noncurrent – Amendments to IAS 1

These are the amendments to paragraphs 69-76 of IAS 1 Presentation of Financial Statements and the amended paragraphs related to the classification of liabilities as current or noncurrent.

(4) IFRS 16 - Lease Liability Measurement in Sale and Leaseback

The amendment to IFRS 16 Leases specifies the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognize any amount of the gain or loss that relates to the right of use it retains.

(5) Noncurrent Liabilities with Covenants (Amendments to IAS 1)

The amendments with respect to classification (as current or noncurrent), presentation and disclosures of liabilities for which an entity’s right to defer settlement for at least 12 months is subject to the entity complying with conditions after the reporting period.

Up to the date the Group’s financial statements were authorized for issue, the abovementioned standards and interpretations issued by IASB which have not been endorsed by FSC. The local effective dates are to be determined by FSC. The Group judged that all the standards and interpretations have no material impact on the Group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Statement of compliance

The consolidated financial statements of the Group for the years ended December 31, 2022 and 2021 were prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (“the Regulations”) and International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by the FSC.

2. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value. The consolidated financial statements are presented in thousands of New Taiwan Dollars (“NT$”) unless otherwise specified.

3. Basis of consolidation

Preparation principle of consolidated financial statements

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

(1) Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
(2) Exposure, or rights, to variable returns from its involvement with the investee, and
(3) The ability to use its power over the investee to affect its returns

When the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(1) The contractual arrangement with the other vote holders of the investee
(2) Rights arising from other contractual arrangements
(3) The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Subsidiaries are fully consolidated from the acquisition date, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using uniform accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Total comprehensive income of the subsidiaries is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

If the Group loses control of a subsidiary, it:

(1) Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
(2) Derecognizes the carrying amount of any non-controlling interest;
(3) Recognizes the fair value of the consideration received;
(4) Recognizes the fair value of any investment retained;
(5) Recognizes any surplus or deficit in profit or loss; and
(6) Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

The consolidated entities are listed as follows:

Investor	Subsidiary	Main Business	2022.12.31	2021.12.31	Note
The Company	Chevalier Machinery, Inc.(簡稱CMI)	Machine Tools and related Products Sales	100.00%	100.00%	
The Company	Lin Yu International Industrial Co., Ltd.	Real Estate Agency Operation	100.00%	-%	Note 1
The Company	Lucky Investment Services Inc.	General Investment	100.00%	100.00%	
Lucky Investment Services Ltd.	Chevalier Machinery Co., Ltd. (Shanghai)	Machine Tools Manufacture and Distribution	100.00%	100.00%	
Lucky Investment Services Ltd.	Chevalier Machinery Co., Ltd. (Suzhou)	Machine Tools Manufacture and Distribution	69.75%	100.00%	Note 2
Chevalier Machinery Co., Ltd. (Suzhou)	Chevalier Machinery Co., Ltd. (Suzhou)	Machine Tools Manufacture and Distribution	30.25%	-%	Note 3

Note 1：Lin Yu International Industrial Co., Ltd. established in December 2022. It is a subsidiary 100% invested by the Company in cash.

Note 2：Chevalier Machinery Ltd. (Suzhou) conducted capital increase and Lucky Investment Services Ltd. did not participate, leading the ownership interest of Lucky Investment Services Ltd. decreased to 69.75% from 100%.

Note 3：The Board of Directors approved on May 24, 2022 for Chevalier Machinery Co., Ltd. (Shanghai) to invest RMB 28,876 thousand to Chevalier Machinery Co., Ltd. (Suzhou) by debt-to-capital increase. The record date of capital increase was May 24, 2022 and the according registration has been completed.

In the abovementioned consolidated financial statements, the financial statements of Chevalier Machinery, Inc. were audited by a component auditor. The subsidiary’s total assets as of December 31, 2022 and 2021 were NT$412,897 thousand and NT$379,733 thousand respectively. The net operating revenue generated for the years ended were NT$445,315 thousand and NT$392,611 thousand respectively.

4. Foreign currency transactions

The Group’s consolidated financial statements are presented in New Taiwan Dollar, which is the parent company’s functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

(1) Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.

(2) Foreign currency items within the scope of IFRS 9 Financial Instruments are accounted for based on the accounting policy for financial instrument.

(3) Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

5. Tanslation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into New Taiwan dollar at the closing rate of exchange prevailing at the balance sheet date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On disposal of the foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal recognized.

On the partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is re-attributed to the NCIs in that foreign operation, instead of recognized in profit or loss. In partial disposal of an associate or jointly controlled entity that includes a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

6. Current and noncurrent distinction

An asset is classified as current when:

(1) The Group expects to realize the asset, or intends to sell or consume it, in its normal operating cycle.
(2) The Group holds the asset primarily for the purpose of trading.
(3) The Group expects to realize the asset within twelve months after the reporting period.
(4) The asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. All other assets are classified as noncurrent.

A liability is classified as current when:

(1) The Group expects to settle the liability in its normal operating cycle.
(2) The Group holds the liability primarily for the purpose of trading.
(3) The liability is due to be settled within twelve months after the reporting period.
(4) The Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities are classified as noncurrent

7. Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value (include fixed-term deposits that have matures of 3 months from the date of acquisition).

8. Financial instruments

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

Financial assets and financial liabilities within the scope of IFRS 9 Financial Instruments are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

(1) Financial instruments: Recognition and Measurement

The Group accounts for regular way purchase or sales of financial assets on the trade date.

The Group classified financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss considering both factors below:

A. the Group's business model for managing the financial assets and
B. the contractual cash flow characteristics of the financial asset.

Financial assets measured at amortized cost

A financial asset is measured at amortized cost if both of the following conditions are met and presented as note receivables, trade receivables financial assets measured at amortized cost and other receivables etc., on balance sheet as at the reporting date:

A. the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
B. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Such financial assets are subsequently measured at amortized cost (the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount and adjusted for any loss allowance) and is not part of a hedging relationship. A gain or loss is recognized in profit or loss when the financial asset is derecognized, through the amortization process or in order to recognise the impairment gains or losses.

Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

A. Purchased or originated credit-impaired financial assets. For those financial assets, the Group applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
B. Financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Group applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods

Financial asset measured at fair value through other comprehensive income

A. the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
B. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Recognition of gain or loss on a financial asset measured at fair value through other comprehensive income are described as below:

A. A gain or loss on a financial asset measured at fair value through other comprehensive income recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.
B. When the financial asset is derecognized the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.
C. Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:
   (a) Purchased or originated credit-impaired financial assets. For those financial assets, the Group applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
   (b) Financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Group applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

Besides, for certain equity investments within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies, the Group made an irrevocable election to present the changes of the fair value in other comprehensive income at initial recognition. Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss (when disposal of such equity instrument, its cumulated amount included in other components of equity is transferred directly to the retained earnings) and these investments should be presented as financial assets measured at fair value through other comprehensive income on the balance sheet. Dividends on such investment are recognized in profit or loss unless the dividends clearly represents a recovery of part of the cost of investment.

(2) Impairment of financial assets

The Group recognizes a loss allowance for expected credit losses on debt instrument investments measured at fair value through other comprehensive income and financial asset measured at amortized cost. The loss allowance on debt instrument investments measured at fair value through other comprehensive income is recognized in other comprehensive income and not reduce the carrying amount in the statement of financial position.

The Group measures expected credit losses of a financial instrument in a way that reflects:

A. an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
B. the time value of money; and
C. reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The loss allowance is measures as follow:

A. At an amount equal to 12-month expected credit losses: the credit risk on a financial asset has not increased significantly since initial recognition or the financial asset is determined to have low credit risk at the reporting date. In addition, the Group measures the loss allowance at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that the credit risk on a financial asset has increased significantly since initial recognition is no longer met.
B. At an amount equal to the lifetime expected credit losses: the credit risk on a financial asset has increased significantly since initial recognition or financial asset that is purchased or originated credit-impaired financial asset.
C. For trade receivables or contract assets arising from transactions within the scope of IFRS 15, the Group measures the loss allowance at an amount equal to lifetime expected credit losses.
D. For lease payments receivables arising from transactions within the scope of IFRS 16, the Group measures the loss allowance at amount equal to lifetime expected credit losses.

At each reporting date, the Group needs to assess whether the credit risk on a financial asset has increased significantly since initial recognition by comparing the risk of a default occurring at the reporting date and the risk of default occurring at initial recognition. Please refer to Note 12 for further details on credit risk.

(3) Derecognition of financial assets

A financial asset is derecognized when:

A. The rights to receive cash flows from the asset have expired.
B. The Group has transferred the asset and substantially all the risks and rewards of the asset have been transferred.
C. The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received or receivable including any cumulative gain or loss that had been recognized in other comprehensive income, is recognized in profit or loss.

(4) Financial liabilities and equity

Classification between liabilities or equity

The Group classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

Financial liabilities

Financial liabilities within the scope of IFRS 9 Financial Instruments are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

Financial liabilities at fair value through amortized cost

Financial liabilities measured at amortized cost include interest bearing loans and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified (whether or not attributable to the financial difficulty of the debtor), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

(5) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

9. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

(1) In the principal market for the asset or liability, or
(2) In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

10. Inventories

Inventories are valued at lower of cost or net realizable value item by item.

Costs incurred in bringing each inventory to its present location and condition are accounted for as follows:

Raw materials - At actual purchase cost, using weighted average method
Finished goods and work in progress - Including cost of direct materials, labour and a proportion of manufacturing overheads excluding borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Rendering of services is accounted in accordance with IFRS 15 and not within the scope of inventories.

11. Noncurrent assets held for sale

Noncurrent assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction that is highly probable within one year form the date of classification and the asset or disposal group is available for immediate sale in its present condition. Noncurrent assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

In the consolidated statement of comprehensive income of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the statement of comprehensive income.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortized.

12. Investments accounted for using the equity method

The Group’s investment in its associate is accounted for using the equity method other than those that meet the criteria to be classified as held for sale. An associate is an entity over which the Group has significant influence. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have right to the net assets of the joint venture.

Under the equity method, the investment in the associate or investment in a joint venture is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Group’s share of net assets of the associate or joint venture. After the interest in the associate or joint venture is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the Group’s related interest in the associate or joint venture.

When changes in the net assets of an associate or a joint venture occur and not those that are recognized in profit or loss or other comprehensive income and do not affects the Group’s percentage of ownership interests in the associate or joint venture, the Group recognizes such changes in equity based on its percentage of ownership interests. The resulting capital surplus recognized will be reclassified to profit or loss at the time of disposing the associate or joint venture on a prorate basis.

When the associate or joint venture issues new stock, and the Group’s interest in an associate or a joint venture is reduced or increased as the Group fails to acquire shares newly issued in the associate or joint venture proportionately to its original ownership interest, the increase or decrease in the interest in the associate or joint venture is recognized in Additional Paid in Capital and Investment accounted for using the equity method. When the interest in the associate or joint venture is reduced, the cumulative amounts previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro rata basis when the Group disposes the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or an investment in a joint venture is impaired in accordance with IAS 28 Investments in Associates and Joint Ventures. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount in the 'share of profit or loss of an associate' in the statement of comprehensive income in accordance with IAS 36 Impairment of Assets. In determining the value in use of the investment, the Group estimates:

(1) Its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment; or
(2) The present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Because goodwill that forms part of the carrying amount of an investment in an associate or an investment in a joint venture is not separately recognized, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36 Impairment of Assets.

Upon loss of significant influence over the associate or joint venture, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss. Furthermore, if an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not remeasure the retained interest.

13. Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognized such parts as individual assets with specific useful lives and depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 "Property, plant and equipment". When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Buildings and constructions	5~55 years
Machinery and equipment	4~10 years
Office equipment	2~20 years
Transportation equipment	3~10 years
Other equipment	2~20 years
Lease improvement	According to lease term or useful economic life whichever is shorter
Mould equipment	1~10 years

An item of property, plant and equipment or any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in profit or loss.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

14. Investment property

The Group's owned investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, other than those that meet the criteria to be classified as held for sale (or are included in a disposal company that is classified as held for sale) in accordance with IFRS 5 Noncurrent Assets Held for Sale and Discontinued Operations, investment properties are measured using the cost model in accordance with the requirements of IAS 16 Property, plant and equipment for that model. If investment properties are held by a lessee as right-of-use assets and is not held for sale in accordance with IFRS 5, investment properties are measured in accordance with the requirements of IFRS 16.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Item	Useful Life
Buildings	37 years

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition. The Group transfers to or from investment properties when there is a change in use for these assets. Properties are transferred to or from investment properties when the properties meet, or cease to meet, the definition of investment property and there is evidence of the change in use.

15. Leases

The Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Group assesses whether, throughout the period of use, has both of the following:

(1) The right to obtain substantially all of the economic benefits from use of the identified asset; and
(2) The right to direct the use of the identified asset.

For a contract that is, or contains, a lease, the Group accounts for each lease component within the contract as a lease separately from non-lease components of the contract. For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. The relative stand-alone price of lease and non-lease components shall be determined on the basis of the price the lessor, or a similar supplier, would charge the Group for that component, or a similar component, separately. If an observable stand-alone price is not readily available, the Group estimates the stand-alone price, maximising the use of observable information.

Group as a lessee

Except for leases that meet and elect short-term leases or leases of low-value assets, the Group recognizes right-of-use asset and lease liability for all leases which the Group is the lessee of those lease contracts.

At the commencement date, the Group measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses its incremental borrowing rate. At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

(1) fixed payments (including in-substance fixed payments), less any lease incentives receivable;
(2) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
(3) amounts expected to be payable by the lessee under residual value guarantees;
(4) the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
(5) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

After the commencement date, the Group measures the lease liability on an amortised cost basis, which increases the carrying amount to reflect interest on the lease liability by using an effective interest method; and reduces the carrying amount to reflect the lease payments made.

At the commencement date, the Group measures the right-of-use asset at cost. The cost of the right-of-use asset comprises:

(1) the amount of the initial measurement of the lease liability;
(2) any lease payments made at or before the commencement date, less any lease incentives received;
(3) any initial direct costs incurred by the lessee; and
(4) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

For subsequent measurement of the right-of-use asset, the Group measures the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses. That is, the Group measures the right-of-use applying a cost model.

If the lease transfers ownership of the underlying asset to the Group by the end of the lease term or if the cost of the right-of-use asset reflects that the Group will exercise a purchase option, the Group depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Group depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Group applies IAS 36 “Impairment of Assets” to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

Except for those leases that the Group accounted for as short-term leases or leases of low-value assets, the Group presents right-of-use assets and lease liabilities in the balance sheet and separately presents lease-related interest expense and depreciation charge in the statements comprehensive income.

For short-term leases or leases of low-value assets, the Group elects to recognize the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis.

The Group decided not to assess whether the rent concessions were lease modification when the rent concessions were a direct consequence of Covid-19. Instead, the rent concessions were accounted as change in rent payment.

Group as a lessor

At inception of a contract, the Group classifies each of its leases as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. At the commencement date, the Group recognizes assets held under a finance lease in its balance sheet and present them as a receivable at an amount equal to the net investment in the lease.

For a contract that contains lease components and non-lease components, the Group allocates the consideration in the contract applying IFRS 15.

The Group recognizes lease payments from operating leases as rental income on either a straight-line basis or another systematic basis. Variable lease payments for operating leases that do not depend on an index or a rate are recognized as rental income when incurred.

16. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, not meeting the recognition criteria, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

A summary of the policies applied to the Group's intangible assets is as follows:

	Computer Software	Golf License
Useful life	Limited	Uncertain
Amortization method	Straight-line method during the estimated economic life	Not to amortize
Internally generated or acquired externally	Acquired externally	Acquired externally

17. Impairment of non-financial assets

The Group assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 Impairment of Assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

An impairment loss of continuing operations or a reversal of such impairment loss is recognized in profit or loss.

18. Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost. The liability to pay a levy is recognized progressively if the obligating event occurs over a period of time.

Provision for warranties

A provision is recognized for expected warranty claims on products sold, based on past experience, management's judgement and other known factors.

19. Revenue recognition

The Group's revenue arising from contracts with customers are primarily related to sale of goods and rendering of services. The accounting policies are explained as follow:

Sale of goods

The Group mainly manufactures and sells of its products. Sales are recognized when control of the goods is transferred to the customer and the goods are delivered to the customers. The main product of the Group is machine tools and revenue is recognized based on the consideration stated in the contract. The remaining sales transactions are usually accompanied by volume discounts (based on the accumulated total sales amount for a specified period). Therefore, revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method. Revenue is only recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur and when the uncertainty associated with the variable consideration is subsequently resolved. During the period specified in the contract, refund liability is recognized for the products expected to be returned.

The Group provides its customer with a warranty with the purchase of the products. The warranty provides assurance that the product will operate as expected by the customers. And the warranty is accounted in accordance with IAS 37.

Accounts receivable are generally on 30 to 360 day terms. Due to the natural of the industry, some customers' accounts receivable was longer than the abovementioned day terms. For most of the contracts, when the Group transfers the goods to customers and has a right to an amount of consideration that is unconditional, these contracts are recognized as trade receivables. The Group usually collects the payments shortly after transfer of goods to customers; therefore, there is no significant financing component to the contract. For some of the contracts, the Group has transferred the goods to customers but does not has a right to an amount of consideration that is unconditional, these contacts should be presented as contract assets. Besides, in accordance with IFRS 9, the Group measures the loss allowance for a contract asset at an amount equal to the lifetime expected credit losses. However, for some contracts, part of the consideration was received from customers upon signing the contract, and the Group has the obligation to transfers the goods subsequently; accordingly, these amounts are recognized as contract liabilities.

Rendering of services

The group provides maintenance for high unit price machine equipment. Such services are separately priced or negotiated, and provided based on particular point of time. As the customers receive the benefits at a particular point of time, the Group's performance obligations are satisfied simultaneously, and the related revenue are then recognized when the services completed.

20. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

21. Post-employment benefits

All regular employees of the Group and its domestic subsidiaries are entitled to pension plans that are managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account and hence, not associated with the Group and its domestic subsidiaries. Therefore, fund assets are not included in the Group's consolidated financial statements. Pension benefits for employees of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

For the defined contribution plan, the Group and its domestic subsidiaries will make a monthly contribution of no less than 6% of the monthly wages of the employee subject to the plan. The Group recognizes expenses for the defined contribution plan in the period in which the contribution becomes due. Overseas subsidiaries and branches make contribution to the plan based on the requirements of local regulations and the contribution is expensed as incurred.

Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions. Remeasurements, comprising of the effect of the actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets, excluding net interest, are recognized as other comprehensive income with a corresponding debit or credit to retained earnings in the period in which they occur. Past service costs are recognized in profit and loss on the earlier of:

(1) The date of the plan amendment or curtailment, and
(2) The date that the Group recognizes restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payment.

22. Income tax

Income tax expense (benefit) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

The income tax for undistributed earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved by the Shareholders' meeting.

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

(1) Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
(2) In respect of taxable temporary differences associated with investments in subsidiaries, and associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

(1) Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
(2) In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are recognized according.

Deferred tax assets and liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority

5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

1. Judgement

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the consolidated financial statements:

(1) Investment properties

The Group uses a portion of the property for its own use and another portion to earn rentals or for capital appreciation. When these portions cannot be sold separately, the property is classified as investment property and property, plant and equipment if the own-use portion is immaterial to the property. Please refer to Note 6 for details.

(2) Operating lease commitment - Group as the lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

(3) No control with a majority of the voting rights in investees

The Group does not own more than 50% shares although it is the largest shareholder of the investees. After taking into consideration factors such as absolute size of the Group's holding, relative size of the other shareholdings, how widely spread is the remaining shareholding, contractual arrangements between shareholders, potential voting rights, etc., the Group reached the conclusion that it has no control over these investees. Please refer to Note 6 for further details.

2. Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(1) Pension benefits

The cost of post-employment benefit and the present value of the pension obligation under defined benefit pension plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate and changes of the future salary etc. Please refer to Note 6 for more details.

(2) Income tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company's domicile.

Deferred tax assets are recognized for all carryforward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies.

(3) Accounts receivable - estimation of impairment loss

The Group estimates the impairment loss of accounts receivables at an amount equal to lifetime expected credit losses. The credit loss is the present value of the difference between the contractual cash flows that are due under the contract (carrying amount) and the cash flows that expects to receive (evaluate forward looking information). However, as the impact from the discounting of short-term receivables is not material, the credit loss is measured by the undiscounted cash flows. Where the actual future cash flows are lower than expected, a material impairment loss may arise. Please refer to Note 6 for more details.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

(4) Inventory

Estimates of net realizable value of inventories take into consideration that inventories may be damaged, become wholly or partially obsolete, or their selling prices have declined. The estimates are based on the most reliable evidence available at the time the estimates are made. Please refer to Note 6 for more details.

6. CONTENTS OF SIGNIFICANT ACCOUNTS

1. Cash and cash equivalent

	2022.12.31	2021.12.31
Savings	$338,836	303,613
Cash and petty cash	1,441	$1,240
Total	$340,277	$304,853

2. Financial assets measured at amortized cost

	2022.12.31	2021.12.31
Fixed-term deposits	$40,399	$44,558
Current	$1,986	$9,918
Noncurrent	38,413	34,640
Total	$40,399	$44,558

Part of the Group’s financial assets were classified as financial assets measured at amortized cost pledged as collaterals. Please refer to Note 8 for further details and Note 12 for details regarding credit risk.

3. Notes receivables, net and notes receivables – related parties, net

	2022.12.31	2021.12.31
Notes receivable arising from operating activities	$25,517	$54,738
Notes receivables – related parties	1,075	2,071
Total	$26,592	$56,809

Notes receivables were not pledged.

The group follows the requirement of IFRS 9 to assess the impairment. Please refer to Note 6.15 for more details on loss allowance and Note 12 for details regarding credit risk.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

4. Accounts receivable, net and Accounts receivable – related parties, net

	2022.12.31	2021.12.31
Accounts receivable	$316,485	$277,951
Less: loss allowance	(33,188)	(17,686)
Subtotal	283,297	260,265
Accounts receivable – related parties	144	1,197
Total	$283,441	$261,462

Please refer to Notes 8 for further details regarding the pledge of accounts receivable as collateral.

The general payment term are 30 to 360 days. Due to the natural of the industry, some customers' payment terms were longer than the abovementioned payment terms. The total carrying amount for the years ended December 31, 2022 and 2021, were NT$316,629 thousand and NT$279,148 thousand, respectively. Please refer to Note 6.15 for further details on loss allowance of accounts receivable for year ended December 31, 2022 and 2021, and Note 12 for details regarding credit risk.

5. Inventories

	2022.12.31	2021.12.31
Raw Materials	$440,408	$507,755
Merchandises	189,783	162,450
Work in progress	137,039	173,435
Finished goods	124,635	133,489
Semi-finished goods	33,508	33,656
Subtotal	925,373	1,010,785
Underconstruction (Note)	51,945	-
Total	$977,318	$1,010,785

Note: The Group made a successful bid in November 2022 for a joint land development project with Taiwan Sugar Corporation.

The cost of inventories for sale recognized in expenses amounts to NT$1,206,683 thousand for the year ended December 31, 2022 while NT$1,217,827 thousand for the year ended December 31, 2021, including the losses of NT$60,031 thousand and NT$20,619 thousand respectively for depreciation and slow-moving of inventories.

The inventories were not pledged.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

6. Noncurrent assets held for sale

	2022.12.31	2021.12.31
Property and its accompanied equipment held for sale	$78,898	$-

The Group entered into a contract with E-tech Machinery Inc. on December 29, 2022 to sell its property and the accompanied equipment located at Daya District, Tai Chung City, Taiwan (R.O.C.) following a resolution from the Group's board meeting held on December 22, 2022. Thus, NT$67,146 thousand and NT$11,752 thousand were transferred to noncurrent assets held for sale from Properties, plants and equipment, and investment properties respectively.

There was no impairment loss as the selling price of the property and its accompanied equipment held for sale was expected to be higher than the face amounts in properties, plants and equipment, and investment properties.

Please refer to Note 8 for further details regarding noncurrent assets held for sale – land under pledge.

7. Investments accounted for using equity method

	2022.12.31		2021.12.31	
Investee Companies	Amount	Ownership	Amount	Ownership
Investments in associates:				
Focus CNC Co., Ltd.	$137,491	39.18%	$122,000	39.18%
Hwang Kang Machinery Co., Ltd.	25,225	40.18%	24,433	35.22%
Total	$162,716		$146,433	

Although the Group holds 39.18% of ownership and is the largest shareholder of Focus CNC Co., Ltd. the Group does not own the major voting rights as the other two shareholders hold 32.86% and 7.06% of ownership respectively and are able to align and prevent the Group from ruling the relevant operation. Therefore, the Group does not control but owns significant influence over the abovementioned associate.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

Although the Group holds 40.18% of ownership and is the largest shareholder of Hwang Kang Machinery Co., Ltd., the Group does not own the major voting rights as the remaining voting rights holders are able to align and prevent the Group from ruling the relevant operation. Therefore, the Group does not control but owns significant influence over the abovementioned associate.

The Group's investment in FOCUS CNC CO. LTD. and Hwang Kang Machinery Co., Ltd. are immaterial. The aggregate amount of the Group's shares of the abovementioned associates are as follows:

	2022.01.01~2022.12.31	
Investee	Investment Income	Other Comprehensive Income
Focus CNC Co., Ltd.	$16,276	$1,716
Hwang Kang Machinery Co., Ltd.	815	-
Total	$17,091	$1,716

	2021.01.01~2021.11.31	
Investee	Investment Income	Other Comprehensive Income
Focus CNC Co., Ltd.	$8,504	$5,261
Hwang Kang Machinery Co., Ltd.	3,440	-
Total	$11,944	$5,261

The Group's investment in FOCUS CNC CO. LTD. and Hwang Kang Machinery Co., Ltd. are immaterial. The aggregate amount of the Group's shares of the abovementioned associates are as follows:

	Year 2022	Year 2021
Net income of continuing business unit	$17,091	$11,944
Other comprehensive income, net of tax	1,716	5,261
Total comprehensive income	$18,807	$17,205

The Group did not have contingent liabilities or capital commitments to the abovementioned associates and the investments were not pledged as of December 31, 2021 and 2020.

8. Property, plant and equipment

	2022.12.31	2021.12.31
Owner occupied property, plant and equipment	$293,688	$408,086

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

(1) Owner occupied property, plant and equipment

2022.01.01－2022.12.31

	Land	Buildings	Machinery & equipment	Office equipment	Transportation equipment	Other equipment	Lease improvement	Construction in progress	Total
Cost :									
2022.01.01	$151,428	$475,434	$259,411	$46,560	$53,396	$150,382	$16,506	$-	$1,153,117
Additions	-	211	983	811	1,238	4,788	-	-	8,031
Disposals	-	-	(9,637)	(263)	-	(1,698)	-	-	(11,598)
Transfer	(46,103)	(77,553)	(28,509)	-	(3,891)	(3,379)	-	-	(159,435)
Exchange differences	-	1,809	3,767	552	289	701	1,756	-	8,874
2022.12.31	$105,325	$399,901	$226,015	$47,660	$51,032	$150,794	$18,262	$-	$998,989
Depreciation and impairment									
2022.01.01	$-	$319,054	$201,647	$38,365	$49,183	$123,060	$13,722	$-	$745,031
Depreciation	-	14,013	9,071	3,895	1,093	10,025	686	-	38,783
Disposals	-	-	(8,632)	(263)	-	(1,493)	-	-	(10,388)
Transfer	-	(56,881)	(8,705)	-	(3,891)	(5,591)	-	-	(75,068)
Exchange differences	-	631	3,619	515	193	512	1,473	-	6,943
2022.12.31	$-	$276,817	$197,000	$42,512	$46,578	$126,513	$15,881	$-	$705,301

2021.01.01－2021.12.31

	Land	Buildings	Machinery & equipment	Office equipment	Transportation equipment	Other equipment	Leave improvement	Construction in progress	Total
Cost :									
2021.01.01	$145,388	$471,737	$252,100	$45,757	$58,631	$148,049	$16,970	$652	$1,139,284
Additions	-	155	862	1,138	384	5,883	-	-	8,422
Disposal	-	-	(2,500)	(1,043)	(5,529)	(3,207)	-	-	(12,279)
Transfer	6,040	4,475	10,019	877	-	16	-	(647)	20,780
Exchange differences	-	(933)	(1,070)	(169)	(90)	(359)	(464)	(5)	(3,090)
2021.12.31	$151,428	$475,434	$259,411	$46,560	$53,396	$150,382	$16,506	$-	$1,153,117
Depreciation and impairment:									
2021.01.01	$-	$301,389	$194,600	$35,436	$53,620	$115,581	$13,411	$-	$714,037
Depreciation	-	14,056	10,479	4,119	1,159	10,759	685	-	41,257
Disposal	-	-	(2,170)	(1,043)	(5,529)	(3,026)	-	-	(11,768)
Tansfer	-	3,892	(278)	-	-	-	-	-	3,614
Exchange differences	-	(283)	(984)	(147)	(67)	(254)	(374)	-	(2,109)
2021.12.31	$-	$319,054	$201,647	$38,365	$49,183	$123,060	$13,722	$-	$745,031
Net carrying amount as of：									
2022.12.31	$105,325	$123,084	$29,015	$5,148	$4,454	$24,281	$2,381	$-	$293,688
2021.12.31	$151,428	$156,380	$57,764	$8,195	$4,213	$27,322	$2,784	$-	$408,086

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

(2) Significant components of the building include the main building structure and air-conditions, which are depreciated over useful lives of 50 and 5 years respectively.

(3) Please refer to Note 8 for further details regarding property, plant and equipment under pledge

(4) There was no interest capitalized due to purchasing of property, plant and equipment in years 2022 and 2021.

9. Investment properties

	Land	Buildings	Total
Cost :			
2021.01.01	$13,240	$23,095	$36,335
Reclassification	(8,027)	(13,705)	(21,732)
2022.12.31	$5,213	$9,390	$14,603
2021.01.01	$19,280	$27,570	$46,850
Reclassification	(6,040)	(4,475)	(10,515)
2021.12.31	$13,240	$23,095	$36,335
Depreciation and impairment :			
2022.01.01	$-	$13,420	$13,420
Depreciation	-	701	701
Reclassification	-	(9,980)	(9,980)
2022.12.31	$-	$4,141	$4,141
2021.01.01	$-	$16,423	$16,423
Depreciation	-	889	889
Reclassification	-	(3,892)	(3,892)
2021.12.31	$-	$13,420	$13,420
Net carrying amount:			
2022.12.31	$5,213	$5,249	$10,462
2021.12.31	$13,240	$9,675	$22,915

	2022	2021
Income from investment properties rental	$1,927	$1,900

Please refer to Note 8 for further details regarding the investment properties under pledge.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

Investment property held by the Group are not measured at the fair value but for which the fair value is disclosed. The fair value measurements of the investment properties are categorized within Level 3. The fair values of investment properties were NT$24,743 thousand and NT$269,251 thousand as of December 31, 2022 and December 31, 2021, respectively. The fair values had been determined based on the evaluation by an independent appraiser and the recent transaction prices of similar objects recorded on Actual Price Registration of Real Estate Transactions of Ministry of Interior

10. Short-term loans

	2022.12.31	2021.12.31
Secured bank loans	$291,463	$240,707
Unsecured bank loans	159,477	32,786
Total	$450,940	$273,493
Interest Rate (%)	2.24%~4.35%	0.92%~4.51%

The Group's unused short-term lines of credits amounts to NT$437,366 thousand and NT$626,828 thousand as of December 31, 2022 and 2021, respectively.

The accompanied secured bank loans were pledged with part of the lands and buildings. Please refer to Note 8 for further details.

11. Long-term loans

(1) As of December 31, 2022:

Lender	Type	Amount	Interest Rate	Maturity and Terms of Repayment
Taiwan Cooperative Bank – Hemei Branch (Note 1)	Pledge loan	$337,500	2.6625%	From February 17, 2020 to February 17, 2025. The loan shall be repaid starting 24 months from the first usage date. The un-repaid loan shall be fully repaid in 13 quarter installments. Interest is calculated once a month.
Bank of Panhsin – Taichung Branch	Pledge loan	60,000	2.2300%	From February 22, 2022 to February 22, 2023. Interest calculated once every three months. The loan is due to be settled.
Export-Import Bank of the Republic of China	LC Financing Loan	7,524	6.7865%	From May 24, 2022 to January 16, 2024. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	7,002	6.7865%	From May 24, 2022 to January 31, 2024. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	5,282	5.8140%	From June 7, 2022 to February 27, 2024. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	12,008	4.7569%	From September 5, 2022 to August 6, 2024. Interest calculated once every quarter. The loan is due to be settled of capital and interest.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

Lender	Type	Amount	Interest Rate	Maturity and Terms of Repayment
Export-Import Bank of the Republic of China	LC Financing Loan	7,278	5.2854%	From September 19, 2022 to August 15, 2024. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	9,213	5.8879%	From October 17, 2022 to July 22, 2024. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	4,146	5.8985%	From October 18, 2022 to September 24, 2024. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	3,440	6.5903%	From February 22, 2021 to January 3, 2023. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	1,075	5.7162%	From March 10, 2021 to February 3, 2023. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	4,422	6.5903%	From April 15, 2021 to March 6, 2023. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	7,493	5.1291%	From May 10, 2021 to March 29, 2023. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	6,956	5.7162%	From June 15, 2021 to May 8, 2023. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	3,992	6.5903%	From July 13, 2021 to June 12, 2023. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	2,457	6.5903%	From July 13, 2021 to June 1, 2023. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	3,040	6.5903%	From July 26, 2021 to June 27, 2023. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	7,155	5.8140%	From September 6, 2021 to July 28, 2023. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	11,332	6.6160%	From November 8, 2021 to September 5, 2023. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	17,167	6.6160%	From December 3, 2021 to October 16, 2023. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	4,822	6.6160%	From December 10, 2021 to October 26, 2023. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	2,917	6.6160%	From December 15, 2021 to November 9, 2023. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	1,689	1.5539%	From December 22, 2021 to November 9, 2023. Interest calculated once every quarter. The loan is due to be settled of capital and interest.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

Lender	Type	Amount	Interest Rate	Maturity and Terms of Repayment
Export-Import Bank of the Republic of China	LC Financing Loan	3,440	1.4165%	From January 7, 2021 to November 29, 2023. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	12,960	1.8076%	From March 7, 2021 to December 7, 2023. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	7,370	5.7082%	From March 23, 2021 to December 20, 2023. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
China Construction Bank	Credit Loan	6,612	4.3500%	From June 9, 2020 to June 3, 2023. Interest to be settled once a month.
Taichung Bank	Financing Loan	9,213	1.9700%	From June 22, 2020 to June 17, 2023. Floating interest adjusted according to simple interest rate. Interest to be settled once a month.
Taiwan Cooperative Bank	Credit Loan	82,917	1.8000%	From March 23, 2021 to December 16, 2023. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Total		650,442		
Less: Current portion of long-te loans		(243,339)		
Less: Admin fee		(1,330)		
Total		$405,753		

(2) As of December 31, 2021

Lenders	Type	Amount	Interest Rate	Maturity and Terms of Repayment
Taiwan Cooperative Bank – Hemei Branch (Note 1)	Pledge Loan	$450,000	2.0848%	From February 17, 2020 to February 17, 2025. The loan shall be repaid starting 24 months from the first usage date. The un-repaid loan shall be fully repaid in 13 quarter installments. Interest is calculated once a month.
Taiwan Cooperative Bank	Credit Loan	74,736	2.1000%	From June 17, 2013 to June 23, 2023. Interest calculated once every 6 months. Interest to be settled once a month.
Bank of Panhsin – Taichung Branch	Pledge Loan	45,500	1.6100%	From February 22, 2021 to February 20, 2023. Interest calculated on the day of usage. Interest to be settled once a month.
Export-Import Bank of the Republic of China	LC Financing Loan	15,473	1.4477%	From December 3, 2021 to October 16, 2023. The loan is due to be settled.
Bank of Panhsin – Taichung Branch	Pledge Loan	14,500	1.6500%	From August 20, 2021 to February 22, 2023. Interest calculated on the day of usage. Interest to be paid once a month.
Export-Import Bank of the Republic of China	LC Financing Loan	10,214	1.3882%	From November 8, 2021 to September 5, 2023. The loan is due to be settled of capital and interest.
Taichung Bank	Credit Loan	8,304	1.8000%	From June 22, 2020 to June 17, 2023. Floating interest adjusted according to simple interest rate. Interest to be settled once a month.
Export-Import Bank of the Republic of China	LC Financing Loan	6,754	1.4674%	From May 10, 2021 to March 29, 2023. The loan is due to be settled of capital and interest.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

Lenders	Type	Amount	Interest Rate	Maturity and Terms of Repayment
Export-Import Bank of the Republic of China	LC Financing Loan	6,450	1.3188%	From September 6, 2021 to July 28, 2023. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	6,270	1.3276%	From June 15, 2021 to May 8, 2023. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	4,346	1.4674%	From December 10, 2021 to October 26, 2023. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	4,069	1.3276%	From June 24, 2020 to May 30, 2022. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	3,986	1.3943%	From April 15, 2021 to March 6, 2023. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	3,598	1.3943%	From July 13, 2021 to June 12, 2023. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	3,100	1.3943%	From February 22, 2021 to January 3, 2023. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	2,768	1.3276%	From December 7, 2020 to November 7, 2022. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	2,740	1.3943%	From July 26, 2021 to June 27, 2023. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	2,630	1.4748%	From December 15, 2021 to November 9, 2023. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	2,381	1.3276%	From December 29, 2020 to November 28, 2022. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	2,325	1.3943%	From July 23, 2020 to June 23, 2022. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	2,214	1.4674%	From November 9, 2020 to October 10, 2022. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	2,214	1.3943%	From May 10, 2021 to March 29, 2023. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	1,522	1.5539%	From December 22, 2021 to November 9, 2023. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	969	1.3276%	From March 10, 2021 to February 3, 2023. The loan is due to be settled of capital and interest.
Total		677,063		
Less: Current portion of long-term loans		(126,257)		
Less: Admin fee		(1,995)		
Total		$548,811		

Note 1: The Group obtained a bank loan with seven financial institutes including Taiwan Cooperative Bank, the bank loan agreement stipulated that the ratio of current assets to current liabilities shall not be lower than 100%, the ratio of liabilities to net tangible assets shall not be higher than 180%, the net value of tangible assets shall not be lower than NT$800,000,000, and the interest coverage shall be above 300%. Administration fee is 0.35% of the total line of credit, the fee shall be paid within 5 working days to Taiwan Cooperative Bank after the approval of the line of credit.

(3) The accompanied secured bank loans were pledged with part of the lands and buildings. Please refer to Note 8 for further details.

(4) The Group did not fulfill the abovementioned stipulations in year 2022 and 2021 thus is required to pay additional 0.25% of the unpaid balance to the credit banks monthly until it could fulfill the stipulations. In return, the credit banks shall not claim the Group violated the agreed stipulations.

12. Post-employment benefits

Defined contribution plan

The Group and its domestic subsidiaries adopt a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. Under the Labor Pension Act, the Group and its domestic subsidiaries will make monthly contributions of no less than 6% of the employees' monthly wages to the employees' individual pension accounts. The Group and its domestic subsidiaries have made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

Subsidiaries located in the People's Republic of China will contribute social welfare benefits based on a certain percentage of employees' salaries or wages to the employees' individual pension accounts.

Pension benefits for employees of overseas subsidiaries and branches are provided in accordance with the local regulations.

Expenses under the defined contribution plan for the years ended December 31, 2022 and 2021 amounted to NT$6,504 thousand and NT$5,201 thousand, respectively.

Defined benefits plan

The Group adopts a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the last month of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The total units shall not exceed 45 units.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

Under the Labor Standards Act, the Group contributes an amount equivalent to 6% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee. If the amount is inadequate to pay pensions calculated for workers retiring in the same year, the Group and its domestic subsidiaries will make up the difference in one appropriation before the end of March the following year

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund. The pension fund is invested in-house or under mandate, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate manager flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury Funds can be used to cover the deficits after the approval of the competent authority. As the Group does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with paragraph 142 of IAS 19. The Group expects to contribute NT$8,108 thousand to its defined benefit plan during the 12 months beginning after December 31, 2022.

As of December 31, 2022 and 2021, the weighted-average life of the Group's defined benefit plan were 6 and 10 years respectively.

Pension costs recognized in profit or loss is as follows:

	2022	2021
Current period service costs	$538	$545
Net interest expense (income)	107	105
Total	$645	$650

Reconciliation in the defined benefit obligation and fair value of plan assets are as follows:

	As of December 31, 2022	As of December 31, 2021
Defined benefit obligation	$61,286	$65,927
Plan assets at fair value	(56,997)	(43,013)
Other noncurrent liabilities – net defined benefit liability	$4,289	$22,914

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

Reconciliation of liability of the defined benefit liability is as follows:

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability (asset)
As of January 1, 2021	$66,759	$(33,849)	$32,910
Current period service costs	545	-	545
Net interest expense (income)	254	(149)	105
Subtotal	67,558	(33,998)	33,560
Remeasurement on net defined benefit liability/assets:			
Actuarial gains and losses arising from changes in financial assumptions	(2,073)	-	(2,073)
Experience adjustments	1,817	-	1,817
Re-measurement on defined benefit assets	-	(457)	(457)
Subtotal	(256)	(457)	(713)
Benefits paid	(1,375)	1,375	-
Contributions by employer	-	(9,933)	(9,933)
As of December 31, 2021	65,927	(43,013)	22,914
Current period service costs	538	-	538
Net interest expense (income)	424	(317)	107
Subtotal	66,889	(43,330)	23,559
Remeasurement on net defined benefit liability/assets:			
Actuarial gains and losses arising from changes in demographic assumptions	20,429	-	20,429
Actuarial gains and losses arising from changes in financial assumptions	40,857	-	40,857
Experience adjustments	(61,571)	-	(61,571)
Re-measurement on defined benefit assets	-	(3,180)	(3,180)
Subtotal	(285)	(3,180)	(3,465)
Benefits paid	(5,318)	(2,379)	(7,697)
Contributions by employer	-	(8,108)	(8,108)
As of December 31, 2022	$61,286	$(56,997)	$4,289

The following significant actuarial assumptions are used to determine the present value of the defined benefit obligation:

	2022.12.31	2021.12.31
Discount rate	1.20%	0.70%
Expected rate of salary increases	1.20%	1.00%

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

Sensitivity analysis

	2022		2021	
	Increase in defined benefit obligation	Decrease in defined benefit obligation	Increase in defined benefit obligation	Decrease in defined benefit obligation
Discount rate increased 0.5%	$-	$1,227	$-	$1,445
Discount rate decreased 0.5%	2,316	-	4,339	-
Expected salary increased 0.5%	2,295	-	4,303	-
Expected salary decreased 0.5%	-	1,232	-	1,447

For the purpose of sensitivity analysis above, the Company calculated the impact on defined benefit obligation due to a reasonable and feasible change of one single assumption (i.e. discount rate or expected salary level) with other assumptions remaining equal. Please note that the sensitivity analysis has its limitation due to the co-relation between different actuarial assumptions and the rarity that only one assumption changes at a time.

The method used in the analysis is consistent for both current and prior years

13. Equity

(1) Common stock

As of December 31, 2022 and 2021, the Company’s authorized capital was NT$1,350,000 thousand, the Company’s paid-in capital was NT$768,803 thousand, each share at par value of NT$10, divided into 76,880 thousand shares. Each share contains a right of vote and a right of dividend.

(2) Capital surplus

	2022.12.31	2021.12.31
Additional paid-in capital	$6,000	$6,000
Others	5,460	5,460
Total	$11,460	$11,460

According to the Company Act, the capital reserve shall not be used except for making good the deficit of the Company. When a company incurs no loss, it may distribute the capital reserves related to the income derived from the issuance of new shares at a premium or income from endowments received by the company. The distribution could be made either in cash or in the form of share dividend to its shareholders in proportion to the number of shares being held by each of them.

(3) Retained earnings and dividend policies

According to the Company's Articles of Incorporation, current year's earnings, if any, shall be distributed in the following order:
(a) Payment of all taxes and dues;
(b) Offset prior years' operation losses;
(c) Set aside 10% of the remaining amount as legal reserve.
(d) Set aside or reverse special reserve in accordance with law and regulations; and
(e) The distribution of the remaining portion, if any, will be recommended by the Board of Directors and resolved in the shareholders' meeting

The distribution of dividends to shareholders of the company can be paid in cash or shares. The policy of dividend distribution should reflect factors such as the current and future investment environment, fund requirements, domestic and international competition, capital budgets as well as the interest of the shareholders, share bonus equilibrium and long-term financial planning etc. The dividends in cash shouldn't less than 10% of the shareholder dividends. The Board of Directors shall make the distribution proposal annually and present it at the shareholders' meeting.

According to Taiwan's Company Act, the Company needs to set aside an amount as legal reserve unless where such legal reserve amounts to the amount of total paid-in capital. The legal reserve can be used to make good the deficit. When the Company incurs no loss, it may distribute the portion of legal serve which exceeds 25% of the paid-in capital by issuing new shares or by cash in proportion to the number of shares being held by each of the shareholders.

The FSC on 31 March 2021 issued Order No. Financial-Supervisory-Securities-Corporate 1090150022, which sets out the following provisions for compliance:

On a public company's first-time adoption of the IFRS, for any unrealized revaluation gains and cumulative translation adjustments (gains) recorded to shareholders' equity that the company elects to transfer to retained earnings by application of the exemption under IFRS 1, the company shall set aside special reserve. For any subsequent use, disposal or reclassification of related assets, the Company can reverse the special reserve by the proportion and transfer to retained earnings.

As of December 31, 2022 and 2021, special reserve set aside for the first-time adoption of T-IFRS amounted to NT$49,531 thousand. The Company did not incur any special reserve to retained earnings during the year ended December 31, 2022 and 2021.

he appropriations of earnings for the years 2022 and 2021 were approved through the Board meeting and stockholders' meeting held on March 21, 2023 and June 22, 2022, respectively. The details of the distributions are as follows.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

	Appropriation of earnings		Dividend per share (in NT$)	
	2022	2021	2022	2021
Legal reserve	$-	$1,420	$-	$-
Special reserve	-	4,385	-	-

Please refer to Note 6.17 for details on employees' compensation and remuneration to directors and supervisors.

14. Operating revenues

	2022	2021
Revenue from contracts with customers		
Sale of goods	$1,591,875	$1,586,560
Labor services	15,270	14,887
Other revenue	3,407	5,644
Total	$1,610,552	$1,607,091

Analysis of revenue from contracts with customers during the years ended December 31, 2022 and 2021 are as follows:

(1) Disaggregation of revenue

Year 2022

	Taiwan	USA	Mainland China	Total
Sale of goods	$873,661	$445,315	$272,899	$1,591,875
Labor services	15,270	-	-	15,270
Other income	3,401	-	6	3,407
Total	$892,332	$445,315	$272,905	$1,610,552

Year 2021

	Taiwan	USA	Mainland China	Total
Sale of goods	$784,234	$392,611	$409,727	$1,586,572
Labor services	14,887	-	-	14,887
Other income	5,632	-	-	5,632
Total	$804,753	$392,611	$409,727	$1,607,091

The timing for revenue recognition of the Company and the Customers: at a same point in time

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

(2) Contract balances

Contract liabilities - current

	2022.12.31	2021.12.31	2021.01.01
Sale of goods	$68,272	$98,741	$47,413

The significant changes in the Group's balances of contract liabilities for the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
The opening balance transferred to revenue	$(77,849)	$(43,929)
Increase in receipts in advance during the period (excludin amount incurred and transferred to revenue during the peri	47,380	95,330
Exchange differences	-	(73)
Total	$(30,469)	$51,328

15. Expected credit losses (gain)

	2022	2021
Operating expenses – expected credit losses (gains)		
Account receivables	$16,588	$(197)

Please refer to Note 12 for more details on credit risk.

The Group measures the loss allowance of its trade receivables (including notes receivable, notes receivable – related parties, accounts receivable and accounts receivable – related parties) at an amount equal to lifetime expected credit losses. The assessment of the Group's loss allowance as of December 31, 2022 and 2021 are as follows:

(1) The Group considers the grouping of trade receivables by counter parties' credit rating, geographical region and industry sector as well as loss allowance measured by provision matrix. Details are as group 1.

(2) The Group used individual customer evaluation method to evaluate the customers who have unsatisfactory credibility. Please refer to group 2 for further details.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

December 31, 2022

Group 1

	Not yet due (Note 1)	Past due 1-90 days	91-180 days	181-365 days	366 days or above	Total
Gross carrying amount	$268,819	$31,043	$5,505	$5,133	$32,721	$343,221
Loss ratio	-	0.5%	1%	5%	100%	
Lifetime expected credit losses	-	(155)	(55)	(257)	(32,721)	(33,188)
Carrying amount of trade receivables	$268,819	$30,888	$5,450	$4,876	$-	$310,033

December 31, 2021

Group 1

	Due (Note 1)	Past due 1-90 days	91-180 days	181-365 days	366 days or above	Total
Gross carrying amount	$296,896	$12,677	$6,874	$2,060	$16,896	$335,403
Loss ratio	-	0.5%	1%	5%	100%	
Lifetime expected credit losses	-	(64)	(69)	(103)	(16,896)	(17,132)
Carrying amount of trade receivables	$296,896	$12,613	$6,805	$1,957	$-	$318,271

Group 2

	Not yet due	Past due but not impaired 181-365 days or above (Note 2)	Total
Gross carrying amount	$-	$554	$554
Loss ratio	-	100%	100%
Lifetime expected credit losses	-	(554)	(554)
Carrying amount of trade receivables	$-	$-	$-

Note 1：All the Group’s notes receivables were not past due

Note 2：The Group used individual customer evaluation method to measure expected credit losses.

The movement in the provision for impairment of account receivable (including notes receivable, notes receivable – related parties, accounts receivable and account receivable – related parties) for the years ended December 31, 2022 and 2021 are as follows:

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

	Notes receivable	Accounts receivable
2022.01.01	$-	$17,686
Addition for the current period	-	16,588
Write off	-	(4,259)
Effect of exchange rate changes	-	3,173
2022.12.31	$-	$33,188
2021.01.01	$-	$18,053
Reversal for the current period	-	(197)
Effect of exchange rate changes	-	(170)
2021.12.31	$-	$17,686

16. Leases

(1) The Group as a lessee

The group leases properties, including lands, buildings and constructions. The lease terms range from 3 to 43 years.

The Group's leases effect on the financial position, financial performance and cash flows are as follow:

A. Amounts recognized in the balance sheet

(a) Right-of-use assets

Carrying amount

	2022.12.31	2021.12.31
Buildings and constructions	$33,836	$50,935
Lands	20,713	20,934
Transportation equipment	1,874	2,998
Total	$56,423	$74,867

Some of the leases were terminated, the right-of-use assets and lease liabilities were reduced NT$2,818 thousand and NT$2,921 thousand respectively, and generated NT$103 thousand for lease modification gain.

Right-of-use assets increased NT$0 thousand and NT$3,373 thousand for the years ended in December 31, 2022 and 2021 respectively.

Please refer to Note 8 for further details regarding right-of-use assets under pledge.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

(b) Lease liabilities

	2022.12.31	2021.12.31
Lease liabilities		
Current	$14,707	$16,417
Noncurrent	21,156	37,889
Total	$35,863	$54,306

Please refer to Note 6.18(4) for the interest on lease liabilities recognized during the year ended December 31, 2022 and 2021 refer to Note12.5 Liquidity Risk Management for the maturity analysis for lease liabilities as at December 31, 2021 and 2020.

B. Amounts recognized in the statement of comprehensive income

Depreciation charge for right-of-use assets

	2022.01.01~ 2022.12.31	2021.01.01~ 2021.12.31
Buildings and constructions	$17,564	$17,220
Transportation equipment	1,124	375
Lands	531	521
Total	$19,219	$18,116

C. Income and costs relating to leasing activities

	2022.01.01~ 2022.12.31	2021.01.01~ 2021.12.31
Short term lease expenses	$2,754	$2,149

D. Cash outflow relating to leasing activities

Cash outflow for leasing were NT$23,739 thousand and NT$22,191 thousand for the year ended on December 31, 2022 and 2021 respectively.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

17. Summary of employee benefits, depreciation and amortization expenses by function is as follows:

Function / Nature	2022.01.01~2022.12.31			2021.01.01~2021.12.31		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salaries	$64,489	$149,548	$214,037	$61,400	$134,531	$195,931
Labor and health insurance	7,761	14,298	22,059	6,791	12,628	19,419
Pension	2,007	5,142	7,149	1,990	3,861	5,851
Other employee benefits	2,376	10,352	12,728	3,241	7,441	10,682
Depreciation	18,677	40,026	58,703	19,002	41,260	60,262
Amortization	-	2,748	2,748	2,066	2,680	4,746

According to the Company's articles of incorporation, not less than 2% of profit of the current year is distributable as bonus to employees and not higher than 5% of profit of the current year is distributable as remuneration to directors and supervisors. The Company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation in the form of shares or in cash; and in addition thereto a report of such distribution is submitted to the shareholders' meeting. Information on the Board of Directors' resolution regarding the employees' compensation and remuneration to directors and supervisors can be obtained from the "Market Observation Post System" on the website of the TWSE.

The Company did not estimate the amounts of the bonus to employees and the remuneration to directors and supervisors for the year ended December 31, 2022 due to loss in operation.

The actual amounts distributed to bonus to employee and remuneration to directors and supervisors for the year ended December 31, 2021 were NT$303 thousand and NT$0 thousand respectively. The differences in the amount of the expenses for 2021 is recorded in next year's profit and loss account.

18. Non-operating income and expenses

(1) Interest income

	2022	2021
Financial assets measured at amortized cost	$820	$225

(2) Other income

	2022	2021
Rents	$3,973	$4,657
Dividends	10	-
Other income - other	4,764	18,489
Total	$8,747	$23,146

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

(3) Other gains and losses

	2022	2021
Foreign exchange gains (losses), net	$3,244	$(2,204)
Gain (loss) on disposal of property, plant and equipment	289	1,933
Gains on lease modification	103	-
Losses on intangible asset impairments	(785)	-
Miscellaneous	(2,888)	(3,607)
Total	$(37)	$(3,878)

(4) Finance costs

	2022	2021
Interest on borrowings from bank	$28,289	$23,850
Interest on lease liabilities	983	1,286
Total	$29,272	$25,136

19. Componenets of other comprehensive income

For the year ended December 31, 2022

	Arising during the period	Other comprehensive income	Income tax expense	OCI net of tax
Not reclassified to profit and loss:				
Re-measurement on defined benefit plan	$3,465	$3,465	$(693)	$2,772
Unrealized gain (losses) from equity instruments investments measured at fair value through other comprehensive income	(2,579)	(2,579)	-	(2,579)
Items that may subsequently be reclassified to profit or loss:				
Exchange differences resulting from translating the financial statements of foreign operations	41,229	41,229	(10,301)	30,928
Share of other comprehensive income (loss) of associates and joint ventures	1,716	1,716	-	1,716
Total	$43,831	$43,831	$(10,994)	$32,837

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

For the year ended December 31, 2021

	Arising during the period	Other comprehensive income	Income tax expense	OCI net of tax
Not reclassified to profit and loss:				
Re-measurement on defined benefit plan	$713	$713	$(143)	$570
Items that may subsequently be reclassified to profit or loss:				
Exchange differences resulting from translating the financial statements of foreign operations	(11,040)	(11,040)	-	(11,040)
Share of other comprehensive income (loss) of associates and joint	5,261	5,261	-	5,261
Total	$(5,066)	$(5,066)	$(143)	$(5,209)

20. Income tax

The major components for income tax expense for the years ended December 31, 2022 and 2021 are as follows

A. Income tax expense (benefit) recognized in profit and loss

	2022	2021
Current income tax expense:		
Current income tax charge	$20,684	$10,104
Deferred income tax expense:		
Deferred tax expense (income) relating to origination and reversal of temporary differences	14,996	8,274
Total income tax expense	$35,680	$18,378

B. Income tax relating to components of other comprehensive income

	2022	2021
Deferred income tax expense (benefit):		
Exchange differences resulting from translating the financial statements of foreign operations	$10,301	$-
Actuarial gains or losses on defined benefit plans	693	143
Income tax relating to components of other comprehensive income	$10,994	$143

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

C. A reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rates is as follows:

	2022	2021
Accounting profit before tax from continuing operations	$12,685	$52,278
Tax at the domestic rates applicable to profits in the country concerned	$8,853	$17,226
Tax effect of tax allowance	(2)	(3,216)
Tax effect of expenses not deductible for tax purposes	212	619
Tax effect of deferred tax assets/liabilities	25,467	8,274
Tax on undistributed earnings	420	-
Others	730	(4,525)
Total income tax expense recognized in profit or loss	$35,680	$18,378

D. Deferred tax assets (liabilities) relate to the following:

(1) For the year ended December 31, 2022

Item	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Ending balance
Temporary differences				
Unrealized exchange loss (gain)	$1,269	$(1,803)	-	$(534)
Unrealized loss on financial asset impairment	240	-	-	240
Expected loss	5,939	949	-	6,888
Expected loss on inventory valuation	17,058	7,909	-	24,967
Expected loss on long-term investment valuation	186	-	-	186
Unrealized after-sale service	1,221	318	-	1,539
Unrealized deferred margin	6,344	2,900	-	9,244
Unused tax losses	31,405	(10,156)	-	21,249
Gain of investment for using equity method	(31,074)	(15,189)	-	(46,263)
Defined benefit liability - noncurrent	(1,254)	(1,324)	-	(2,578)
Advance withdrawal expenses	607	1,052	-	1,659
Unrealized asset depreciation expenses	(3,827)	455	-	(3,372)
Exchange differences resulting from translating the financial statements of foreign operations	8,532	-	(10,301)	(1,769)
Changes on actuarial loss or gain	12,092	-	(693)	11,399
Land value increment tax	(15,335)	-	-	(15,335)
Other deferred tax assets	4,104	(107)	-	3,997
Deferred income tax expenses		$(14,996)	$(10,994)	
Net deferred income tax assets	$37,507			$11,517
Reflected in balance sheet as follows:				
Deferred income tax assets	$81,839			$82,789
Deferred income tax liabilities	$(44,332)			$(71,272)

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

(2) For the year ended December 31, 2021

Item	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Ending balance
Temporary differences				
Unrealized exchange loss (gain)	$697	$572	$-	$1,269
Unrealized loss on financial asset impairment	240	-	-	240
Expected loss	5,677	262	-	5,939
Expected loss on inventory	14,574	2,484	-	17,058
valuation	288	(102)	-	186
Expected loss on long-term investment valuation	886	335	-	1,221
Unrealized after-sale service	7,914	(1,570)	-	6,344
Unrealized deferred margin	47,940	(16,535)	-	31,405
Unused tax losses	(31,074)	-	-	(31,074)
Gain of investment for using equity method	(7,232)	5,978	-	(1,254)
Defined benefit liability - noncurrent	955	(348)	-	607
Advance withdrawal expenses	(4,675)	848	-	(3,827)
Unrealized asset depreciation expenses	8,532	-	-	8,532
Exchange differences resulting from translating the financial statements of foreign operations	12,235	-	(143)	12,092
Changes on actuarial loss or gain	(15,335)	-	-	(15,335)
Land value increment tax	4,302	(198)	-	4,104
Other deferred tax assets		$(8,274)	$(143)	
Deferred income tax expenses	$45,924			$37,507
Net deferred income tax assets				
	$105,230			$81,839
Reflected in balance sheet as follows:				
Deferred income tax assets	$(59,306)			$(44,332)

(3) Unrecognized deferred tax assets

As of December 31, 2022 and 2021, deferred tax assets that have not been recognized amounts to NT$30,389 thousand and NT$17,484 thousand respectively.

(4) Unrecognized deferred tax liabilities relating to subsidiaries

Before the year ended December 31, 2021, the Group did not recognize the deferred tax liabilities for the income tax that might arose when transferring back the undistributed profit from overseas subsidiaries. As of December 31, 2022 and 2021, the temporary differences of tax for unrecognized deferred tax liabilities were NT$0 thousand and NT$32,603 thousand respectively.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

E. The assessment of income tax returns

As of December 31, 2022, the assessment status of income tax returns of the Group was as follows:

	The assessment of income tax returns
Falcon Machine Tools Co., Ltd.	Assessed and approved up to 2020
Subsidiary – Lin Yu International Industrial Co., Ltd.	Newly established, not yet assessed

The Group's foreign subsidiaries are under the taxation regulations in their respective countries. Their income tax returns were assessed up to 2021.

F. Unused tax losses are as follows:

Falcon Machine Tools Co., Ltd.

		Unused tax losses as of		
Year	Loss	2022.12.31	2021.12.31	Expiration year
2013	$79,627	$-	$55,435	2023
2014	4,046	-	4,046	2024
2015	32,752	10,115	32,752	2025
2016	57,058	57,058	57,058	2026
2017	20,249	20,249	20,249	2027
2019	7,418	7,418	7,418	2029
2020	56,946	56,946	56,946	2030
		$151,786	$233,904	

Chevalier Machinery Co., Ltd. (Suzhou) (in RMB)

		Unused tax losses as of		
Year	Loss	2022.12.31	2021.12.31	Expiration year
2017	$3,032	$3,032	$3,032	2022
2019	7,450	7,450	7,450	2024
2020	1,171	1,171	1,171	2025
		$11,653	$11,653	

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

21. Earnings per share

Basic earnings per share is calculated by dividing net profit for the year attributable to the common shareholders of the parent entity by the weighted average number of common stocks outstanding during the year. Diluted earnings per share are calculated by dividing the net profit attributable to ordinary equity holders of the parent entity (after adjusting any influences) by the weighted average number of common stocks outstanding during the year plus the weighted average number of common stocks that would be issued on conversion of all the dilutive potential common stocks into common stocks.

	2022	2021
(1) Basic earnings per share		
Net income attributable to common shareholders of the Parent	$(22,995)	$33,900
Weighted average number of common stocks outstanding (in thousand shares)	76,880	76,880
Basic earnings per share (in NT$)	$(0.30)	$0.44

	2022	2021
(2) Diluted earnings per share		
Net income attributable to ordinary equity holders of the Company	$(22,995)	$33,900
Net income attributable to ordinary equity holders of the Company after dilution	$(22,995)	$33,900
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousand shares)	76,880	76,880
Effect of dilution:		
Employee bonus stock (in thousand shares) (Note)	-	36
Weighted average number of ordinary shares outstanding after dilution (in thousand shares)	76,880	76,916
Diluted earnings per share (in NT$)	$(0.30)	$0.44

Note: although the consolidated net income before tax was a gain, the net income of the Company’s before tax was a loss. The Company did not estimate the employee bonus and remuneration to directors in according with the articles of incorporation and related regulations.

There have been no other transactions involving common shares or potential common shares between the reporting date and the date the financial statements were authorized for issue.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

7. RELATED PARTY TRANSACTIONS

Information of the related parties that had transactions with the Company during the financial reporting period is as follows:

Name and nature of relationship of the related parties

Related parties	Relationship
Focus CNC Co., Ltd.	Associate
Hwang Kang Machinery Co., Ltd.	Associate
Fulson Industrial Co., Ltd.	Substantive related party
Lin, Tsung-Lin and other 13 persons	Key management personnel (Note)

Note: Mr. Chang, Pao-Ming resigned as Chairman and General Manager on October 21, 2022. The Board of Directors appointed Mr. Lin Tsung-Lin to succeed as Chairman and Mr. Tung Shang-Yu to take the positions of Vice-Chairman and General Manager.

Significant transactions with related parties

1. Sale

	2022	2021
Fulson Industrial Co., Ltd.	$6,701	$10,165
Hwang Kang Machinery Co., Ltd.	538	2,691
Others	-	21
Total	$7,239	$12,877

The sales price to the related parties was determined through mutual agreement in reference to market conditions. The collection periods to related parties were month-end 90~180 days. The outstanding payment at the end of the year were not pledged, interest-free and subject to pay in cash.

2. Purchase

	2022	2021
Fulson Industrial Co., Ltd.	$106,788	$99,558
Focus CNC Co., Ltd.	8,722	14,397
Others	5,949	5,777
Total	$121,459	$119,732

The purchase prices from the related parties were determined through mutual agreement in reference to market conditions. The payment periods to related parties were the same with other company, and were month end 60 days in cheque.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

3. Lease – related parties

Rental income

	2022	2021
Fulson Industrial Co., Ltd.	$885	$885
Focus CNC Co., Ltd.	144	144
Total	$1,029	$1,029

The Group leases machines, lands, buildings and constructions to associates. The rental price was determined through mutual agreements in reference to market conditions. Rents charged monthly and the related incomes are listed in non-operating income and expenses – rent.

4. Notes receivable – related parties

	2022.12.31	2021.12.31
Fulson Industrial Co., Ltd.	$979	$2,071
Focus CNC Co., Ltd.	96	-
Total	$1,075	$2,071

5. Accounts receivable – related parties

	2022.12.31	2021.12.31
Fulson Industrial Co., Ltd.	$144	$1,105
Others	-	92
Total	$144	$1,197

6. Notes payable – related parties

	2022.12.31	2021.12.31
Others	$18	$348

7. Accounts payable – related parties

	2022.12.31	2021.12.31
Fulson Industrial Co., Ltd.	$13,623	$21,811
Hwang Kang Machinery Co., Ltd.	1,462	2,562
Others	6,056	56
Total	$21,141	$24,429

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

8. Key management personnel bonus and compensations

	2022	2021
Short-term employee benefits	$10,809	$13,565
Post-employment benefits	1,183	347
Total	$11,992	$13,912

8. ASSETS PLEDGED AS COLLATERAL

Assets pledged as collateral are as follows:

Item	Carrying Amount 2022.12.31	Carrying Amount 2021.12.31	Content of pledge
Accounts receivable	$157,423	$96,627	Long and short term loan
Properties, plants and equipment – buildings and constructions	112,684	144,456	Long term loan
Properties, plants and equipment -lands	105,325	151,428	Long and short term loan
Noncurrent assets held for sale - lands	54,130	-	Long and short term loan
Financial assets at amortized cost - noncurrent	38,413	34,640	Deposit
Noncurrent assets held for sale – buildings and constructions	24,397	-	Long and short term loan
Right-of-use – lands	20,713	20,934	Short term loan
Investment properties	10,462	22,915	Long term loan
Financial assets at amortized cost - current	1,986	4,715	Deposit
Total	$525,533	$475,715	

9. COMMITMENTS AND CONTINGENCIES

1. As of December 31, 2022, there was a deposit of NT$1,000 thousand for loan has yet to recollect.

2. Please refer to Note 13.1(2) for further details regarding the Group's endorsements and guarantees as of December 31, 2022.

3. As of December 31, 2022, King's Town Bank has issued a letter of credit for NT$103,890 thousand as guarantee to Taiwan Sugar Corp. for the project of joint development of land.

10. LOSSES DUE TO MAJOR DISASTERS

None

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

11. SIGNIFICANT SUBSEQUENT EVENTS

None

12. OTHERS

1. Categories of financial instruments

Financial assets	2022.12.31	2021.12.31
Financial assets at fair value through other comprehensive income	$22,630	$3,760
Financial assets measured at amortized cost:		
Cash and cash equivalents (exclude cash on hand)	338,836	303,613
Financial assets measured at amortized cost - current	1,986	9,918
Notes receivable (including related parties)	26,592	56,809
Accounts receivable (including related parties)	283,441	261,462
Other receivables	11,975	19,158
Financial assets measured at amortized cost - noncurrent	38,413	34,640

Financial liabilities	2022.12.31	2021.12.31
Financial liabilities measured at amortized cost:		
Short-term loan	$450,940	$273,493
Short-term notes payable	-	29,955
Notes and accounts payable (including related parties)	262,084	396,631
Other payables	84,803	85,820
Long-term loan (including due within a year)	649,092	675,068
Lease liabilities (including current and noncurrent)	35,862	54,306

2. Financial risk management objectives and policies

The Group's principal financial risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activates. The Group identifies measures and manages the aforementioned risks based on the Group's policy and risk appetite.

The Group has established appropriate policies, procedures and internal controls for financial risk management. Before the Group enters into significant transactions, the Board of Directors and Audit Committee must carry out due approval process based on related protocols and internal control procedures. The Group complies with its financial risk management policies at all times.

3. Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market prices comprise currency risk, interest rate risk and other price risk (such as equity risk).

In practice, it is rarely the case that a single risk variable will change independently from other risk variables. There are usually interdependencies between risk variables. However, the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

Foreign currency risk

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense are denominated in a different currency from the Group's functional currency) and the Group's net investments in foreign subsidiaries.

The Group has certain foreign currency receivables to be denominated in the same foreign currency with certain foreign currency payables, therefore natural hedge is received. The Group also uses forward contracts to hedge the foreign currency risk on certain items denominated in foreign currencies. Hedge accounting is not applied as they did not qualify for hedge accounting criteria. Furthermore, as net investments in foreign subsidiaries are for strategic purposes, they are not hedged by the Group

The foreign currency sensitivity analysis of the possible change in foreign exchange rates on the Group's profit is performed on significant monetary items denominated in foreign currencies as at the end of the reporting period. The Group's foreign currency risk is mainly related to the volatility in the exchange rates for foreign currency. The information of the sensitivity analyses is as follows:

(1) When NTD strengthens/weakens against USD by 1%, the profit or loss for the years ended December 31, 2022 and 2021 is decreased/increased by NT$1,461 thousand and NT$2,173 thousand respectively.

(2) When NTD strengthens/weakens against Euro by 1%, the profit or loss for the years ended December 31, 2022 and 2021 is decreased/increased by NT$142 thousand and NT$86 thousand respectively.

(3) When NTD strengthens/weakens against RMB by 1%, the profit or loss for the years ended December 31, 2022 and 2021 is decreased/increased by (NT$170) thousand and (NT$637) thousand respectively.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's loans at variable and fixed interest rates.

The interest rate sensitivity analysis is performed on items exposed to loans at variable interest rate as at the end of the reporting period. At the reporting date, a change of 0.1% of interest rate in a reporting period could cause the profit for the years ended December 31, 2022 and 2021 to decrease/increase by NT$880 thousand and NT$759 thousand respectively.

4. Credit risk management

Credit risk is the risk that counterparty will not meet its obligations under a contract, leading to a financial loss. The Group is exposed to credit risk from operating activities (primarily for accounts receivables and notes receivables) and from its financing activities, including bank deposits and other financial instruments

Credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to credit risk management. Credit limits are established for all counter parties based on their financial position, rating from credit rating agencies, historical experience, prevailing economic condition and the Group's internal rating criteria etc. Certain counter parties' credit risk will also be managed by taking credit enhancing procedures, such as requesting for prepayment or insurance.

As of December 31, 2022 and 2021, accounts receivable from top ten customers represent 62% and 41% of the total accounts receivables of the Group, respectively. The credit concentration risk of other accounts receivables is insignificant.

Credit risk from balances with banks, fixed income securities and other financial instruments is managed by the Group's treasury in accordance with the Group's policy. The Group only transacts with counterparties approved by the internal control procedures, which are banks and financial institutions, companies and government entities with good credit rating. Consequently, there is no significant credit risk for these counter parties.

5. Liquidity risk management

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents, bank borrowings and short-term notes payables. The table below summarizes the maturity profile of the Group's financial liabilities based on the contractual undiscounted payments and contractual maturity. The payment amount includes the contractual interest. The undiscounted payment relating to borrowings with variable interest rates is extrapolated based on the estimated interest rate yield curve as of the end of the reporting period.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

Non-derivative financial instruments

	< 1 year	2 to 3 years	4 to 5 years	> 5 years	Total
2022.12.31					
Short-term loan	$451,400	$-	$-	$-	$451,400
Notes and accounts payables	262,084	- -	- -	-	262,084
Other payables	84,803	-	-	-	84,803
Lease liabilities	17,250	30,975	3,100	1,013	52,337
Long-term loan (including due within a year)	263,512	422,557	-	-	686,069
2021.12.31					
Short-term loan	$273,775	$-	$-	$-	$273,775
Short-term notes payables	29,955	-	-	-	29,955
Notes and accounts payables	396,631	-	-	-	396,631
Other payables	85,820	-	-	-	85,820
Lease liabilities	17,372	32,054	4,488	2,463	56,377
Long-term loan (including due within a year)	139,732	227,378	338,695	-	705,805

6. Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities for the year ended December 31, 2022:

	Short-term loans	Short-term note payables	Long-term loans (including due within a year)	Lease liabilities	Total liabilities from financing activities
2022.01.01	$273,493	$29,955	$675,068	$54,306	$1,032,822
Cash flows	175,206	(29,955)	(36,056)	(20,002)	89,193
Exchange differences	2,241	-	10,080	1,559	13,880
2022.12.31	$450,940	$-	$649,092	$35,863	$1,135,895

Reconciliation of liabilities for the year ended December 31, 2021:

	Short-term loans	Short-term note payables	Long-term loans (including due within a year)	Lease liabilities	Total liabilities from financing activities
2021.01.01	$377,836	$29,926	$592,040	$70,117	$1,069,919
Cash flows	(103,936)	29	83,962	(18,756)	(38,701)
Non-cash changes	-	-	-	3,373	3,373
Exchange differences	(407)	-	(934)	(428)	(1,769)
2021.12.31	$273,493	$29,955	$675,068	$54,306	$1,032,822

7. Fair values of financial instruments

(1) The methods and assumptions applied in determining the fair value of financial instruments:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used by the Group to measure or disclose the fair values of financial assets and financial liabilities:

A. The carrying amount of cash and cash equivalents, accounts receivables, accounts payable and other current liabilities approximate their fair value due to their short maturities.

B. For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities, bonds etc.) at the reporting date.

C. Fair value of equity instruments without market quotations (including private placement of listed equity securities, unquoted public company and private company equity securities) are estimated using the market method valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information (for example, inputs such as discount for lack of marketability, P/E ratio of similar entities and Price-Book ratio of similar entities).

D. Bank loans and other noncurrent liabilities are determined based on the counterparty prices or valuation method. The valuation method uses DCF method as a basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instrument (such as yield curves published by the Taipei Exchange, average prices for Fixed Rate Commercial Paper published by Reuters and credit risk, etc.)

(2) Fair value of financial instruments measured at amortized cost

The carrying amount of the Group’s financial assets and liabilities measured at amortized cost approximate their fair value.

(3) Fair value measurement hierarchy for financial instruments

Please refer to Note 12(9) for fair value measurement hierarchy for financial instruments of the Group.

8. Derivative financial instruments

As of December 31, 2022 and 2021, there was no derivative financial instruments for the Group.

9. Fair value measurement hierarchy

(1) Fair value measurement hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole. Level 1, 2 and 3 inputs are described as follows:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – Unobservable inputs for the asset or liability.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization at the end of each reporting period.

(2) Fair value measurement hierarchy of the Group's assets and liabilities

The Group does not have assets that are measured at fair value on non-recurring basis as well as assets and liabilities that are measured at fair value on a recurring basis.

(3) Fair value measurement hierarchy of assets and liabilities not measured at fair value but for which the fair value is disclosed

As of December 31, 2022

	Level 1	Level 2	Level 3	Total
Financial liabilities not measured at fair value but for which the fair value is disclosed:				
Investment properties	$-	$-	$24,743	$24,743
Financial assets at fair value through other comprehensive income – noncurrent	-	-	22,630	22,630

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

As of December 31, 2021

	Level 1	Level 2	Level 3	Total
Financial liabilities not measured at fair value but for which the fair value is disclosed:				
Investment properties	$-	$-	$269,251	$269,251
Financial assets at fair value through other comprehensive income – noncurrent	-	-	3,760	3,760

10. Significant assets and liabilities denominated in foreign currencies

Information regarding the significant assets and liabilities denominated in foreign currencies is listed below:

Unit: thousand

	2022.12.31			2021.12.31		
	Foreign currencies	Foreign exchange rate	NTD	Foreign currencies	Foreign exchange rate	NTD
Financial assets						
Monetary items						
USD	$13,040	30.710	$400,458	$13,982	27.680	$387,022
Euro	434	32.720	14,200	287	31.320	8,989
RMB	23,315	4.408	102,773	23,792	4.344	103,352
Financial liabilities						
Monetary items:						
USD	8,282	30.710	254,340	$6,132	27.680	$169,734
Euro	-	32.720	-	13	31.320	407
RMB	27,179	4.408	119,805	38,467	4.344	167,101

The above information is disclosed based on the carrying amount of foreign currency (after conversion to functional currency).

Since there were varieties of foreign currency transactions of the Group, the Group was unable to disclose foreign exchange gain (loss) towards each foreign currency with significant impact. The Group recognized exchange gain (loss) amounted to NT$3,244 thousand and NT$(2,204) thousand for the years ended December 31, 2022 and 2021 respectively.

11. Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

12. Financial asset transferal information

The group entered into assignment agreements with recourse with financial institutions regarding some of its accounts receivable. Although the group transfers the contract rights of the cash flow from such accounts receivable, the group still has to bear the credit risk in accordance with the agreement in the event the accounts receivable is not recoverable. The transaction information is as follows:

2022.12.31

Lender	Amount assigned	Prepaid amount (note)
Export Import Bank of the Republic of China	$157,423	$154,181

2021.12.31

Lender	Amount assigned	Prepaid amount (note)
Export Import Bank of the Republic of China	$96,627	$84,023

Note: Reported on short-term loans, due within a year or an operating cycle, and long-term loan.

13. OTHER DISCLOSURES

1. Information about significant transitions

(1) Financing provided to others: None

(2) Endorsement/Guarantee provided to others

Ref No.	Endorsement/ Guarantee Provider (Name)	Guaranteed Party		Limits on Endorsement /Guarantee Amount Provided to Each Guaranteed Party (Note 1)	Maximum Balance for the Period	Ending Balance	Amount Actually Drawn	Amount of Endorsement/ Guarantee to Net Worth per Latest Financial Statements	Ratio of Accumulated Endorsement/ Guarantee to Net Worth per Latest Financial Statements	Maximum Endorsement/ Guarantee Amount Allowed (Note 2)	Endorsement provided by parent company to subsidiaries	Endorsement provided by subsidiaries to parent company	Endorsement provided to entities in China
		Name	Relationship										
0	Falcon Machine Tools Co., Ltd.	Lucky Investment Services Ltd.	Subsidiary	$574,681	$92,130	$92,130	$92,130	$-	11.22%	$656,778	Y	N	N

Note 1: Limits on endorsement/guarantee amount provided to each guaranteed party is 70% of net worth for December 31, 2022

Note 2: Total amount of endorsement/guarantee provided limited to 80% of net worth for December 31, 2022.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

(3) Securities held (excluding subsidiaries, associates and joint ventures):

Company Held	Security Type and Name	Relationship with Issuer	Financial Statement Account	As of December 31, 2022			
				Share (Unit)	Carrying Amount	Shareholding %	Fair Value
Falcon Machine Tools Co., Ltd.	Zheng Cheng He Corporate Co., Ltd.	Investee company	Financial assets at fair value through profit or loss - noncurrent	120,000	$-	15.00%	$-
Falcon Machine Tools Co., Ltd.	Taichung International Entertainment Corporation	Investee company	Financial assets at fair value through profit or loss - noncurrent	2	189	0.06%	189
Falcon Machine Tools Co., Ltd.	Qing Jing Xiang Asset Co., Ltd.	Investee company	Financial assets at fair value through profit or loss - noncurrent	1,500,000	12,629	10.00%	12,629
Falcon Machine Tools Co., Ltd.	Qing Jing Ning Construction Co., Ltd.	Investee company	Financial assets at fair value through profit or loss - noncurrent	1,002,000	9,812	5.00%	9,812

(4) Aggregate purchases or sales of the same securities reaching NT$300 million or 20 percent of paid-in capital or more: None

(5) Acquisition of real estate reaching NT$300 million or 20 percent of paid-in capital or more: none

(6) Disposal of real estate reaching NT$300 million or 20 percent of paid-in capital or more:

Disposed Company	Name of Property	Transaction Date	Transaction Amount	Payment Status	Counter-party	Relationship	Prior Transaction of Related Counter-party				Price Reference	Purpose and Use of Disposal	Other Terms
							Owner	Relationship with Issuer	Transfer Date	Amount			
Falcon Machine Tools Co., Ltd.	Properties and equipment	2022/12/29	$298,260	According to contract terms	E-tech Machinery	-	N/A	N/A	N/A	N/A	Reference to market conditions and appraisal report	Cost saving, revival assets and strengthen operational capital	None

(7) Related party transactions for purchases and sales amounts exceeding the lower of NT$100 million or 20% of capital stock for the year ended December 31, 2021

Company Name	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchase/ Sale	Amount	% to Total	Payment/Collection Term	Unit Price	Payment/Collection Term	Ending Balance	% to Total	
Falcon Machine Tools Co., Ltd.	CHEVALIER MACHINERY,LTD.	Subsidiary	Sale	$264,286	22.18%	Same as other customers	Normal	Normal	$30,897	10.56%	

(8) Receivables from related parties with amounts exceeding the lower of NT$100 million or 20% of capital stock as of December 31, 2021: None

(9) Financial instruments and derivative transactions: None

(10) Significant intercompany transactions between the parent with subsidiaries or among subsidiaries: Please refer to Note 13.1(7).

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

2. Information on investees:

Information on investees are as follows (excluding investment in Mainland China)

Investor	Investee	Address	Main Business and Product	Original Investment Amount		Balance as of December 31, 2022			Net Income (Loss) of the Investee	Share of Income (Loss) of the Investee	Note
				As of December 31, 2022	As of December 31, 2021	Shares (in thousand)	%	Carrying Amount (Note 4)			
Falcon Machine Tools Co., Ltd.	Chevalier Machinery, Inc.	9925 TABOR PLACE, SANTA FE SPRINGS, CA90670, USA	Machine imports and distributions	$103,047	$103,047	2,120	100.00%	$229,948	$24,925	$28,198	Note 2, 3
Falcon Machine Tools Co., Ltd.	Lucky Investment Services Ltd.	P.O. BOX 3321 ROAD TOWN, TORTOLA (B.V.I)	General investment	279,900	269,725	8,795	100.00%	168,387	(64,139)	(64,511)	Note 1, 2, 3
Falcon Machine Tools Co., Ltd.	Hwang Kang Machinery Co., Ltd.	No. 262, Xinggong Rd., Hemei Township, Changhua County 508003, Taiwan (R.O.C.)	Sheet-metal and parts manufacturing and processing	17,897	17,920	2,287	40.18%	25,225	2,162	815	Note 2
Falcon Machine Tools Co., Ltd.	Focus CNC Co., Ltd.	No. 16, Longshan 2nd St., Daya Dist., Taichung City 428006, Taiwan (R.O.C.)	Machine manufacturing and processing	16,910	16,910	8,337	39.18%	137,491	40,934	16,276	Note 2
Falcon Machine Tools Co., Ltd.	Lin Yu International Co., Ltd.	8F, No. 150, Bo'ai 2nd Rd., Zuoying Dist., Kaohsiung City 813357, Taiwan (R.O.C.)	Real Estate Agent	50,000	-	5,000	100.00%	49,395	(605)	(605)	Note 3

Note 1: The investment income of the investees including the recognized gains and losses of their further investments in their investees.
Note 2: The investment income of the investees including the investment gains or losses generated from downstream, upstream or sidestream deals.
Note 3: It has been consolidated written off.
Note 4: Carrying amounts including unrealized downstream gains or losses of related parties.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

3. Information on investments in Mainland China:

(1) The Group invests in Mainland China through Lucky Investment Services Inc. and Chevalier Machinery Co., Ltd. (Shanghai). The following consolidated inter-company transactions have been offset.

Company	Main Business	Paid-in Capital	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2022	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2021	Percentage of Ownership	Investment income (loss) recognized	Carrying Value as of December 31, 2022	Accumulated Inward Remittance of Earnings as of December 31, 2022
					Outflow	Inflow					
Chevalier Machinery Co., Ltd. (Shanghai)	Machine Tools Manufacture and Distribution	$104,107 (USD3,390 thousand)	Indirectly invested by establishing a company in a third country	$232,413 (USD7,568 thousand)	$-	$-	$232,413 (USD7,568 thousand)	100.00%	$(15,409) (Note 1)	$98,407	$-
Chevalier Machinery Co., Ltd. (Suzhou)	Machine Tools Manufacture and Distribution	$409,610 (USD13,338 thousand)	Indirectly invested by establishing a company in a third country	$-	$-	$-	$ -	100.00%	$(50,709) (Note 1)	$177,152	$-

Accumulated Outflow of Investment from Taiwan as of December 31, 2022	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
$232,413 (USD7,568 thousand)	$365,787 (USD11,911 thousand)	N/A (Note 2)

Note 1: According to audited financial statements

Note 2: According to Ministry of Economic Affairs Decree Jing-Gong No.11120415670 issued by Industrial Development Bureau on May 18, 2022, The Group's investment in Mainland China is not restricted by 60% of net worth or consolidated net worth set by Investment Review Committee.

Note 3: In according with Second Amendment of No.11100096200 issued by Ministry of Economic Affairs on July 11, 2022, the Company is permitted to invest USD342,622 to Lucky Investment Services.

(2) For the year ended December 31, 2022, the Group's significant transactions with investees in Mainland China that have taken place in a third country:

a. Sale

Company	Amount
Chevalier Machinery Co., Ltd. (Suzhou)	$ 34,535

b. Accounts receivable

Company	Amount
Chevalier Machinery Co., Ltd. (Suzhou)	$ 24,970

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

c. Endorsement/Guarantee

Please refer to consolidated note 13.1(2) for further details.

4. Information on major shareholders:

As of December 31, 2022

Shareholder \ Share	Share Unit	%
Lin Ju Investment Co., Ltd.	9,980,000	12.98%
Better Life Group Co., Ltd.	3,850,000	5.00%
Liu, Fang-Chun	3,850,000	5.00%

14. SEGMENT INFORMATION

For management purposes, the Group is organized into business units based on their products and services and has four reportable operating segments as follows:

1. Falcon in Taiwan: for manufacturing, processing and marketing and sales of CNC grinder, milling machine, vertical lathe, comprehensive processing machine etc.

2. Chevalier Machinery, Inc. (abbrev. C.M.I.): for marketing and sales in north America region.

3. Mainland region：for manufacturing, processing of grinder, milling machine etc. and marketing and sales in Mainland region.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured based on accounting policies consistent with those in the consolidated financial statements. However, the income tax measured in the consolidated financial statements were based on the Group’s management and have not been allocated to operating segments.

Prices for inter-segment transactions were based on the prices of normal transactions with third parties.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

Reportable segment information was as follows:

(1) For year ended December 31, 2022

	Taiwan Falcon	America	Mainland Region	Other Segments	Adjustments and eliminations	Total
Revenues						
External customers	$892,752	$445,104	$272,696	$-	$-	$1,610,552
Inter-segment	298,783	211	209	-	(299,203)	-
Interest revenue	745	-	66	9	-	820
Total	$1,192,280	$445,315	$272,971	$9	$(299,203)	$1,611,372
Interest expenses	$22,003	$924	$2,764	$3,581	$-	$29,272
Depreciation and amortization	33,597	13,101	14,753	-	-	61,451
Investment gains or loss	(19,828)	-	-	-	36,919	17,091
Segment gains or loss	$(2,204)	$33,641	$(57,044)	$(64,745)	$103,037	$12,685
Investment for using equity method	$610,446	$-	$-	$-	$(447,730)	$162,716
Capital expenditure on assets	2,583	-	5,448	-	-	8,031
Segment assets	$2,079,164	$412,898	$571,345	$325,891	$(916,074)	$2,473,224
Segment liabilities	$1,258,191	$149,792	$218,956	$106,820	$(81,508)	$1,652,251

For year ended December 31, 2021:

	Taiwan Falcon	America	Mainland Region	Other Segments	Adjustments and eliminations	Total
Interest revenue						
Total	$809,199	$391,940	$405,952	$-	$-	$1,607,091
Interest expenses	245,921	671	3,775	-	(250,367)	-
Depreciation and amortization	177	-	47	1	-	225
Investment gains or loss	$1,055,297	$392,611	$409,774	$1	$(250,367)	$1,607,316
Segment gains or loss	$19,397	$1,107	$2,943	$1,689	$-	$25,136
Investment for using equity method	36,197	12,455	16,356	-	-	65,008
Capital expenditure on assets	30,658	-	(4,711)	-	(14,003)	11,944
Segment assets	$34,649	$34,789	$1,290	$(4,447)	$(14,003)	$52,278
Segment liabilities	$652,835	$-	$321,451	$-	$(827,853)	$146,433
Interest revenue	3,599	-	4,823	-	-	8,422
Total	$2,138,745	$379,733	$714,260	$321,533	$(1,023,665)	$2,530,606
Interest expenses	$1,327,614	$68,833	$392,809	$102,782	$(172,563)	$1,719,475

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

2.revenue, gains or losses, assets, liabilities and other significant items of the reportable segments were not adjusted.

3.Geographical information

(1)Revenues from external customers：

	2022	2021
America	$590,203	$515,103
Mainland China	522,717	581,541
Taiwan	135,204	186,565
Europe	95,399	106,514
Others	267,029	217,368
Total	$1,610,552	$1,607,091

The revenue information above is based on the location of the customer.

(2) Noncurrent assets

	2022.12.31	2021.12.31
Taiwan	$225,645	$355,321
Mainland China	121,071	130,844
America	29,863	37,974
Total	$375,579	$524,139

4.Information about major customers

	2022			2021	
Customer	Amount	%	Customer	Amount	%
-	$-	-%	Company A	$213,491	13%

6.5.Financial Statements for the Years Ended and Independent Auditors' Report

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

<u>Notice to Readers</u>

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		1,117,540	54	1,032,114	48
	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		961,624	46	1,106,631	52
1XXX	Asset Grand Total		$2,079,164	100	$2,138,745	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

Individual 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	$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		865,772	42	785,382	36
	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		392,419	19	542,232	26
2XXX	Total liabilities		1,258,191	61	1,327,614	62
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		64,561	3	84,784	4
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		(23,851)	(1)	(53,916)	(3)
3XXX	Grand total for equities		820,973	39	811,131	38
	Grand total for liabilities & equities		$2,079,164	100	$2,138,745	100

(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: NT$ '000

Code	Content	Note	Year 2022 Amount	Year 2022 %	Year 2021 Amount	Year 2021 %
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: NT$ '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
Cash flows from operating activities:		
Net income before tax	$(2,204)	$34,649
Adjustments to reconcile net income (loss) before tax to net cash:		
Provided by (used in) operating activities:		
Depreciation	31,519	34,131
Amortization	2,078	2,066
Expected credit loss (gain)	7,912	1,768
Interest expenses	22,003	19,397
Interest income from bank deposits	(745)	(177)
Dividend revenue	(10)	-
Share of profit of subsidiaries, associates & joint ventures accounted for using equity method	19,828	(30,658)
Gain from disposal of property, plant and equipment	(194)	(138)
Non-financial asset impairment loss	785	-
Loss for market price decline and obsolete and slow-moving inventories	39,057	13,142
Profit from lease modification	(103)	-
Unrealized foreign currency exchange (gains) losses	(3,773)	871
Changes in operating assets and liabilities:		
Reduce in notes receivables (increase)	28,429	(475)
Increase in account receivables	(80,514)	(54,597)
Increase in account receivables - related parties	(39,696)	(5,264)
Other receivables	6,937	(1,796)
Inventories	39,531	(124,899)
Prepayments	(3,312)	372
Other current assets	4,713	(2,957)
Contract liabilities - current	(31,222)	33,686
Increase (reduce) in notes payable	(26)	159
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

Content	Year 2022	Year 2021
Cash flow of investment activities:		
Financial assets measured at fair value through other comprehensive income	(25,020)	-
Financial assets measured at amortized cost	-	(5,607)
Disposal of financial assets measured at amortized cost	6,931	130
Property, plant and equipment	(2,583)	(3,599)
Disposal of property, plant and equipment	194	138
Prepayment for equipments	-	8,816
Intangible assets	(362)	(8,965)
Loss (gain) of other noncurrent assets	-	(1,170)
Dividend received (cash dividend of the year of investments accounted for using equity method)	2,501	-
Repayment of reduction of capital from investees for using equity method	23	-
Acquisition of investment for using equity method	(50,000)	-
Earnings from invested company for using equity method	109,060	-
Investment activities - net cash outflow	40,744	(10,257)
Cash flow of financing activities	963,617	982,099
Decrease in short-term borrowings	(822,991)	(1,092,546)
Increase in short-term notes payable	120,430	120,360
Decrease in short-term notes payable	(150,385)	(120,331)
Long-term loans	496,677	145,315
Long-term loans payments	(538,355)	(59,887)
Guarantee deposit received	1	(351)
Lease liabilities payments	(6,935)	(6,338)
Net cash flow of financing activities	62,059	(31,679)
Increase in cash and cash equivalents	(31,841)	(5,639)
Beginning balance of cash and cash equivalents	170,637	176,276
Ending balance of cash and cash equivalents	$138,796	$170,637

(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

NOTES TO INDIVIDUAL FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

1. GENERAL

Falcon Machine Tools Company Limited (the Company) was incorporated in 1978 as Falcon Manufacturing Company Limited. The company's primary businesses are manufacturing and processing grinders, lathes, millers, planers, drill presses, saw machines etc., and their surrounding businesses, as well as manufacturing and trading computer accessories and electronic parts.

In response to the international business environment and our diversification development strategy, we renamed the Company to the current name. The Company listed on Taipei Exchange since March 25, 1998. Although our registered address is at Tai Chung City, our main operating business address is at No.34, Xinggong Road, Shengang, Changhua County 509, Taiwan (R.O.C.).

2. THE AUTHORIZATION OF FINANCIAL STATEMENTS

The accompanying individual financial statements were approved and authorized for issue by the Board of Directors of Falcon Machine Tools Company Limited on March 21, 2023.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

1. Effect on the accounting policy due to the initial application of the International Financial Reporting Standards (IFRS).

   The initial application of the amendments to the IFRS, International Accounting Standards (IAS), IFRIC, and SIC Interpretations (SIC) (collectively, "IFRSs") endorsed and issued into effect since January 1, 2022 by Financial Supervisory Commission (FSC) did not have significant effect on the Company's accounting policies.

2. Up to the date of the Company's financial statements were approved and authroized for issue, the Company did not adopt the following IFRSs issued by International Accounting Standards Board (IASB) and endorsed by FSC.

Item	New,Revised or Amended Standards and Interpretations	Effective Date Issued by IASB
1	Amendments to IAS 1 "Disclosure of Accounting Polices"	January 1, 2023
2	Amendments to IAS 8 "Definition of Accounting Estimates"	January 1, 2023
3	Amendments to IAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction"	January 1, 2023

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

(1) Amendments to IAS 1 “Disclosure of Accounting Polices”

The amendments improve the disclosures of accounting policies in order to provide more useful information to the users of the financial statements.

(2) Amendments to IAS 8 “Definition of Accounting Estimates”

The amendments provide a clearer definition for accounting estimates, and amended IAS 8 regarding the “accounting policies, changes in accounting estimates and errors” in order to assist corporates to distinguish the differences between the changes in accounting policies and the changes in accounting estimates.

(3) Amendments to IAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction”

The amendments narrow the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 so that it no longer applies to transactions that, on initial recognition, give rise to equal taxation and deductible temporary differences.

The Company judged that the abovementioned standards and interpretations issued by IASB and endorsed by FSC on January 1, 2023 and applicable to the financial years thereafter have no material impact on the Company.

3. Standards or interpretations issued, revised or amended, by IASB which are not endorsed by FSC, and not yet adopted by the Company as at the end of the reporting period when the Company’s financial statements were approved and authorized for issue are listed below.

Items	New, Revised or Amended Standards and Interpretations	Effective Date issued by IASB
1	IFRS 10 “Consolidated Financial Statements “and IAS 28 Investments in Associates and Joint Ventures”— Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures	To be determined by IASB
2	IFRS 17 Insurance Contracts	January 1, 2023
3	Classification of Liabilities as Current or Non-current – Amendments to IAS 1	January 1, 2024
4	IFRS 16 - Lease Liability Measurement in Sale and Leaseback	January 1, 2024
5	Noncurrent Liabilities with Covenants (Amendments to IFRS 1)	January 1, 2024

(1) IFRS 10 "Consolidated Financial Statements" and IAS 28"Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associates or Joint Ventures

The amendments address the inconsistency between the requirements in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associates or joint ventures. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full.

IFRS 10 was also amended so that the gains or losses resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors' interests in the associate or joint venture.

(2) IFRS 17 "Insurance Contracts"

IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects (including recognition, measurement, presentation and disclosure requirements). The core of IFRS 17 is the General (building block) Model, under this model, on initial recognition, an entity shall measure a group of insurance contracts at the total of the fulfillment cash flows and the contractual service margin. The carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage and the liability for incurred claims.

Other than the General Model, the standard also provides a specific adaptation for contracts with direct participation features (the Variable Fee Approach) and a simplified approach (Premium Allocation Approach) mainly for short-duration contracts.

IFRS 17 was issued in May 2017 and was amended in 2021, and 2020. The amendments include deferral of the date of initial application of IFRS 17 by two years to annual beginning on or after January 1, 2023 (from the original effective date of January 1, 2021); providing additional transition reliefs; simplifying some requirements to reduce the costs of applying IFRS 17 and revise some requirements to make the results easier to explain. IFRS 17 replaces an interim Standard – IFRS 4 Insurance Contracts – from annual reporting periods beginning or after January 1, 2023.

(3) Classification of Liabilities as Current or Non-current – Amendments to IAS 1

These are the amendments to paragraphs 69-76 of IAS 1 Presentation of Financial statements and the amended paragraphs related to the classification of liabilities as current or non-current.

(4) IFRS 16 - Lease Liability Measurement in Sale and Leaseback

The amendment to IFRS 16 Leases specifies the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognize any amount of the gain or loss that relates to the right of use it retains.

(5) Noncurrent Liabilities with Covenants (Amendments to IAS 1)

The amendments with respect to classification (as current or non-current), presentation and disclosures of liabilities for which an entity's right to defer settlement for at least 12 months is subject to the entity complying with conditions after the reporting period.

The abovementioned standards and interpretations issued by IASB have not yet endorsed by FSC at the date when the Company's financial statements were authorized for issue, the local effective dates are to be determined by FSC. The Company assesses all standards and interpretations have no material impact on the Company.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Statement of Compliance

The Company's individual financial statements as of and for the years ended December 31, 2022 and 2021 were prepared in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers (Regulations).

2. Basis of Preparation

The Company prepared individual financial statements in accordance with Article 21 of the Regulations, which provided that the profit or loss and other comprehensive income for the period presented in the individual financial statements shall be the same as the profit or loss and other comprehensive income attributable to stockholders of the parent presented in the individual financial statements for the period, and the total equity presented in the individual financial statements shall be the same as the equity attributable to the parent company presented in the individual financial statements. Therefore, the Company accounted for its investments in subsidiaries using equity method and, accordingly, made necessary adjustments.

The individual financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value. The individual financial statements are expressed in thousand of New Taiwan Dollars ("NT$") unless otherwise stated

3. Foreign Currency Transactions

The Company's individual financial statements are presented in its functional currency, New Taiwan Dollars (NTD). Items included in the individual financial statements are measured using that functional currency

Transactions in foreign currencies are initially recorded by the Company at functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following.

(1) Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.

(2) Foreign currency items within the scope of IFRS 9 Financial Instruments are accounted for based on the accounting policy for financial instrument.

(3) Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

4. Translation of Financial Statements in Foreign Currency

The assets and liabilities of foreign operations are translated into NTD at the closing rate of exchange prevailing at the reporting date and the income and expenses are translated at an average exchange rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. The following are accounted for as disposals even if an interest in the foreign operation is retained by the Company: the loss of control over a foreign operation, the loss of significant influence over a foreign operation, or the loss of joint control over a foreign operation.

On partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is re-attributed to the non-controlling interests in that foreign operation. In partial disposal of an associate or jointly controlled entity that includes a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

5. Current and non-current distinction

An asset is classified as current when:

(1) The Company expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
(2) The Company holds the asset primarily for the purpose of trading;
(3) The Company expects to realize the asset within twelve months after the reporting period;
(4) The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current. A liability is classified as current when:

(1) The Company expects to settle the liability in normal operating cycle;
(2) The Company holds the liability primarily for the purpose of trading;
(3) The liability is due to be settled within twelve months after the reporting period;
(4) The Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities are classified as non-current

6. Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value (include fixed-term deposits that have maturities equal to or less than three months from the date of acquisition).

7. Financial instruments

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

Financial assets and financial liabilities within the scope of IFRS 9 Financial Instruments are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

(1) Financial assets: Recognition and Measurement

The Company accounts for regular way purchase or sales of financial assets on the trade date.

The Company classified financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss considering both factors below:

A. The Company's business model for managing the financial assets and
B. The contractual cash flow characteristics of the financial asset.

Financial assets measured at amortized cost

A financial asset is measured at amortized cost if both of the following conditions are met and presented as note receivables, trade receivables financial assets measured at amortized cost and other receivables etc., on balance sheet as at the reporting date:

A. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
B. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such financial assets are subsequently measured at amortized cost (the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount and adjusted for any loss allowance) and is not part of a hedging relationship. A gain or loss is recognized in profit or loss when the financial asset is derecognized, through the amortization process or in order to recognise the impairment gains or losses.

Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

A. Purchased or originated credit-impaired financial assets. For those financial assets, the Company applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
B. Financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Company applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

Financial asset measured at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

A. The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
B. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Recognition of gain or loss on a financial asset measured at fair value through other comprehensive income are described as below:

A. A gain or loss on a financial asset measured at fair value through other comprehensive income recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.
B. When the financial asset is derecognized the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.
C. Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:
   (a) Purchased or originated credit-impaired financial assets. For those financial assets, the Company applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
   (b) Financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Company applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

Besides, for certain equity investments within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies, the Company made an irrevocable election to present the changes of the fair value in other comprehensive income at initial recognition. Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss (when disposal of such equity instrument, its cumulated amount included in other components of equity is transferred directly to the retained earnings) and these investments should be presented as financial assets measured at fair value through other comprehensive income on the balance sheet. Dividends on such investment are recognized in profit or loss unless the dividends clearly represents a recovery of part of the cost of investment.

(2) Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on debt instrument investments measured at fair value through other comprehensive income and financial asset measured at amortized cost. The loss allowance on debt instrument investments measured at fair value through other comprehensive income is recognized in other comprehensive income and not reduce the carrying amount in the statement of financial position.

The Company measures expected credit losses of a financial instrument in a way that reflects:

A. An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
B. The time value of money; and
C. Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The loss allowance is measures as follows:

A. At an amount equal to 12-month expected credit losses: the credit risk on a financial asset has not increased significantly since initial recognition or the financial asset is determined to have low credit risk at the reporting date. In addition, the Company measures the loss allowance at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that the credit risk on a financial asset has increased significantly since initial recognition is no longer met.
B. At an amount equal to the lifetime expected credit losses: the credit risk on a financial asset has increased significantly since initial recognition or financial asset that is purchased or originated credit-impaired financial asset.
C. For trade receivables or contract assets arising from transactions within the scope of IFRS 15, the Company measures the loss allowance at an amount equal to lifetime expected credit losses.
D. For lease receivables arising from transactions within the scope of IFRS 16, the Company measures the loss allowance at an amount equal to lifetime expected credit losses.

At each reporting date, the Company needs to assess whether the credit risk on a financial asset has been increased significantly since initial recognition by comparing the risk of a default occurring at the reporting date and the risk of default occurring at initial recognition. Please refer to Note 12 for further details on credit risk.

(3) Derecognition of financial assets

A financial asset is derecognized when:

A. The rights to receive cash flows from the asset have expired
B. The Company has transferred the asset and substantially all the risks and rewards of the asset have been transferred
C. The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received or receivable including any cumulative gain or loss that had been recognized in other comprehensive income, is recognized in profit or loss.

(4) Financial liabilities and equities

Classification between liabilities or equity

The Company classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

Financial liabilities

Financial liabilities within the scope of IFRS 9 Financial Instruments are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include interest bearing loans and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified (whether or not attributable to the financial difficulty of the debtor), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss

(5) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

8. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

(1) In the principal market for the asset or liability, or
(2) In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

9. Inventory

Inventories are valued at lower of cost and net realizable value item by item.

Costs incurred in bringing each inventory to its present location and condition are accounted for as follows:

Raw materials – By actual purchase cost with weighted average method.
Finished goods and work in progress – Cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Rendering of services is accounted in accordance with IFRS 15 and not within the scope of inventories.

10. Noncurrent assets held for sale

Noncurrent assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction that is highly probable within one year form the date of classification and the asset or disposal group is available for immediate sale in its present condition. Noncurrent assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

In the statement of comprehensive income of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Company retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the statement of comprehensive income.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortized.

11. Investments accounted for using equity method

The Company accounted for its investments in subsidiaries using equity method and made necessary adjustments in accordance with Article 21 of the Regulations. Such adjustments were made after the Company considered the different accounting treatments to account for its investments in subsidiaries in the individual financial statements under IAS 10 “Consolidated and Separate Financial Statements” and the different IFRSs adopted from different reporting entity’s perspectives, and the Company recorded such adjustments by crediting or debiting to investments accounted for under the equity method, share of profit or loss of subsidiaries, associates and joint ventures and share of other comprehensive income of subsidiaries, associates and joint ventures.

The Company's investment in its associate is accounted for using the equity method other than those that meet the criteria to be classified as held for sale. An associate is an entity over which the Company has significant influence.

Under the equity method, the investment in the associate is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Company's share of net assets of the associate. After the interest in the associate is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the Company's related interest in the associate.

When changes in the net assets of an associate occur and not those that are recognized in profit or loss or other comprehensive income and do not affects the Company's percentage of ownership interests in the associate, the Company recognizes such changes in equity based on its percentage of ownership interests. The resulting capital surplus recognized will be reclassified to profit or loss at the time of disposing the associate on a prorate basis.

When the associate issues new stock, and the Company's interest in an associate is reduced or increased as the Company fails to acquire shares newly issued in the associate proportionately to its original ownership interest, the increase or decrease in the interest in the associate is recognized in Additional Paid in Capital and Investment in associate. When the interest in the associate is reduced, the cumulative amounts previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro rata basis when the Company disposes the associate.

The financial statements of the associate are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

The Company determines at each reporting date whether there is any objective evidence that the investment in the associate or an investment in a joint venture is impaired in accordance with IAS 28 Investments in Associates and Joint Ventures. If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount in the 'share of profit or loss of an associate' in the statement of comprehensive income in accordance with IAS 36 Impairment of Assets. In determining the value in use of the investment, the Company estimates:

(1) Its share of the present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment; or
(2) The present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Because goodwill that forms part of the carrying amount of an investment in an associate is not separately recognized, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36 Impairment of Assets.

Upon loss of significant influence over the associate, the Company measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss.

12. Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. When significant parts of property, plant and equipment are required to be replaced in intervals, the Company recognized such parts as individual assets with specific useful lives and depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 “Property, plant and equipment”. When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Item	Useful Life
Buildings	5~55 years
Machinery and equipment	4~10 years
Office equipment	2~20 years
Transportation equipment	3~10 years
Other equipment	2~20 years
Lease improvement	According to lease term or useful economic life whichever is shorter
Mould equipment	3 years

13. Investment property

The Company's owned investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, other than those that meet the criteria to be classified as held for sale (or are included in a disposal company that is classified as held for sale) in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, investment properties are measured using the cost model in accordance with the requirements of IAS 16 Property, plant and equipment for that model. If investment properties are held by a lessee as right-of-use assets and is not held for sale in accordance with IFRS 5, investment properties are measured in accordance with the requirements of IFRS 16.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Item	Useful Life
Buildings	37 years

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition. The Company transfers to or from investment properties when there is a change in use for these assets. Properties are transferred to or from investment properties when the properties meet, or cease to meet, the definition of investment property and there is evidence of the change in use.

14. Leases

The Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Company assesses whether, throughout the period of use, has both of the following:

(1) The right to obtain substantially all of the economic benefits from use of the identified asset; and
(2) The right to direct the use of the identified asset.

For a contract that is, or contains, a lease, the Company accounts for each lease component within the contract as a lease separately from non-lease components of the contract. For a contract that contains a lease component and one or more additional lease or non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. The relative stand-alone price of lease and non-lease components shall be determined on the basis of the price the lessor, or a similar supplier, would charge the Company for that component, or a similar component, separately. If an observable stand-alone price is not readily available, the Company estimates the stand-alone price, maximising the use of observable information.

Company as a lessee

Except for leases that meet and elect short-term leases or leases of low-value assets, the Company recognizes right-of-use asset and lease liability for all leases which the Company is the lessee of those lease contracts.

At the commencement date, the Company measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses its incremental borrowing rate. At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

(1) Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
(2) Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
(3) Amounts expected to be payable by the lessee under residual value guarantees;
(4) The exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
(5) Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

After the commencement date, the Company measures the lease liability on an amortised cost basis, which increases the carrying amount to reflect interest on the lease liability by using an effective interest method; and reduces the carrying amount to reflect the lease payments made.

At the commencement date, the Company measures the right-of-use asset at cost. The cost of the right-of-use asset comprises:

(1) The amount of the initial measurement of the lease liability;
(2) Any lease payments made at or before the commencement date, less any lease incentives received;
(3) Any initial direct costs incurred by the lessee; and
(4) An estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

For subsequent measurement of the right-of-use asset, the Company measures the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses. That is, the Company measures the right-of-use applying a cost model.

If the lease transfers ownership of the underlying asset to the Company by the end of the lease term or if the cost of the right-of-use asset reflects that the Company will exercise a purchase option, the Company depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Company depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Company applies IAS 36 "Impairment of Assets" to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

Except for those leases that the Company accounted for as short-term leases or leases of low-value assets, the Company presents right-of-use assets and lease liabilities in the balance sheet and separately presents lease-related interest expense and depreciation charge in the statements comprehensive income.

For short-term leases or leases of low-value assets, the Company elects to recognize the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis.

Company as a lessor

At inception of a contract, the Company classifies each of its leases as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. At the commencement date, the Company recognizes assets held under a finance lease in its balance sheet and present them as a receivable at an amount equal to the net investment in the lease.

For a contract that contains lease components and non-lease components, the Company allocates the consideration in the contract applying IFRS 15.

The Company recognizes lease payments from operating leases as rental income on either a straight-line basis or another systematic basis. Variable lease payments for operating leases that do not depend on an index or a rate are recognized as rental income when incurred.

15. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, not meeting the recognition criteria, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

A summary of the policies applied to the Company's intangible assets is as follows:

	Computer Software	Golf License
Useful economic life	Limited	Uncertain
Amortization method	Straight-line method during the estimated economic life	Not to amortize
Internally generated or acquired externally	Acquired externally	Acquired externally

16. Impairment of non-financial assets

The Company assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 Impairment of Assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Company of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

An impairment loss of continuing operations or a reversal of such impairment loss is recognized in profit or loss.

17. Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost. The liability to pay a levy is recognized progressively if the obligating event occurs over a period of time.

Provision for decommissioning, restoration and rehabilitation costs

The provision for decommissioning, restoration and rehabilitation costs arose on construction of a property, plant and equipment. Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognized as part of the cost of that particular asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognized as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

Provision for warranties

A provision is recognized for expected warranty claims on products sold, based on past experience, management's judgement and other known factors.

18. Revenue recognition

The Company's revenue arising from contracts with customers are primarily related to sale of goods and rendering of services. The accounting policies are explained as follow:

Sale of goods

The Company mainly manufactures and sells of its products. Sales are recognized when control of the goods is transferred to the customer and the goods are delivered to the customers. The main product of the Company is machine tools and revenue is recognized based on the consideration stated in the contract. The remaining sales transactions are usually accompanied by volume discounts (based on the accumulated total sales amount for a specified period). Therefore, revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method. Revenue is only recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur and when the uncertainty associated with the variable consideration is subsequently resolved. During the period specified in the contract, refund liability is recognized for the products expected to be returned.

The Company provides its customer with a warranty with the purchase of the products. The warranty provides assurance that the product will operate as expected by the customers. And the warranty is accounted in accordance with IAS 37.

Accounts receivable are generally on 30 to 360 day terms. Due to the natural of the industry, some customers' accounts receivable was longer than the abovementioned day terms. For most of the contracts, when the Company transfers the goods to customers and has a right to an amount of consideration that is unconditional, these contracts are recognized as trade receivables. The Company usually collects the payments shortly after transfer of goods to customers; therefore, there is no significant financing component to the contract. For some of the contracts, the Company has transferred the goods to customers but does not has a right to an amount of consideration that is unconditional, these contacts should be presented as contract assets. Besides, in accordance with IFRS 9, the Company measures the loss allowance for a contract asset at an amount equal to the lifetime expected credit losses. However, for some contracts, part of the consideration was received from customers upon signing the contract, and the Company has the obligation to transfers the goods subsequently; accordingly, these amounts are recognized as contract liabilities.

Rendering of services

The Company provides maintenance for high unit price machine equipment. Such services are separately priced or negotiated, and provided based on particular point of time. As the customers receive the benefits at a particular point of time, the Company's performance obligations are satisfied simultaneously, and the related revenue are then recognized when the services completed.

19. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

20. Post-employment benefits

All regular employees of the Company are entitled to pension plans that are managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account and hence, not associated with the Company. Therefore, fund assets are not included in the Company's individual financial statements.

For the defined contribution plan, the Company will make a monthly contribution of no less than 6% of the monthly wages of the employee subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due.

Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions. Remeasurements, comprising of the effect of the actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets, excluding net interest, are recognized as other comprehensive income with a corresponding debit or credit to retained earnings in the period in which they occur. Past service costs are recognized in profit and loss on the earlier of:

(1) The date of the plan amendment or curtailment, and
(2) The date that the Company recognizes restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payment.

21. Income tax

Income tax expense (benefit) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

<u>Current income tax</u>

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

The income tax for undistributed earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved by the Shareholders' meeting.

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

(1) Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
(2) In respect of taxable temporary differences associated with investments in subsidiaries, and associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

(1) Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
(2) In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are recognized according.

Deferred tax assets and liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority

5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUNPTIONS

The preparation of the Company's individual financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

1. Judgement

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the consolidated financial statements:

(1) Investment properties

The Company uses a portion of the property for its own use and another portion to earn rentals or for capital appreciation. When these portions cannot be sold separately, the property is classified as investment property and property, plant and equipment if the own-use portion is immaterial to the property. Please refer to Note 6 for details.

(2) Operating lease commitment - Company as the lessor

The Company has entered into commercial property leases on its investment property portfolio. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

(3) No control with a majority of the voting rights in investees

The Company does not own more than 50% shares although it is the largest shareholder of the investees. After taking into consideration factors such as absolute size of the Company's holding, relative size of the other shareholdings, how widely spread is the remaining shareholding, contractual arrangements between shareholders, potential voting rights, etc., the Company reached the conclusion that it has no control over these investees. Please refer to Note 6 for further details.

2. Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(1) Pension benefits

The cost of post-employment benefit and the present value of the pension obligation under defined benefit pension plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate and changes of the future salary etc. Please refer to Note 6 for more details.

(2) Income tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company’s domicile.

Deferred tax assets are recognized for all carryforward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies.

(3) Accounts receivable – estimation of impairment loss

The Company estimates the impairment loss of accounts receivables at an amount equal to lifetime expected credit losses. The credit loss is the present value of the difference between the contractual cash flows that are due under the contract (carrying amount) and the cash flows that expects to receive (evaluate forward looking information). However, as the impact from the discounting of short-term receivables is not material, the credit loss is measured by the undiscounted cash flows. Where the actual future cash flows are lower than expected, a material impairment loss may arise. Please refer to Note 6 for more details.

(4) Inventory

Estimates of net realizable value of inventories take into consideration that inventories may be damaged, become wholly or partially obsolete, or their selling prices have declined. The estimates are based on the most reliable evidence available at the time the estimates are made. Please refer to Note 6 for more details.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

6. CONTENTS OF SIGNIFICANT ACCOUNTS

1. Cash and cash equivalent

	2022.12.31	2021.12.31
Savings	$137,793	$169,512
Cash and petty cash	1,003	1,125
Total	$138,796	$170,637

2. Financial assets measured at amortized cost

	2022.12.31	2021.12.31
Fixed-term deposits	$38,413	$41,571
Current	$-	$6,931
Noncurrent	38,413	34,640
Total	$38,413	$41,571

Part of the Company's financial assets were classified as financial assets measured at amortized cost pledged as collaterals. Please refer to Note 8 for further details and Note 12 for details regarding credit risk.

3. Notes receivables, net and notes receivables – related parties, net

	2022.12.31	2021.12.31
Notes receivable arising from operating activities	$17,658	$45,091
Notes receivables – related parties	1,075	2,071
Total	$18,733	$47,162

Notes receivables were not pledged.

The group follows the requirement of IFRS 9 to assess the impairment. Please refer to Note 6.15 for more details on loss allowance and Note 12 for details regarding credit risk.

4. Accounts receivable, net and Accounts receivable – related parties, net

	2022.12.31	2021.12.31
Accounts receivable	$232,777	$155,547
Less: loss allowance	(14,939)	(10,311)
Total	217,838	145,236
Accounts receivable – related parties	56,012	16,316
Total	$273,850	$161,552

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

The general payment term are 30 to 360 days. Due to the natural of the industry, some customers' payment terms were longer than the abovementioned payment terms. The total carrying amount for the years ended December 31, 2022 and 2021, were NT$288,789 thousand and NT$171,863 thousand, respectively. Please refer to Note 6.15 for further details on loss allowance of accounts receivable for year ended December 31, 2022 and 2021, and Note 12 for details regarding credit risk.

Please refer to Notes 8 for further details regarding the pledge of accounts receivable as collateral.

5. Inventory

(1) Listed as follow:

	2022.12.31	2021.12.31
Raw Materials	$270,153	$332,291
Work in progress	104,242	128,362
Finished goods	88,365	97,019
Semi-finished goods	33,508	33,656
Merchandises	1,143	-
Total	497,411	591,328
Underconstruction (Note)	51,945	-
Total	$549,356	$591,328

Note: The Company made a successful bid in November 2022 for a land development joint project with Taiwan Sugar Corporation.

(2) Regconized sales cost for gains or losses:

For the year ended December 31, 2022 and 2021, the inventory costs of sales costs were NT$948,847 thousand and NT$851,313 thousand respectively, including recognized inventory depreciation and slow-moving losses, which were NT$39,057 thousand and NT$13,142 thousand respectively.

The cost of inventories for sale recognized in expenses amounts to NT$948,847 thousand for the year ended December 31, 2022 while NT$851,313 thousand for the year ended December 31, 2021, including the losses of NT$39,057 thousand and NT$13,142 thousand respectively for depreciation and slow-moving of inventories.

The inventories were not pledged.

6. Noncurrent assets held for sale

	2022.12.31	2021.12.31
Property and its accompanied equipment held for sale	$78,898	$-

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

The Company entered into a contract with E-tech Machinery Inc. on December 29, 2022 to sell its property and the accompanied equipment located at Daya District, Tai Chung City, Taiwan (R.O.C.) following a resolution from the Company's board meeting held on December 22, 2022. Thus, NT$67,146 thousand and NT$11,752 thousand were transferred to noncurrent assets held for sale from Properties, plants and equipment, and investment properties respectively.

There was no impairment loss as the selling price of the property and its accompanied equipment held for sale was expected to be higher than the face amounts in properties, plants and equipment, and investment properties.

Please refer to Note 8 for further details regarding noncurrent assets held for sale – land under pledge.

7. Investments accounted for using equity method

	2022.12.31		2021.12.31	
Investee Companies	Amount	Ownership	Amount	Ownership
Subsidiaries				
Chevalier Machinery, Inc.	$229,948	100.00%	$290,056	100.00%
Lucky Investment Services Ltd.	168,387	100.00%	216,346	100.00%
Lin Yu International Industrial Co., Ltd.	49,395	100.00%	-	-%
Associates				
Focus CNC Co., Ltd.	137,491	39.18%	122,000	39.18%
Hwang Kang Machinery Co., Ltd.	25,225	40.18%	24,433	35.22%
Total	$610,446		$652,835	

Judgement on Significant influence:

Although the Company holds 39.18% of ownership and is the largest shareholder of Focus CNC Co., Ltd., the Company does not own the major voting rights as the other two shareholders hold 32.86% and 7.06% of ownership respectively and are able to align and prevent the Company from ruling the relevant operation. Therefore, the Company does not control but owns significant influence over the abovementioned associate.

Although the Company holds 40.18% of ownership and is the largest shareholder of Hwang Kang Machinery Co., Ltd., the Company does not own the major voting rights as the remaining voting rights holders are able to align and prevent the Company from ruling the relevant operation. Therefore, the Company does not control but owns significant influence over the abovementioned associate.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

(1) Subsidiary

The Company invested NT$ 50,000 thousand in year 2022 to Lin Yu International Industrial Co., Ltd.

The Company accounted for its investments in subsidiaries using equity method and, accordingly, made necessary valuations and adjustments.

(2) Investments of associates

The abovementioned associates did not make public offering in the year ended December 31, 2022 and 2021.

The associates had no contingent liabilities or capital commitments and did not provide any guarantee.

The Company's investment in Focus CNC Co. Ltd. and Hwang Kang Machinery Co., Ltd. are immaterial. The aggregate amount of the Company's shares of the abovementioned associates are as follows:

	2022.01.01~2022.12.31		
Investee	Investment Income	Other Comprehensive Income	Current Period Comprehensive Income
Focus CNC Co., Ltd.	$16,276	$1,716	$17,992
Hwang Kang Machinery Co., Ltd.	815	-	815
Total	$17,091	$1,716	$18,807

	2021.01.01~2021.12.31		
Investee	Investment Income	Other Comprehensive Income	Current Period Comprehensive Income
Focus CNC Co., Ltd.	$8,504	$5,261	$13,765
Hwang Kang Machinery Co., Ltd.	3,440	-	3,440
Total	$11,944	$5,261	$17,205

(3) Other investments

The dividends received from the subsidiaries for year ended December 31, 2022 and 2021 were NT$2,501 thousand and NT$0 respectively.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

(4) The gains and losses of the investments accounted for using equity method of investees were audited by component auditors and the details are as follow:

	2022			
Investee	Investment Gains and Losses	Translation Adjustment	Other Comprehensive Income	Unrealized Gross Margin
Chevalier Machinery, Inc.	$28,197	$36,341	$-	$(15,586)
Focus CNC Co., Ltd.	16,276		1,716	-
Hwang Kang Machinery Co. Ltd.	815	-	-	-
Lin Yu International Industrial Co., Ltd.	(605)	-	-	-
Lucky Investment Services Ltd.	(64,511)	4,888	-	1,490
Total	$(19,828)	$41,229	$1,716	$(14,096)

	2021			
Investee	Investment Gains and Losses	Translation Adjustment	Other Comprehensive Income	Unrealized Gross Margin
Chevalier Machinery, Inc.	$23,137	$(8,559)	$-	$7,599
Focus CNC Co., Ltd.	8,504	-	5,261	-
Hwang Kang Machinery Co. Ltd.	3,440	-	-	-
Lin Yu International Industrial Co., Ltd.	(4,423)	(2,481)	-	(98)
Total	$30,658	$(11,040)	$5,261	$7,501

The financial statements of Chevalier Machinery, Inc. and Hwang Kang Machinery Co., Ltd. for the year ended December 31, 2022 and 2021 were audited by component auditors. The amounts of investment accounted for using equity method were NT$255,173 thousand and NT$314,489 thousand respectively. The shares of the subsidiaries, associates and joint ventures accounted for using equity method were NT$29,012 thousand and NT$26,577 thousand respectively while the shares of the other comprehensive income of the subsidiaries, associates and joint ventures accounted for using equity methods were NT$36,341 thousand and NT$(8,559) thousand.

(5) Please refer to Notes 13.2 and 13.3 for further details regarding the Company’s investment in Mainland China.

8. Property, plant and equipment

	2022.12.31	2021.12.31
Owner occupied property, plant and equipment	$190,914	$302,057

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

(1) Owner occupied property, plant and equipment

	2022.01.01-2022.12.31								
	Land	Buildings	Machinery & equipment	Office equipment	Transportation equipment	Other equipment	Lease improvement	Mould equipment	Total
Cost :									
2022.01.01	$151,428	$352,582	$209,007	$36,283	$45,667	$99,486	$462	$2,465	$897,380
Additions	-	211	-	663	-	429	-	1,280	2,583
Disposals	-	-	(2,698)	(209)	-	(123)	-	-	(3,030)
Transfer	(46,103)	(77,553)	(31,225)	-	(3,891)	(5,962)	-	-	(164,734)
2022.12.31	$105,325	$275,240	$175,084	$36,737	$41,776	$93,830	$462	$3,745	$732,199
Depreciation and Impairment：									
2022.01.01	$-	$274,951	$158,458	$30,590	$43,289	$86,967	$450	$618	$595,323
Depreciation	-	7,748	7,117	3,537	633	3,927	12	1,086	24,060
Disposals	-	-	(2,698)	(209)	-	(123)	-	-	(3,030)
Transfer	-	(56,881)	(8,705)	-	(3,891)	(5,591)	-	-	(75,068)
2022.12.31	$-	$225,818	$154,172	$33,918	$40,031	$85,180	$462	$1,704	$541,285

	2021.01.01-2021.12.31								
	Land	Buildings	Machinery & equipment	Office equipment	Transportation equipment	Other equipment	Lease improvement	Mould equipment	Total
Cost :									
2021.01.01	$145,388	$347,952	$199,235	$35,190	$50,747	$99,622	$462	$795	$879,391
Additions	-	155	522	990	-	262	-	1,670	3,599
Disposals	-	-	(769)	(774)	(5,080)	(398)	-	-	(7,021)
Transfer	6,040	4,475	10,019	877	-	-	-	-	21,411
110.12.31	$151,428	$352,582	$209,007	$36,283	$45,667	$99,486	$462	$2,465	$897,380
Depreciation and impairment									
2021.01.01	$-	$263,154	$151,198	$27,609	$47,649	$81,635	$398	$99	$571,742
Depreciation	-	7,905	8,307	3,755	720	5,730	52	519	26,988
Disposals	-	-	(769)	(774)	(5,080)	(398)	-	-	(7,021)
Transfer	-	3,892	(278)	-	-	-	-	-	3,614
2021.12.31	$-	$274,951	$158,458	$30,590	$43,289	$86,967	$450	$618	$595,323

Net carrying amount as of：	Land	Buildings	Machinery & equipment	Office equipment	Transportation equipment	Other equipment	Lease improvement	Mould equipment	Total
2022.12.31	$105,325	$49,422	$20,912	$2,819	$1,745	$8,650	$-	$2,041	$190,914
2021.12.31	$151,428	$77,631	$50,549	$5,693	$2,378	$12,519	$12	$1,847	$302,057

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

(2) Significant components of the building include the main building structure and air-conditions, which are depreciated over useful lives of 50 and 5 years respectively.

(3) Please refer to Note 8 for further details regarding property, plant and equipment under pledge

(4) There was no interest capitalized due to purchasing of property, plant and equipment in years 2022 and 2021.

9. Investment properties

	Land	Buildings	Total
Cost：			
2022.01.01	$13,240	$ 23,095	$36,335
Reclassification	(8,027)	(13,705)	(21,732)
2022.12.31	$5,213	$9,390	$14,603
2021.01.01	$19,280	$27,570	$46,850
Reclassification	(6,040)	(4,475)	(10,515)
2021.12.31	$13,240	$ 23,095	$36,335
Depreciation and impairment:			
2022.01.01	$-	$13,420	$13,420
Depreciation	-	701	701
Reclassification	-	(9,980)	(9,980)
2022.12.31	$-	$4,141	$4,141
2021.01.01	$-	$16,423	$16,423
Depreciation	-	889	889
Reclassification	-	(3,892)	(3,892)
2021.12.31	$-	$13,420	$13,420
Net carrying amount:			
2022.12.31	$5,213	$5,249	$10,462
2021.12.31	$13,240	$9,675	$22,915

	2022	2021
Income from investment properties rental	$1,927	$1,900

Please refer to Note 8 for further details regarding the investment properties under pledge.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

Investment property held by the Company are not measured at the fair value but for which the fair value is disclosed. The fair value measurements of the investment properties are categorized within Level 3. The fair values of investment properties were NT$24,743 thousand and NT$269,251 thousand as of December 31, 2022 and December 31, 2021, respectively. The fair values had been determined based on the evaluation by an independent appraiser and the recent transaction prices of similar objects recorded on Actual Price Registration of Real Estate Transactions of Ministry of Interior

10. Short-term loans

	2022.12.31	2021.12.31
Secured bank loans	$240,000	$180,000
Unsecured bank loans	113,412	32,786
Total	$353,412	$212,786
Interest Rate (%)	2.24%~2.80%	1.19%~2.14%

The Company's unused short-term lines of credits amounts to NT$356,588 thousand and NT$524,197 thousand as of December 31, 2022 and 2021, respectively.

The accompanied secured bank loans were pledged with part of the lands and buildings. Please refer to Note 8 for further details.

11. Long-term loans

(1) As of December 31, 2022:

Lender	Type	Amount	Interest Rate	Maturity and Terms of Repayment
Taiwan Cooperative Bank – Hemei Branch (Note 1)	Pledge loan	$337,500	2.6625%	From February 17, 2020 to February 17, 2025. The loan shall be repaid starting 24 months from the first usage date. The un-repaid loan shall be fully repaid in 13 quarter installments. Interest is calculated once a month.
Bank of Panhsin – Taichung Branch	Pledge loan	60,000	2.2300%	From February 22, 2022 to February 22, 2023. Interest calculated once every three months. The loan is due to be settled.
Export-Import Bank of the Republic of China	LC Financing Loan	7,524	6.7865%	From May 24, 2022 to January 16, 2024. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	7,002	6.7865%	From May 24, 2022 to January 31, 2024. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	5,282	5.8140%	From June 7, 2022 to February 27, 2024. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	12,008	4.7569%	From September 5, 2022 to August 6, 2024. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	7,278	5.2854%	From September 19, 2022 to August 15, 2024. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	9,213	5.8879%	From October 17, 2022 to July 22, 2024. Interest calculated once every quarter. The loan is due to be settled of capital and interest.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

Lender	Type	Amount	Interest Rate	Maturity and Terms of Repayment
Export-Import Bank of the Republic of China	LC Financing Loan	4,146	5.8985%	From October 18, 2022 to September 24, 2024. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	3,440	6.5903%	From February 22, 2021 to January 3, 2023. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	1,075	5.7162%	From March 10, 2021 to February 3, 2023. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	4,422	6.5903%	From April 15, 2021 to March 6, 2023. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	7,493	5.1291%	From May 10, 2021 to March 29, 2023. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	6,956	5.7162%	From June 15, 2021 to May 8, 2023. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	3,992	6.5903%	From July 13, 2021 to June 12, 2023. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	2,457	6.5903%	From July 13, 2021 to June 1, 2023. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	3,040	6.5903%	From July 26, 2021 to June 27, 2023. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	7,155	5.8140%	From September 6, 2021 to July 28, 2023. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	11,332	6.6160%	From November 8, 2021 to September 5, 2023. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	17,167	6.6160%	From December 3, 2021 to October 16, 2023. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	4,822	6.6160%	From December 10, 2021 to October 26, 2023. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	2,917	6.6160%	From December 15, 2021 to November 9, 2023. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	1,689	1.5539%	From December 22, 2021 to November 9, 2023. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	3,440	1.4165%	From January 7, 2021 to November 29, 2023. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	12,960	1.8076%	From March 7, 2021 to December 7, 2023. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loan	7,370	5.7082%	From March 23, 2021 to December 20, 2023. Interest calculated once every quarter. The loan is due to be settled of capital and interest.
Total		551,680		
Less: Current portion of long-term loans		(236,727)		
Less: Admin fee		(1,330)		
Total		$313,623		

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

(2) As of December 31, 2021

Lenders	Type	Amount	Interest Rate	Maturity and Terms of Repayment
Taiwan Cooperative Bank – Hemei Branch (Note 1)	Pledge Loan	$450,000	2.0848%	From February 17, 2020 to February 17, 2025. The loan shall be repaid starting 24 months from the first usage date. The un-repaid loan shall be fully repaid in 13 quarter installments. Interest is calculated once a month.
Bank of Panhsin – Taichung Branch	Pledge Loan	45,500	1.6100%	From February 22, 2021 to February 20, 2023. Interest calculated on the day of usage. Interest to be settled once a month.
Export-Import Bank of the Republic of China	LC Financing Loar	15,473	1.4477%	From December 3, 2021 to October 16, 2023. The loan is due to be settled.
Bank of Panhsin – Taichung Branch	Pledge Loan	14,500	1.6500%	From August 20, 2021 to February 22, 2023. Interest calculated on the day of usage. Interest to be paid once a month.
Export-Import Bank of the Republic of China	LC Financing Loar	10,214	1.3882%	From November 8, 2021 to September 5, 2023. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loar	6,754	1.4674%	From May 10, 2021 to March 29, 2023. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loar	6,450	1.3188%	From September 6, 2021 to July 28, 2023. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loar	6,270	1.3276%	From June 15, 2021 to May 8, 2023. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loar	4,346	1.4674%	From December 10, 2021 to October 26, 2023. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loar	4,069	1.3276%	From June 24, 2020 to May 30, 2022. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loar	3,986	1.3943%	From April 15, 2021 to March 6, 2023. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loar	3,598	1.3943%	From July 13, 2021 to June 12, 2023. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loar	3,100	1.3943%	From February 22, 2021 to January 3, 2023. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loar	2,768	1.3276%	From December 7, 2020 to November 7, 2022. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loar	2,740	1.3943%	From July 26, 2021 to June 27, 2023. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loar	2,630	1.4748%	From December 15, 2021 to November 9, 2023. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loar	2,381	1.3276%	From December 29, 2020 to November 28, 2022. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loar	2,325	1.3743%	From July 23, 2020 to June 23, 2022. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loar	2,214	1.4674%	From November 9, 2020 to October 10, 2022. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loar	2,214	1.3943%	From May 10, 2021 to March 29, 2023. The loan is due to be settled of capital and interest.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

Lenders	Type	Amount	Interest Rate	Maturity and Terms of Repayment
Export-Import Bank of the Republic of China	LC Financing Loar	1,522	1.5539%	From December 22, 2021 to November 9, 2023. The loan is due to be settled of capital and interest.
Export-Import Bank of the Republic of China	LC Financing Loar	969	1.3276%	From March 10, 2021 to February 3, 2023. The loan is due to be settled of capital and interest.
Total		594,023		
Less: Current portion of loı term loans		(126,257)		
Less: Admin fee		(1,995)		
Total		$465,771		

Note 1: The Company obtained a bank loan with seven financial institutes including Taiwan Cooperative Bank, the bank loan agreement stipulated that the ratio of current assets to current liabilities shall not be lower than 100%, the ratio of liabilities to net tangible assets shall not be higher than 180%, the net value of tangible assets shall not be lower than NT$800,000,000, and the interest coverage shall be above 300%. Administration fee is 0.35% of the total line of credit, the fee shall be paid within 5 working days to Taiwan Cooperative Bank after the approval of the line of credit.

(3) The accompanied secured bank loans were pledged with part of the lands and buildings. Please refer to Note 8 for further details.

(4) The Company did not fulfill the abovementioned stipulations in year 2022 and 2021 thus is required to pay additional 0.25% of the unpaid balance to the credit banks monthly until it could fulfill the stipulations. In return, the credit banks shall not claim the Company violated the agreed stipulations.

12. Post-employment benefits

Defined contribution plan

The Company adopts a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. Under the Labor Pension Act, the Company will make monthly contributions of no less than 6% of the employees' monthly wages to the employees' individual pension accounts. The Company has made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

Expenses under the defined contribution plan for the years ended December 31, 2022 and 2021 amounted to NT$5,413 thousand and NT$4,563 thousand, respectively.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

Defined benefits plan

The Company adopts a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the last month of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The total units shall not exceed 45 units.

Under the Labor Standards Act, the Company contributes an amount equivalent to 6% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee. If the amount is inadequate to pay pensions calculated for workers retiring in the same year, the Company and its domestic subsidiaries will make up the difference in one appropriation before the end of March the following year

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund. The pension fund is invested in-house or under mandate, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate manager flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury Funds can be used to cover the deficits after the approval of the competent authority. As the Company does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with paragraph 142 of IAS 19. The Company expects to contribute NT$8,108 thousand to its defined benefit plan during the 12 months beginning after December 31, 2022.

As of December 31, 2022 and 2021, the weighted-average life of the Company's defined benefit plan were 6 and 10 years respectively.

Pension costs recognized in profit or loss is as follows:

	2022	2021
Current period service costs	$538	$545
Net interest expense (income)	107	105
Total	$645	$650

Reconciliation in the defined benefit obligation and fair value of plan assets are as follows:

	2022.12.31	2021.12.31
Defined benefit obligation	$61,286	$65,927
Plan assets at fair value	(56,997)	(43,013)
Other non-current liabilities – net defined benefit liability	$4,289	$22,914

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

Reconciliation of liability of the defined benefit liability is as follows:

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability (asset)
As of January 1, 2021	$66,759	$(33,849)	$32,910
Current period service costs	545	-	545
Net interest expense (income)	254	(149)	105
Subtotal	67,558	(33,998)	33,560
Remeasurement on net defined benefit liability/assets:			
Actuarial gains and losses arising from changes in financial assumptions	(2,073)	-	(2,073)
Experience adjustments	1,817	-	1,817
Re-measurement on defined benefit assets	-	(457)	(457)
Subtotal	(256)	(457)	(713)
Benefits paid	(1,375)	1,375	-
Contributions by employer	-	(9,933)	(9,933)
As of December 31, 2021	65,927	(43,013)	22,914
Current period service costs	538	-	538
Net interest expense (income)	424	(317)	107
Subtotal	66,889	(43,330)	23,559
Remeasurement on net defined benefit liability/assets:			
Actuarial gains and losses arising from changes	20,429	-	20,429
in demographic assumptions	40,857	-	40,857
Actuarial gains and losses arising from changes in financial assumptions	(61,571)	-	(61,571)
Experience adjustments	-	(3,180)	(3,180)
Re-measurement on defined benefit assets	(285)	(3,180)	(3,465)
Subtotal	(5,318)	(2,379)	(7,697)
Benefits paid	-	(8,108)	(8,108)
Contributions by employer	$61,286	$(56,997)	$4,289

The following significant actuarial assumptions are used to determine the present value of the defined benefit obligation:

	2022.12.31	2021.12.31
Discount rate	1.20%	0.70%
Expected rate of salary increases	1.20%	1.00%

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

Sensitivity analysis:

	2022		2021	
	Increase in defined benefit obligation	Decrease in defined benefit obligation	Increase in defined benefit obligation	Decrease in defined benefit obligation
Discount rate increased 0.5%	$-	$1,227	$-	$1,445
Discount rate decreased 0.5%	2,316	-	4,339	-
Expected salary increased 0.5%	2,295	-	4,303	-
Expected salary decreased 0.5%	-	1,232	-	1,447

For the purpose of sensitivity analysis above, the Company calculated the impact on defined benefit obligation due to a reasonable and feasible change of one single assumption (i.e. discount rate or expected salary level) with other assumptions remaining equal. Please note that the sensitivity analysis has its limitation due to the co-relation between different actuarial assumptions and the rarity that only one assumption changes at a time.

The method used in the analysis is consistent for both current and prior years

13. Equity

(1) Common stock

As of December 31, 2022 and 2021, the Company’s authorized capital was NT$1,350,000 thousand, the Company’s paid-in capital was NT$768,803 thousand, each share at par value of NT$10, divided into 76,880 thousand shares. Each share contains a right of vote and a right of dividend.

(2) Capital surplus

	2022.12.31	2021.12.31
Additional paid-in capital	$6,000	$6,000
Others	5,460	5,460
Total	$11,460	$11,460

According to the Company Act, the capital reserve shall not be used except for making good the deficit of the Company. When a company incurs no loss, it may distribute the capital reserves related to the income derived from the issuance of new shares at a premium or income from endowments received by the company. The distribution could be made either in cash or in the form of share dividend to its shareholders in proportion to the number of shares being held by each of them.

(3) Retained earnings and dividend policies

According to the Company's Articles of Incorporation, current year's earnings, if any, shall be distributed in the following order:

(a) Payment of all taxes and dues;
(b) Offset prior years' operation losses;
(c) Set aside 10% of the remaining amount as legal reserve.
(d) Set aside or reverse special reserve in accordance with law and regulations; and
(e) The distribution of the remaining portion, if any, will be recommended by the Board of Directors and resolved in the shareholders' meeting

The distribution of dividends to shareholders of the company can be paid in cash or shares. The policy of dividend distribution should reflect factors such as the current and future investment environment, fund requirements, domestic and international competition, capital budgets as well as the interest of the shareholders, share bonus equilibrium and long-term financial planning etc. The dividends in cash shouldn't less than 10% of the shareholder dividends. The Board of Directors shall make the distribution proposal annually and present it at the shareholders' meeting.

According to Taiwan's Company Act, the Company needs to set aside an amount as legal reserve unless where such legal reserve amounts to the amount of total paid-in capital. The legal reserve can be used to make good the deficit. When the Company incurs no loss, it may distribute the portion of legal serve which exceeds 25% of the paid-in capital by issuing new shares or by cash in proportion to the number of shares being held by each of the shareholders.

The FSC on 31 March 2021 issued Order No. Financial-Supervisory-Securities-Corporate 1090150022, which sets out the following provisions for compliance:

On a public company's first-time adoption of the IFRS, for any unrealized revaluation gains and cumulative translation adjustments (gains) recorded to shareholders' equity that the company elects to transfer to retained earnings by application of the exemption under IFRS 1, the company shall set aside special reserve. For any subsequent use, disposal or reclassification of related assets, the Company can reverse the special reserve by the proportion and transfer to retained earnings.

As of December 31, 2022 and 2021, special reserve set aside for the first-time adoption of T-IFRS amounted to NT$49,531 thousand. The Company did not incur any special reserve to retained earnings during the year ended December 31, 2022 and 2021.

he appropriations of earnings for the years 2022 and 2021 were approved through the Board meeting and stockholders' meeting held on March 21, 2023 and June 22, 2022, respectively. The details of the distributions are as follows.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

	Appropriation of earnings		Dividend per share (in NT$)	
	2022	2021	2022	2021
Legal reserve	$-	$1,420	$-	$-
Special reserve	-	4,385	-	-

Please refer to Note 6.17 for details on employees' compensation and remuneration to directors and supervisors.

14. Operating revenues

	2022	2021
Revenue from contracts with customers		
Sale of goods	$1,172,864	$1,034,601
Labor services	15,270	14,887
Other revenue	3,401	5,632
Total	$1,191,535	$1,055,120

Analysis of revenue from contracts with customers during the years ended December 31, 2022 and 2021 are as follows:

(1) Disaggregation of revenue

	2022	2021
Sale of goods	$1,172,864	$1,034,601
Labor services	15,270	14,887
Other income	3,401	5,632
Total	$1,191,535	$1,055,120

The timing for revenue recognition of the Company and the Customers: at a same point in time

(2) Contract balances

Contract liabilities - current

	2022.12.31	2021.12.31	2021.01.01
Sale of goods	$40,535	$71,757	$38,071

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

The significant changes in the Company's balances of contract liabilities for the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
The opening balance transferred to revenue	$(71,627)	$(36,153)
Increase in receipts in advance during the period (excluding the amount incurred and transferred to revenue during the period)	40,405	69,839
Total	$(31,222)	$33,686

15. Expected credit losses (gain)

	2022	2021
Operating expenses – expected credit losses (gains)		
Account receivables	$7,912	$1,768

Please refer to Note 12 for more details on credit risk.

The Company measures the loss allowance of its trade receivables (including notes receivable, notes receivable – related parties, accounts receivable and accounts receivable – related parties) at an amount equal to lifetime expected credit losses. The assessment of the Company's loss allowance as of December 31, 2022 and 2021 are as follows:

As of December 31, 2022

	Not yet due	Past due				
	(Note)	1-90 days	91-180 days	181-365 days	366 days or above	Total
Gross carrying amount	$271,929	$18,565	$2,065	$145	$14,818	$307,522
Loss ratio	-%	0.5%	1%	5%	100%	
Lifetime expected credit losses	-	(93)	(21)	(7)	(14,818)	(14,939)
Carrying amount of trade receivables	$271,929	$18,472	$2,044	$138	$-	$292,583

December 31, 2021

	Not yet due	Past due				
	(Note)	1-90 days	91-180 days	181-365 days	366 days or above	Total
Gross carrying amount	$201,123	$4,010	$1,660	$2,060	$10,172	$219,025
Loss ratio	-%	0.5%	1%	5%	100%	
Lifetime expected credit losses	-	(20)	(16)	(103)	(10,172)	(10,311)
Carrying amount of trade receivables	$201,123	$3,990	$1,644	$1,957	$-	$208,714

Note: All the Company's notes receivables were not past due

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

The movement in the provision for impairment of account receivable (including notes receivable, notes receivable – related parties, accounts receivable and account receivable – related parties) for the years ended December 31, 2022 and 2021 are as follows:

	Notes receivable	Accounts receivable
2022.01.01	$-	$10,311
Addition for the current period	-	7,912
Write off	-	(3,284)
2022.12.31	$-	$14,939
2021.01.01	$-	$8,543
Addition for the current period	-	1,768
2021.12.31	$-	$10,311

16. Leases

(1) The Company as a lessee

The group leases properties, including lands, buildings and constructions. The lease terms range from 3 to 43 years.

The Company’s leases effect on the financial position, financial performance and cash flows are as follow:

A. Amounts recognized in the balance sheet

(a) Right-of-use assets

Carrying amount

	2022.12.31	2021.12.31
Buildings and constructions	$9,274	$17,726
Transportation equipment	1,874	2,998
Total	$11,148	$20,724

Some of the leases were terminated, the right-of-use assets and lease liabilities were reduced NT$2,818 thousand and NT$2,921 thousand respectively, and generated NT$103 thousand for lease modification gain.

Right-of-use assets increased NT$0 thousand and NT$3,373 thousand for the years ended in December 31, 2022 and 2021 respectively.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

(b) Lease liabilities

	2022.12.31	2021.12.31
Lease liabilities		
Current	$1,661	$4,890
Noncurrent	7,848	14,135
Total	$9,509	$19,025

Please refer to Note 6.18(4) for the interest on lease liabilities recognized during the year ended December 31, 2022 and 2021 refer to Note12.5 Liquidity Risk Management for the maturity analysis for lease liabilities as at December 31, 2021 and 2020.

B. Amounts recognized in the statement of comprehensive income

Depreciation charge for right-of-use assets

	2022	2021
Buildings and constructions	$5,634	$5,879
Transportation equipment	1,124	375
Total	$6,758	$6,254

C. Cash outflow relating to leasing activities

Cash outflow for leasing were NT$7,275 thousand and NT$6,788 thousand for the year ended on December 31, 2022 and 2021 respectively.

17. Summary of employee benefits, depreciation and amortization expenses by function is as follows:

Function / Nature	2022			2021		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salaries	$49,217	$79,190	$128,407	$48,168	$71,943	$120,111
Labor and health insurance	5,085	7,163	12,248	4,750	6,520	11,270
Pension	2,007	4,051	6,058	1,990	3,223	5,213
Other employee benefits	-	2,525	2,525	-	2,310	2,310
Depreciation	985	2,599	3,584	1,287	1,601	2,888
Amortization	10,583	20,936	31,519	11,436	22,695	34,131
Employee benefits expense	-	2,078	2,078	-	2,066	2,066

There were 193 and 184 employees in the years ended December 31, 2022 and 2021 respectively and 5 non-executive directors.

Employee benefit expenses in the years ended December 31, 2022and 2021 were NT$799 thousand and NT$779 thousand respectively.

Salaries for the years ended December 31, 2022 and 2021 were NT$683 thousand and NT$671 thousand respectively.

The average salary increment was 2%.

There was no supervisor compensation for year 2022 as the Company established Audit Committee to replace supervisors in July 2021. The supervisor compensation for year 2021 was NT$270 thousand.

Salary and compensation policies for directors, managers and ordinary employees:

The salary and compensation policies for directors and management personnel are regulated by the Company's articles of incorporation as well as supervised by the Salary and Compensation Committee. The salaries and compensations are decided according to staff performance appraisals, the Company's operation performance, future risk, development strategies, the industry's development trends and employee's individual contribution.

Employee's compensation includes salary, bonus according to their personal performance and compensation according to the Company's performance and the regulation stated in the articles of incorporation. The annual employee appraisal also provides basis for promotion, employee training and bonus.

According to the Company's articles of incorporation, not less than 2% of profit of the current year is distributable as bonus to employees and not higher than 5% of profit of the current year is distributable as remuneration to directors and supervisors. The Company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation in the form of shares or in cash; and in addition thereto a report of such distribution is submitted to the shareholders' meeting. Information on the Board of Directors' resolution regarding the employees' compensation and remuneration to directors and supervisors can be obtained from the "Market Observation Post System" on the website of the TWSE.

The Company did not estimate the amounts of the bonus to employees and the remuneration to directors and supervisors for the year ended December 31, 2022 due to loss in operation.

The actual amounts distributed to bonus to employee and remuneration to directors and supervisors for the year ended December 31, 2021 were NT$303 thousand and NT$0 thousand respectively. The differences in the amount of the expenses for 2021 is recorded in next year's profit and loss account.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

18. Non-operating income and expenses

(1) Interest income

	2022	2021
Financial assets measured at amortized cost	$745	$177

(2) Other income

	2022	2021
Rents	$3,973	$4,657
Other income - other	2,280	4,111
Total	$6,253	$8,768

(3) Other gains and losses

	2022	2021
Foreign exchange gains (losses), net	$12,554	$(4,380)
Gain (loss) on disposal of property, plant and equipment	194	138
Gains on lease modification	103	-
Losses on intangible asset impairments	(785)	-
Miscellaneous	(4)	(3,095)
Total	$12,062	$(7,337)

(4) Finance costs

	2022	2021
Interest on borrowings from bank	$21,663	$18,947
Interest on lease liabilities	340	450
Total	$22,003	$19,397

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

19. Componenets of other comprehensive income

For the year ended December 31, 2022

	Arising during the period	Other comprehensive income	Income tax expense	Net after tax
Not reclassified to profit and loss:				
Re-measurement on defined benefit plan	$3,465	$3,465	$(693)	$2,772
Unrealized gain (losses) from equity instruments investments measured at fair value through other comprehensive income	(2,579)	(2,579)	-	(2,579)
Items that may subsequently be reclassified to profit or loss:				
Exchange differences resulting from translating the financial statements of foreign operations	41,229	41,229	(10,301)	30,928
Share of other comprehensive income (loss) of associates and joint ventures	1,716	1,716	-	1,716
Total	$43,831	$43,831	$(10,994)	$32,837

For the year ended December 31, 2021

	Arising during the period	Other comprehensive income	Income tax expense	Net after tax
Not reclassified to profit and loss:				
Re-measurement on defined benefit plan	$713	$713	$(143)	$570
Items that may subsequently be reclassified to profit or loss:				
Exchange differences resulting from translating the financial statements of foreign operations	(11,040)	(11,040)	-	(11,040)
Share of other comprehensive income (loss) of associates and joint ventures	5,261	5,261	-	5,261
Total	$(5,066)	$(5,066)	$(143)	$(5,209)

20. Income tax

The major components for income tax expense for the years ended December 31, 2022 and 2021 are as follows

A. <u>Income tax expense (benefit) recognized in profit and loss</u>

	2022	2021
Current income tax expense:		
Current income tax charge	$11,379	$-
Deferred income tax expense:		
Deferred tax expense (income) relating to origination and reversal of temporary differences	9,412	749
Total income tax expense	$20,791	$749

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

B. Income tax relating to components of other comprehensive income

	2022	2021
Deferred income tax expense (benefit):		
Exchange differences resulting from translating the financial statements of foreign operations	$10,301	$-
Actuarial gains or losses on defined benefit plans	693	143
Income tax relating to components of other comprehensive income	$10,994	$143

C. A reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rates is as follows:

	2022	2021
Accounting profit before tax from continuing operations	$(2,204)	$34,649
Tax at the domestic rates applicable to profits in the country concerned	$-	$6,930
Tax effect of deferred tax assets/liabilities	19,431	4,048
Tax effect of expenses not deductible for tax purposes	212	619
Tax on undistributed earnings	420	-
Tax effect of tax allowance	(2)	(3,216)
Others	730	(7,632)
Total income tax expense recognized in profit or loss	$20,791	$749

D. Deferred tax assets (liabilities) relate to the following:

(1) For the year ended December 31, 2022

Item	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Ending balance
Temporary differences				
Unrealized exchange loss (gain)	$1,269	$(1,803)	$-	$(534)
Unrealized loss on financial asset impairment	240	-	-	240
Expected loss	4,995	775	-	5,770
Expected loss on inventory valuation	16,736	7,811	-	24,547
Expected loss on long-term investment valuation	186	-	-	186
Unrealized after-sale service	1,221	318	-	1,539
Unused tax losses	21,249	-	-	21,249
Gain of investment for using equity method	(31,074)	(15,189)	-	(46,263)
Defined benefit liability - noncurrent	(1,254)	(1,324)	-	(2,578)
Exchange differences resulting from translating the financial statements of foreign operations	8,532	-	(10,301)	(1,769)
Changes on actuarial loss or gain	12,092	-	(693)	11,399
Land value increment tax	(15,335)	-	-	(15,335)
Deferred income tax expenses		$(9,412)	$(10,994)	
Net deferred tax assets	$18,857			$(1,549)
Reflected in balance sheet as follows:				
Deferred tax assets	$58,090			$64,930
Deferred tax liabilities	$(39,233)			$(66,479)

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

(2) For the year ended December 31, 2021

Item	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Ending balance
Temporary differences:				
Unrealized exchange loss (gain)	$697	$572	$-	$1,269
Unrealized loss on financial asset impairment	240	-	-	240
Expected loss	4,766	229	-	4,995
Expected loss on inventory valuation	14,107	2,629	-	16,736
Expected loss on long-term investment valuation	186	-	-	186
Unrealized after-sale service	886	335	-	1,221
Unused tax losses	31,640	(10,391)	-	21,249
Gain of investment for using equity method	(31,074)	-	-	(31,074)
Unrealized losses for long-term investment.	102	(102)	-	-
Defined benefit liability - noncurrent	(7,233)	5,979	-	(1,254)
Exchange differences resulting from translating the financial statements of foreign operations	8,532	-	-	8,532
Changes on actuarial loss or gain	12,235	-	(143)	12,092
Land value increment tax	(15,335)	-	-	(15,335)
Deferred income tax expenses		$(749)	$(143)	
Net deferred income tax assets	$19,749			$18,857
Reflected in balance sheet as follows:				
Deferred income tax assets	$73,391			$58,090
Deferred income tax liabilities	$(53,642)			$(39,233)

(3) Unrecognized deferred tax assets

As of December 31, 2022 and 2021, deferred tax assets that have not been recognized amounts to NT$30,389 thousand and NT$17,484 thousand respectively.

(4) Unrecognized deferred tax liabilities relating to subsidiaries

Before the year ended December 31, 2021, the Company did not recognize the deferred tax liabilities for the income tax that might arose when transferring back the undistributed profit from overseas subsidiaries. As of December 31, 2022 and 2021, the temporary differences of tax for unrecognized deferred tax liabilities were NT$0 thousand and NT$32,603 thousand respectively.

E. The assessment of income tax returns

As of December 31, 2022, the income tax return has been assessed and approved up to 2020.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

F. Unused tax losses are as follows:

		Unused tax losses as of		
Year	Loss	2022.12.31	2021.12.31	Expiration year
2013	$79,627	$-	$55,435	2023
2014	4,046	-	4,046	2024
2015	32,752	10,115	32,752	2025
2016	57,058	57,058	57,058	2026
2017	20,249	20,249	20,249	2027
2019	7,418	7,418	7,418	2029
2020	56,946	56,946	56,946	2030
		$151,786	$233,904	

21. Earnings per share

Basic earnings per share is calculated by dividing net profit for the year attributable to the common shareholders of the parent entity by the weighted average number of common stocks outstanding during the year. Diluted earnings per share are calculated by dividing the net profit attributable to ordinary equity holders of the parent entity (after adjusting any influences) by the weighted average number of common stocks outstanding during the year plus the weighted average number of common stocks that would be issued on conversion of all the dilutive potential common stocks into common stocks.

	2022	2021
(1) Basic earnings per share		
Net income	$(22,995)	$33,900
Weighted average number of common stocks outstanding (in thousand shares)	76,880	76,880
Basic earnings per share (in NT$)	$(0.30)	$0.44
(2) Diluted earnings per share		
Net Income	$(22,995)	$33,900
Net income after dilution	$(22,995)	$33,900
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousand shares)	76,880	76,880
Effect of dilution:		
Employee bonus stock (in thousand shares)	-	36
Weighted average number of ordinary shares outstanding after dilution (in thousand shares)	76,880	76,916
Diluted earnings per share (in NT$)	$(0.30)	$0.44

There have been no other transactions involving common shares or potential common shares between the reporting date and the date the financial statements were authorized for issue.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

7. RELATED PARTY TRANSACTIONS

Information of the related parties that had transactions with the Company during the financial reporting period is as follows:

Name and nature of relationship of the related parties

Related parties	Relationship
Chevalier Machinery, Inc.	Subsidiary
Lucky Investment Services Ltd.	Subsidiary
Chevalier Machinery Co., Ltd. (Suzhou)	Subsidiary
Focus CNC Co., Ltd.	Associate
Hwang Kang Machinery Co., Ltd.	Associate
Fulson Industrial Co., Ltd.	Substantive related party
Lin, Tsung-Lin and other 13 persons	Key management personnel (Note)

Note: Mr. Chang, Pao-Ming resigned as Chairman and General Manager on October 21, 2022. The Board of Directors appointed Mr. Lin Tsung-Lin to succeed as Chairman and Mr. Tung Shang-Yu to take the positions of Vice-Chairman and General Manager.

Significant transactions with related parties

1. Sale

	2022	2021
Chevalier Machinery, Inc.	$264,286	$213,491
Chevalier Machinery Co., Ltd. (Suzhou)	34,535	32,325
Others	7,239	12,877
Total	$306,060	$258,693

The sales price to the related parties was determined through mutual agreement in reference to market conditions. The collection periods to related parties were month-end 90~180 days. The outstanding payment at the end of the year were not pledged, interest-free and subject to pay in cash.

2. Purchase

	2022	2021
Fulson Industrial Co., Ltd.	$100,111	$89,910
Hwang Kang Machinery Co., Ltd	5,949	5,777
Others	386	4,438
Total	$106,446	$100,125

The purchase prices from the related parties were determined through mutual agreement in reference to market conditions. The payment periods to related parties were the same with other company, and were month end 60 days in cheque.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

3. Lease – related parties

Rental income

	2022	2021
Fulson Industrial Co., Ltd.	$885	$885
Focus CNC Co., Ltd.	144	144
Total	$1,029	$1,029

The Company leases machines, lands, buildings and constructions to associates. The rental price was determined through mutual agreements in reference to market conditions. Rents charged monthly and the related incomes are listed in non-operating income and expenses – rent.

4. Notes receivable – related parties

	2022.12.31	2021.12.31
Fulson Industrial Co., Ltd.	$979	$2,071
Focus CNC Co., Ltd.	96	-
Total	$1,075	$2,071

5. Accounts receivable – related parties

	2022.12.31	2021.12.31
Chevalier Machinery, Inc.	$31,483	$124
Chevalier Machinery Co., Ltd. (Suzhou)	24,905	14,923
Fulson Industrial Co., Ltd.	145	39
Hwang Kang Machinery Co., Ltd.	-	1,105
Total	56,533	16,191
(Less) Add: Allowance to Exchange (Losses) gains	(521)	125
Total	$56,012	$16,316

6. Other accounts receivable

	2022.12.31	2021.12.31
Lucky Investment Services Ltd.	$691	$415
Fulson Industrial Co., Ltd.	53	45
Total	$744	$460

7. Payment on behalf of others

	2022.12.31	2021.12.31
Lucky Investment Services Ltd.	$3,529	$10,233
Fulson Industrial Co., Ltd.	200	-
Total	$3,729	$10,233

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

8. Notes payable – related parties

	2022.12.31	2021.12.31
Fulson Industrial Co., Ltd.	$18	$-
Chang, Pao-Yuan	-	348
Total	$18	$348

9. Accounts payable – related parties

	2022.12.31	2021.12.31
Fulson Industrial Co., Ltd.	$8,712	$15,739
Hwang Kang Machinery Co., Ltd.	1,462	2,562
Chevalier Machinery Co., Ltd. (Suzhou)	187	382
Total	$10,361	$18,683

10. Key management personnel bonus and compensations

	2022.12.31	2021.12.31
Short-term employee benefits	$10,809	$13,565
Post-employment	1,183	347
Total	$11,992	$13,912

8. ASSETS PLEDGED AS COLLATERAL

Assets pledged as collateral are as follows:

	Carrying Amount		
Item	2022.12.31	2021.12.31	Content of pledge
Accounts receivable	$157,423	$96,627	Long and short term loan
Properties, plants and equipment -lands	105,325	151,428	Long and short term loan
Noncurrent assets held for sale - lands	54,130	-	Long and short term loan
Financial assets at amortized cost - noncurrent	38,413	34,640	Deposit
Properties, plants and equipment – buildings and constructions	37,638	65,747	Long-term loan
Noncurrent assets held for sale – buildings and constructions	24,397	-	Long and short term loan
Investment properties	10,462	22,915	Long-term loan
Financial assets at amortized cost - current	-	1,727	Deposit
Total	$427,788	$373,084	

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

9. COMMITMENTS AND CONTINGENCIES

1. As of December 31, 2022, there was a deposit of NT$1,000 thousand for loan has yet to recollect.

2. Please refer to Note 13.1(2) for further details regarding the Company's endorsements and guarantees as of December 31, 2022.

3. As of December 31, 2022, King's Town Bank has issued a letter of credit for NT$103,890 thousand as guarantee to Taiwan Sugar Corp. for the project of joint development of land.

10. LOSSES DUE TO MAJOR DISASTERS

None

11. SIGNIFICANT SUBSEQUENT EVENTS

None

12. OTHERS

1. Categories of financial instruments

Financial assets	2022.12.31	2021.12.31
Financial assets at fair value through other comprehensive income	$22,630	$-
Financial assets measured at amortized cost:		
Cash and cash equivalents (exclude cash on hand)	137,793	169,512
Financial assets measured at amortized cost - current	-	6,931
Notes receivable (including related parties)	18,733	47,162
Accounts receivable (including related parties)	273,850	161,552
Other receivables	11,941	18,878
Financial assets measured at amortized cost - noncurrent	38,413	34,640

Financial liabilities	2022.12.31	2021.12.31
Financial liabilities measured at amortized cost:		
Short-term loan	$353,412	$212,786
Short-term notes payable	-	29,955
Other payables	44,311	43,341
Notes and accounts payable (including related parties)	178,289	288,481
Long-term loan (including due within a year)	550,350	592,028
Lease liabilities (including current and noncurrent)	9,509	19,025

2. Financial risk management objectives and policies

The Company's principal financial risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activates. The Company identifies measures and manages the aforementioned risks based on the Company's policy and risk appetite.

The Company has established appropriate policies, procedures and internal controls for financial risk management. Before the Company enters into significant transactions, the Board of Directors and Audit Committee must carry out due approval process based on related protocols and internal control procedures. The Company complies with its financial risk management policies at all times.

3. Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market prices comprise currency risk, interest rate risk and other price risk (such as equity risk).

In practice, it is rarely the case that a single risk variable will change independently from other risk variables. There are usually interdependencies between risk variables. However, the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

Foreign currency risk

The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenue or expense are denominated in a different currency from the Company's functional currency) and the Company's net investments in foreign subsidiaries.

The Company has certain foreign currency receivables to be denominated in the same foreign currency with certain foreign currency payables, therefore natural hedge is received. The Company also uses forward contracts to hedge the foreign currency risk on certain items denominated in foreign currencies. Hedge accounting is not applied as they did not qualify for hedge accounting criteria. Furthermore, as net investments in foreign subsidiaries are for strategic purposes, they are not hedged by the Company

The foreign currency sensitivity analysis of the possible change in foreign exchange rates on the Company's profit is performed on significant monetary items denominated in foreign currencies as at the end of the reporting period. The Company's foreign currency risk is mainly related to the volatility in the exchange rates for foreign currency. The information of the sensitivity analyses is as follows:

(1) When NTD strengthens/weakens against USD by 1%, the profit or loss for the years ended December 31, 2022 and 2021 is decreased/increased by NT$550 thousand and NT$1,178 thousand respectively.

(2) When NTD strengthens/weakens against Euro by 1%, the profit or loss for the years ended December 31, 2022 and 2021 is decreased/increased by NT$142 thousand and NT$86 thousand respectively.

(3) When NTD strengthens/weakens against RMB by 1%, the profit or loss for the years ended December 31, 2022 and 2021 is decreased/increased by NT$293 thousand and NT$196 thousand respectively.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's loans at variable and fixed interest rates.

The interest rate sensitivity analysis is performed on items exposed to loans at variable interest rate as at the end of the reporting period. At the reporting date, a change of 0.1% of interest rate in a reporting period could cause the profit for the years ended December 31, 2022 and 2021 to decrease/increase by NT$904 thousand and NT$805 thousand respectively.

4. Credit risk management

Credit risk is the risk that counterparty will not meet its obligations under a contract, leading to a financial loss. The Company is exposed to credit risk from operating activities (primarily for accounts receivables and notes receivables) and from its financing activities, including bank deposits and other financial instruments

Credit risk is managed by each business unit subject to the Company's established policy, procedures and control relating to credit risk management. Credit limits are established for all counter parties based on their financial position, rating from credit rating agencies, historical experience, prevailing economic condition and the Company's internal rating criteria etc. Certain counter parties' credit risk will also be managed by taking credit enhancing procedures, such as requesting for prepayment or insurance.

As of December 31, 2022 and 2021, accounts receivable from top ten customers represent 96% and 61% of the total accounts receivables of the Company, respectively. The credit concentration risk of other accounts receivables is insignificant.

Credit risk from balances with banks, fixed income securities and other financial instruments is managed by the Company's treasury in accordance with the Company's policy. The Company only transacts with counterparties approved by the internal control procedures, which are banks and financial institutions, companies and government entities with good credit rating. Consequently, there is no significant credit risk for these counter parties.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

5. Liquidity risk management

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents, bank borrowings and short-term notes payables. The table below summarizes the maturity profile of the Company's financial liabilities based on the contractual undiscounted payments and contractual maturity. The payment amount includes the contractual interest. The undiscounted payment relating to borrowings with variable interest rates is extrapolated based on the estimated interest rate yield curve as of the end of the reporting period.

Non-derivative financial instruments

	< 1 year	2 to 3 years	4 to 5 years	> 5 years	Total
2022.12.31					
Short-term loan	$353,684	$-	$-	$-	$353,684
Notes and accounts payables	178,289	-	-	-	178,289
Other payables	44,311	-	-	-	44,311
Lease liabilities	1,848	4,073	3,100	1,012	10,033
Long-term loan (including due within a year)	263,512	422,557	-	-	686,069
2021.12.31					
Short-term loan	$212,987	$-	$-	$-	$212,987
Short-term notes payables	29,955	-	-	-	29,955
Notes and accounts payables	288,481	-	-	-	288,481
Other payables	43,341	-	-	-	43,341
Lease liabilities	5,249	7,806	4,488	2,462	20,005
Long-term loan (including due within a year)	137,463	144,338	338,695	-	620,496

6. Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities for the year ended December 31, 2022:

	Short-term loans	Short-term note payables	Long-term loans (including due within a year)	Lease liabilities	Total liabilities from financing activities
2022.01.01	$212,786	$29,955	$592,028	$19,025	$853,794
Cash Flows	140,626	(29,955)	(41,678)	(6,935)	62,058
Non-cash changes	-	-	-	(2,581)	(2,581)
2022.12.31	$353,412	$-	$550,350	$9,509	$913,271

Reconciliation of liabilities for the year ended December 31, 2021:

	Short-term loans	Short-term note payables	Long-term loans (including due within a year)	Lease liabilities	Total liabilities from financing activities
2022.01.01	$323,233	$29,926	$506,600	$22,036	$881,795
Cash Flows	(110,447)	29	85,428	(6,388)	(31,378)
Non-cash changes	-	-	-	3,377	3,377
2021.12.31	$212,786	$29,955	$592,028	$19,025	$853,794

7. Fair values of financial instruments

(1) The methods and assumptions applied in determining the fair value of financial instruments:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used by the Company to measure or disclose the fair values of financial assets and financial liabilities:

A. The carrying amount of cash and cash equivalents, accounts receivables, accounts payable and other current liabilities approximate their fair value due to their short maturities.

B. For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities, bonds etc.) at the reporting date.

C. Fair value of equity instruments without market quotations (including private placement of listed equity securities, unquoted public company and private company equity securities) are estimated using the market method valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information (for example, inputs such as discount for lack of marketability, P/E ratio of similar entities and Price-Book ratio of similar entities).

D. Bank loans and other non-current liabilities are determined based on the counterparty prices or valuation method. The valuation method uses DCF method as a basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instrument (such as yield curves published by the Taipei Exchange, average prices for Fixed Rate Commercial Paper published by Reuters and credit risk, etc.)

(2) Fair value of financial instruments measured at amortized cost

The carrying amount of the Company's financial assets and liabilities measured at amortized cost approximate their fair value.

(3) Fair value measurement hierarchy for financial instruments

Please refer to Note 12(9) for fair value measurement hierarchy for financial instruments of the Company.

8. Derivative financial instruments

As of December 31, 2022 and 2021, there was no derivative financial instruments for the Company.

9. Fair value measurement hierarchy

(1) Fair value measurement hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole. Level 1, 2 and 3 inputs are described as follows:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – Unobservable inputs for the asset or liability.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization at the end of each reporting period.

(2) Fair value measurement hierarchy of the Company's assets and liabilities

The Company does not have assets that are measured at fair value on non-recurring basis as well as assets and liabilities that are measured at fair value on a recurring basis.

(3) Fair value measurement hierarchy of assets and liabilities not measured at fair value but for which the fair value is disclosed

As of December 31, 2022

	Level 1	Level 2	Level 3	Total
Financial liabilities not measured at fair value but for which the fair value is disclosed:				
Investment properties	$-	$-	$24,743	$24,743
Financial assets at fair value through other comprehensive income – noncurrent	-	-	22,630	22,630

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

As of December 31, 2021

	Level 1	Level 2	Level 3	Total
Financial liabilities not measured at fair value but for which the fair value is disclosed:				
Investment properties	$-	$-	$269,251	$269,251
Financial assets at fair value through other comprehensive income – noncurrent	-	-	3,760	3,760

10. Significant assets and liabilities denominated in foreign currencies

Information regarding the significant assets and liabilities denominated in foreign currencies is listed below:

Unit: thousand

	2022.12.31			2021.12.31		
	Foreign currencies	Foreign exchange rate	NTD	Foreign currencies	Foreign exchange rate	NTD
Financial assets						
Monetary items						
USD	$6,813	30.710	$209,227	$7,305	27.680	$202,202
Euro	434	32.720	14,200	287	31.320	8,989
RMB	6,698	4.408	29,525	4,672	4.344	20,295

	2022.12.31			2021.12.31		
	Foreign currencies	Foreign exchange rate	NTD	Foreign currencies	Foreign exchange rate	NTD
Financial liabilities						
Monetary items:						
USD	$5,021	30.710	$154,195	$3,051	27.680	$84,452
Euro	-	32.720	-	13	31.320	407
RMB	42	4.408	185	15	4.344	65

The above information is disclosed based on the carrying amount of foreign currency (after conversion to functional currency).

Since there were varieties of foreign currency transactions of the Company, the Company was unable to disclose foreign exchange gain (loss) towards each foreign currency with significant impact. The Company recognized exchange gain (loss) amounted to NT$12,554 thousand and NT$(4,380) thousand for the years ended December 31, 2022 and 2021 respectively.

11. Capital management

The primary objective of the Company’s capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

12. Financial asset transferal information

The group entered into assignment agreements with recourse with financial institutions regarding some of its accounts receivable. Although the group transfers the contract rights of the cash flow from such accounts receivable, the group still has to bear the credit risk in accordance with the agreement in the event the accounts receivable is not recoverable. The transaction information is as follows:

2022.12.31

Lender	Amount assigned	Prepaid amount (note)
Export Import Bank of the Republic of China	$157,423	$154,180

2021.12.31

Lender	Amount assigned	Prepaid amount (note)
Export Import Bank of the Republic of China	$96,627	$84,023

Note: Reported on short-term loans, due within a year or an operating cycle, and long-term loan.

13. OTHER DISCLOSURES

1. Information about significant transitions

(1) Financing provided to others: None

(2) Endorsement/Guarantee provided to others

Ref No.	Endorsement /Guarantee Provider (Name)	Guaranteed Party		Limits on Endorsement /Guarantee Amount Provided to Each Guaranteed Party (Note 1)	Maximum Balance for the Period	Ending Balance	Amount Actually Drawn	Amount of Endorsement /Guarantee to Net Worth per Latest Financial Statements	Ratio of Accumulated Endorsement /Guarantee to Net Worth per Latest Financial Statements	Maximum Endorsement /Guarantee Amount Allowed (Note 2)	Endorsement provided by parent company to subsidiaries	Endorsement provided by subsidiaries to parent company	Endorsement provided to entities in China
		Name	Relationship										
0	Falcon Machine Tools Co., Ltd.	Lucky Investment Services Ltd.	Subsidiary	$574,681	$92,130	$92,130	$92,130	$-	11.22%	$656,778	Y	N	N

Note 1: Limits on endorsement/guarantee amount provided to each guaranteed party is 70% of net worth for December 31, 2022

Note 2: Total amount of endorsement/guarantee provided limited to 80% of net worth for December 31, 2022.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

(3) Securities held (excluding subsidiaries, associates and joint ventures):

Company Held	Security Type and Name	Relationship with Issuer	Financial Statement Account	As of December 31, 2022			
				Share (Unit)	Carrying Amount	Shareholding %	Fair Value
Falcon Machine Tools Co., Ltd.	Zheng Cheng He Corporate Co., Ltd.	Investee company	Financial assets at fair value through profit or loss - noncurrent	120,000	$-	15.00%	$-
Falcon Machine Tools Co., Ltd.	Taichung International Entertainment Corporation	Investee company	Financial assets at fair value through profit or loss - noncurrent	2	189	0.06%	189
Falcon Machine Tools Co., Ltd.	Qing Jing Xiang Asset Co., Ltd.	Investee company	Financial assets at fair value through profit or loss - noncurrent	1,500,000	12,629	10.00%	12,629
Falcon Machine Tools Co., Ltd.	Qing Jing Ning Construction Co., Ltd.	Investee company	Financial assets at fair value through profit or loss - noncurrent	1,002,000	9,812	5.00%	9,812

(4) Aggregate purchases or sales of the same securities reaching NT$300 million or 20 percent of paid-in capital or more: None

(5) Acquisition of real estate reaching NT$300 million or 20 percent of paid-in capital or more: none

(6) Disposal of real estate reaching NT$300 million or 20 percent of paid-in capital or more:

Disposed Company	Name of Property	Transaction Date	Transaction Amount	Payment Status	Counter-party	Relationship	Prior Transaction of Related Counter-party				Price Reference	Purpose and Use of Disposal	Other Terms
							Owner	Relationship with Issuer	Transfer Date	Amount			
Falcon Machine Tools Co., Ltd.	Properties and equipment	2022/12/29	$298,260	According to contract terms	E-tech Machinery	-	N/A	N/A	N/A	N/A	Reference to market conditions and appraisal report	Cost saving, revival assets and strengthen operational capital	None

(7) Related party transactions for purchases and sales amounts exceeding the lower of NT$100 million or 20% of capital stock for the year ended December 31, 2021

Company Name	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note Amount
			Purchase/Sale	Amount	% to Total	Payment/Collection Term	Unit price	Credit period	Balance	Purchase/Sale	
Falcon Machine Tools Co., Ltd.	CHEVALIER MACHINERY ,LTD.	Subsidiary	Sale	$264,286	22.18%	Same as other customers	Falcon Machine Tools Co., Ltd.	CHEVALIER MACHINERY, LTD.	Subsidiary	Sale	$264,286

(8) Receivables from related parties with amounts exceeding the lower of NT$100 million or 20% of capital stock as of December 31, 2021: None

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

(9) Financial instruments and derivative transactions: None

2. Information on investees:

Information on investees are as follows (excluding investment in Mainland China)

Investor	Investee	Address	Main Business and Product	Original Investment Amount		Balance as of December 31, 2022			Net Income (Loss) of the Investee	Share of Income (Loss) of the Investee	Note
				As of December 31, 2022	As of December 31, 2021	Shares (in thousand)	%	Carrying Amount (Note 4)			
Falcon Machine Tools Co., Ltd.	Chevalier Machinery, Inc.	9925 TABOR PLACE, SANTA FE SPRINGS, CA90670, USA	Machine imports and distributions	$103,047	$103,047	2,120	100.00%	$229,948	$24,925	$28,198	Note 2, 3
Falcon Machine Tools Co., Ltd.	Lucky Investment Services Ltd.	P.O. BOX 3321 ROAD TOWN, TORTOLA (B.V.I)	General investment	279,900	269,725	8,795	100.00%	168,387	(64,139)	(64,511)	Note 1, 2, 3
Falcon Machine Tools Co., Ltd.	Hwang Kang Machinery Co., Ltd.	No. 262, Xinggong Rd., Hemei Township, Changhua County 508003, Taiwan (R.O.C.)	Sheet-metal and parts manufacturing and processing	17,897	17,920	2,287	40.18%	25,225	2,162	815	Note 2
Falcon Machine Tools Co., Ltd.	Focus CNC Co., Ltd.	No. 16, Longshan 2nd St., Daya Dist., Taichung City 428006, Taiwan (R.O.C.)	Machine manufacturing and processing	16,910	16,910	8,337	39.18%	137,491	40,934	16,276	Note 2
Falcon Machine Tools Co., Ltd.	Lin Yu International Industrial Co., Ltd.	8F, No. 150, Bo'ai 2nd Rd., Zuoying Dist., Kaohsiung City 813357, Taiwan (R.O.C.)	Real Estate Agent	50,000	-	5,000	100.00%	49,395	(605)	(605)	

Note 1: The investment income of the investees including the recognized gains and losses of their further investments in their investees.
Note 2: The investment income of the investees including the investment gains or losses generated from downstream, upstream or sidestream deals.
Note 3: Carrying amounts including unrealized downstream gains or losses of related parties.

(Amount in Thousands of Taiwan New Dollars, Unless Specified Otherwise)

3. Information on investments in Mainland China:

(1) The Company invests in Mainland China through Lucky Investment Services Inc. and Chevalier Machinery Co., Ltd. (Shanghai). The related information is as follow:

Company	Main Business	Paid-in Capital	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2022	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2021	Percentage of Ownership	Investment income (loss) recognized	Carrying Value as of December 31, 2022	Accumulated Inward Remittance of Earnings as of December 31, 2022
					Outflow	Inflow					
Chevalier Machinery Co., Ltd. (Shanghai)	Machine Tools Manufacture and Distribution	$104,107 (USD3,390 thousand)	Indirectly invested by establishing a company in a third country	$232,413 (USD7,568 thousand)	$-	$-	$232,413 (USD7,568 thousand)	100.00%	$(15,409) (Note 1)	$98,407	$-
Chevalier Machinery Co., Ltd. (Suzhou)	Machine Tools Manufacture and Distribution	$409,610 (USD13,338 thousand)	Indirectly invested by establishing a company in a third country	$-	$-	$-	$ -	100.00%	$(50,709) (Note 1)	$177,152	$-

Accumulated Outflow of Investment from Taiwan as of December 31, 2022	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
$232,413 (USD7,568 thousand)	$365,787 (USD11,911 thousand)	N/A (Note 2)

Note 1:According to audited financial statements

Note 2:According to Ministry of Economic Affairs Decree Jing-Gong No.11120415670 issued by Industrial Development Bureau on May 18, 2022, The Company's investment in Mainland China is not restricted by 60% of net worth or consolidated net worth set by Investment Review Committee.

Note 3:In according with Second Amendment of No.11100096200 issued by Ministry of Economic Affairs on July 11, 2022, the Company is permitted to invest USD342,622 to Lucky Investment Services.

(2) For the year ended December 31, 2022, the Company's significant transactions with investees in Mainland China that have taken place in a third country:

a. Sale

Company	Amount
Chevalier Machinery Co., Ltd. (Suzhou)	$ 34,535

b. Accounts receivable

Company	Amount
Chevalier Machinery Co., Ltd. (Suzhou)	$ 24,970

c. Endorsement/Guarantee

Please refer to consolidated note 13.1(2) for further details.

4. Information on major shareholders:

As of December 31, 2022

Share / Shareholder	Share Unit	%
Lin Ju Investment Co., Ltd.	9,980,000	12.98%
Better Life Group Co., Ltd.	3,850,000	5.00%
Liu, Fang-Chun	3,850,000	5.00%

6.6.There has been no occurrence of financial difficulties that could have an impact on the financial condition of the company and its related enterprises in the latest and until the printing of the annual report.

VII.Review of Financial Conditions, Financial Performance, and Risk Management

7.1.Analysis of Financial Status

Unit: NT$ thousands

Item	2021	2022	Difference	
			Amount	%
Current Assets	1,737,809	1,790,097	52,288	3.01
Real estate, plant and equipment	408,086	293,688	(114,398)	(28.03)
Fixed Assets	7,603	10,960	1,372	14.31
Other Assets	377,108	378,479	3,356	0.89
Total Assets	2,530,606	2,473,224	(57,382)	(2.27)
Current Liabilities	934,697	1,143,551	208,854	22.34
non-current liabilities	784,778	508,700	(276,078)	(35.18)
Total Liabilities	1,719,475	1,652,251	(67,224)	(3.91)
Equity attributable to owners of the Company	811,131	820,973	9,842	1.21
Stock	768,803	768,803	0	0.00
Capital surplus	11,460	11,460	0	0.00
Retained Earnings	84,784	64,561	(20,223)	(23.85)

Note:Below are the main reasons, impact on the company, and future plans in response to the changes in assets, liabilities, and shareholder equity during the second fiscal year. These changes had a variance of over 20 percent between the current and previous periods, with a total amount of over NTD 10 million.

1.Explanation of the main reasons for the changes:

(1)Property, plant, and equipment: The main reason for the change is due to the transferof assets held for sale at the Daya Factory.

(2)Current liabilities: The main reason for the change is the repayment of the syndicated loan, with a portion of it converted to short-term borrowings due within one year.

(3)Non-current liabilities: The main reason for the change is the repayment of the syndicated loan, with a portion of it converted to short-term borrowings due within one year.

(4)Retained earnings: The main reason for the change is due to an increase in losses.

2.Impact: No significant impact.

3.Future response actions: Restructure the new syndicated loan and expect a recovery in industry prosperity as orders pick up in the second half of 2023. Additionally, the company will continue to implement cost controls and inventory management to maintain stable profitability.

7.2.Analysis of Financial Performance

Unit: NT$ thousands

Item	2021	2022	Increase (Decrease) amount	Increase (Decrease) ratio%
Gross Sales	1,607,091	1,610,552	3,461	0.22
Cost of Sales	1,217,827	1,206,683	(11,144)	(0.92)
Gross Profit	389,264	403,869	14,605	3.75
Operating Expenses	343,287	388,533	45,246	13.18
Operating Income(Loses)	45,977	15,336	(30,641)	(66.64)
Non-operating Expenses(net)	6,301	(2,651)	(8,952)	(142.07)
Income Before Tax(Loses)	52,278	12,685	(39,593)	(75.74)
Tax Benefit (Expense)	(18,378)	(35,680)	17,302	94.15
Net Income (Loss) for the Period	33,900	(22,995)	(56,895)	(167.83)

Note: Below are the main reasons, impact on the company, and future plans in response to significant changes in operating revenue, net income, and pre-tax profit during the past two fiscal years. These changes had a variance of over 20 percent between the current and previous periods, with a total amount of over NTD 10 million.

1.Explanation of main reasons for changes:

The significant increase in provision for bad debts led to the changes in operating revenue, net income, and pre-tax profit. Additionally, the rise in interest rates had an impact on non-operating income and expenses, resulting in an increase in financial expenses. Furthermore, the provision of income tax on undistributed earnings of the subsidiary in the United States decreased the overall profitability.

2.Impact: No significant impact.

3.Future response actions: The company plans to restructure its joint loan cases and expects the industry to recover in the second half of the 2023 due to an anticipated increase in orders. Furthermore, the company will continue to implement policies to increase revenue and reduce costs, as well as manage inventory to maintain stable profitability.

7.3.Analysis of Cash Flow

7.3.1.Cash Flow Analysis for the Current Year(2022)

Unit: NT$ thousands

Cash and Cash Equivalents, Beginning of Year	Net Cash Flow from Operating Activities	Annual Net Cash Flow from Investing Activities	Net Cash Flow from Full-year financing activities	Exchange Rate Changes on Cash	Cash Balance (Deficiency) Remaining	Note
304,853	(88,824)	(19,162)	89,193	54,217	340,277	

Analysis of change in cash flow

1. Operating activities: The increase in financial expenses due to the impact of rising interest rates, coupled with the provision for income tax on previously undistributed earnings of the US subsidiary, led to a decrease in operating cash flow.
2. Investing activities: The increase in cash outflow was mainly due to the increase in investments.
3. Financing activities: The increase in cash inflow was mainly due to the increase in bank borrowings.
4. Impact of exchange rate changes: The depreciation of the New Taiwan Dollar led to a negative impact on cash flows.

7.3.2.Remedy for Cash Deficit and Liquidity: Not applicable.

7.3.3.Cash Flow Analysis for the Coming Year (2023):

Unit: NT$ thousands

Estimated Cash and Cash Equivalents, Beginning of Year	Estimated Net Cash Flow from Operating Activities	Annual net cash flow from investing activities	Net Cash Flow from Full-year financing activities	Exchange Rate Changes on Cash	Cash Balance (Deficiency) Remaining	Note
340,277	76,000	(15,000)	(30,000)	(2,000)	369,277	

Analysis of Cash Flow Changes:

1. Operating activities: The expected net cash inflow from operating activities is NTD 76,000,000, mainly due to the expected increase in operating profit in 2023.
2. Investing activities: The expected net cash outflow from investing activities is NTD 15,000,000, mainly due to the expected increase in investment in machinery and equipment.
3. Financing activities: The expected net cash outflow from financing activities is NTD 30,000,000, mainly due to the expected repayment of bank loans.
4. Impact of exchange rate changes: The expected appreciation of the New Taiwan Dollar is the main factor.

7.4.Major Capital Expenditures Items

Due to the company's favorable operating conditions and stable cash inflows from operating activities, the main source of funding for significant capital expenditures in recent years has been from self-generated operating funds. Therefore, there was no significant impact on the company's finances.

7.5.Investment Policy in the Last Year, Main Causes for Profits or Losses, Improvement Plans, and Investment Plans for the Coming Year

The company's investment policy is focused on long-term strategic goals and dedicated to integrating construction and sales agents. In 2022, the newly added investment in equity method resulted in a loss of NTD 605,000. The main reason is that some of the invested businesses are in their early stages of operation and have not yet stabilized. It is expected that investment efficiency will gradually improve in the future. The company will continue to evaluate investment plans prudently and adhere to the principle of long-term strategic investment in the future.

7.6.Analysis and assessment of risk factors up to the date of the annual report

7.6.1.The impact of changes in interest rates, exchange rates, and inflation on the company's income and future response measures:

I.Impact on company's profitability.

Item	2022（NT$ Thousands;％）
Interest income (expense) net	(28,452)
Foreign exchange gain (loss) net	3,244
Interest income (expense) net to net revenue ratio	(1.77)
Interest income (expense) net to pre-tax income ratio	(224.30)
Foreign exchange gain (loss) net to net revenue ratio	0.20
Foreign exchange gain (loss) net to pre-tax income ratio	25.57

A. Interest rate: The sensitivity analysis of interest rate risk is mainly based on the floating interest rate of the borrowings as of the end of the financial reporting period. Assuming holding for one accounting year, a 10 basis point increase/decrease in market interest rates would reduce/increase the income of the Group for the fiscal years 2022 and 2023 by NTD 880 thousand and NTD 759 thousand, respectively.

B. Exchange rates changes: When the exchange rate of NTD against USD appreciates/depreciates by 1%, it would decrease/increase the income of the Group for the fiscal years 2022 and 2023 by NTD 1,461 thousand and NTD 2,173 thousand, respectively. When the exchange rate of NTD against EUR appreciates/depreciates by 1%, it would decrease/increase the income of the Group for the fiscal years 2022 and 2023 by NTD 142 thousand and NTD 86 thousand, respectively. When the exchange rate of NTD against CNY appreciates/depreciates by 1%, it would decrease/increase the income of the Group for the fiscal years 2022 and 2023 by NTD 170 thousand and NTD 637 thousand, respectively.

C. Inflation: The domestic and foreign procurement ratio of raw materials and goods of the Company is 4:1. For example, if the procurement amount at the end of 2022 is approximately NTD 1.076 billion, a 1% increase in domestic inflation rate would increase the annual cost and expense of the Company by NTD 10,760 thousand.

II.Future Corresponding

A. Interest rates: The Company expects that the central bank interest rate in 2023 will not rise further, similar to the situation with the US FED. This will not have an impact on the Company's long- and short-term borrowing interest burden. Therefore, the Company will maintain good communication with its partner banks, keep up-to-date with the latest market interest rate conditions, and prioritize borrowing from banks with the lowest interest rates to reduce interest expenses and achieve the best interest rate level.

B. Exchange rates: The majority of the Company's export transactions are denominated in US dollars. The Company adopts a conservative approach when quoting prices to customers, based on a stable and conservative exchange rate. The Company also opens foreign currency deposit accounts with banks to meet foreign exchange fund requirements and retains foreign currency positions. The Company adjusts its foreign exchange positions according to the changes in exchange rates, minimizing the impact of exchange rate fluctuations on the Company's profits and losses.

C. Inflation: The Company's response measures involve adjusting product prices based on changes in raw material prices and considering market supply and demand. The Company also requests the design unit to reduce unnecessary or unclear functional components to reduce product costs.

7.6.2.Policies, Main Causes of Gain or Loss and Future Response Measures with Respect to High-risk, High-leveraged Investments, Lending or Endorsement Guarantees, and Derivatives Transactions

The Company did not engage in high-risk, high-leverage derivative trading in 2022 and as of the date of this annual report. Policies and response measures for lending funds, endorsement guarantees, and derivative trading were implemented according to the Company's established "Asset Disposal Processing Procedure," "Fund Lending Procedure," "Endorsement Guarantee Procedure," and "Derivative Trading Processing Procedure."

7.6.3. Future Research & Development Projects and Corresponding Budge: Please refer to page 55 to page 58 of the annual report.

7.6.4. Impact of important domestic and international policies and legal changes on thecompany's financial business and response measures:

The business activities currently conducted by the company comply with the policies and laws in each respective location, and the company maintains good interaction with local distributors. In the event of any policy or legal changes, the company can promptly report to itself to serve as a basis for decision-making.

7.6.5. Effects of and Response to Changes in Technology and the Industry Relating to Corporate Finance and Sales

The company has actively introduced electronic operation systems and established a network information system in recent years to closely integrate with upstream and downstream industries, shorten the transmission process of related information, and effectively improve the operation schedule to enhance operational efficiency. Therefore, the company has implemented technological management in recent years. In response to changes in the industry environment, the company is committed to investing in new product development, process improvement, and technology upgrading to strengthen product intelligence and enhance competitiveness. Hence, technological and industrial changes should have a positive impact on the company's finance and business.

7.6.6. The Impact of Changes in Corporate Image on Corporate Risk Management, and the Company’s Response Measures

The company has always adhered to the principles of professionalism and integrity, and attached great importance to corporate image and risk management. At present, there are no foreseeable crisis events.

7.6.7. Expected Benefits from, Risks Relating to and Response to Merger and Acquisition Plans: The company has no plan for merger or acquisition.

7.6.8. Expected Benefits from, Risks Relating to and Response to Factory Expansion Plans:

The Company has no plans for expanding its factories.

7.6.9 Risks Relating to and Response to Excessive Concentration of Purchasing Sources and Excessive Customer Concentration

The Company has a diversified range of suppliers and customers for purchasing and selling goods, and maintains a good relationship with them. Therefore, there is no significant risk of concentration in either purchasing or sales.

7.6.10. Effects of, Risks Relating to and Response to Large Share Transfers or Changes in Shareholdings by Directors, Supervisors, or Shareholders with Shareholdings of over 10%

There have been changes in the directors of the Company this year. However, the number of shares they currently hold has not resulted in any significant changes, impacts, or risks to the overall operation of the Company.

7.6.11. Effects of, Risks Relating to and Response to the Changes in Management Rights

Future business operations will be jointly managed by the new and existing management teams to create the best interests for both customers and investors. Through resource sharing and market expansion, the group will strengthen its overall position. Therefore, the change in management is not expected to have any significant impact or risk on the company's operations.

7.6.12. There are no significant lawsuits, non-litigation or administrative disputes involving the Company, its directors, supervisors, general manager, substantial shareholders holding more than ten percent of the Company's shares, or its subsidiaries, which have been determined by a final and conclusive judgment or are pending and may have a significant impact on the rights and interests of shareholders or the Company's securities price, and therefore no disclosure is required.

7.6.13. Other Majors Risk and Resolution: None.

7.7.Risk Management Organization

7.7.1.Risk Management Organization and its operation

(1) The company has always implemented a strict and prudent approach to enterprise risk management (including risk detection, assessment, reporting, and handling), and it is controlled in accordance with the latest internal audit developments, guidelines, and legal regulations.

(2) The company's risk control is divided into a three-stage control mechanism: the initial control mechanism is the host unit, which must take responsibility for the initial risk perception, assessment, and control considerations and prevention. The second control mechanism is the various management meetings led by the General Administration or General Manager, which includes various risk assessments in addition to responsibility for probability assessments. The ultimate control mechanism is the Audit Department and Board Meetings, which ensure final risk management through the audit department's review, supervision, and tracking, and the Board's deliberation. In addition, our Legal Department also executes risk detection, assessment, and prevention suggestions for significant risk assessments.

(3) At each stage of company's control mechanism, immediate risks are immediately reported upward during normal times, and are thoroughly eliminated and prevented. To date, our company has had no incidents of risk due to the implementation of these control mechanisms, indicating good control.

7.7.2.Risk Management Organization Chart

Risk Management	Risk Assessment Items	Direct Risk Control (Initial Control Mechanism)	Risk Review and Control (Second Control Mechanism)	Decision-making and follow-up monitoring (Final control mechanism)
Financial, accounting, and liquidity risks:	1.Interest rate, exchange rate, and financial risks 2.Risks of lending funds and endorsement guarantees 3.Risks of derivative financial products and other financial investments 4.Tax, cost, and related accounting risks	1.Financial Department (Accounting Division) 2.Financial Department (Finance Division) 3.Financial Department (Finance Division) 4.Financial Department (Accounting Division)	Management Office and Executive Meetings	Board of Directors and Supervisors Meeting (Risk Assessment, Control Decision Making, and Final Control) Audit Department (Risk Assessment, Check, Supervision, Improvement and Reporting)
Market and Credit Risk	1.Customer Credit Rating and Collection Risk 2.Market Trend Investigation and Evaluation Risk 3.Marketing and Sales Service Risk	1.Marketing Service Department, Finance Division 2.Marketing Service Department, General Management Division 3.Marketing Service Department, General Administration Division	General Administration Department、Production、Sales and Management Meeting	
Strategic and Operational Risk	1.Business Strategy Risk 2.Procurement, Production and Quality Risk 3.Corporate Image and Human Resources Risk 4.Product Improvement and Research and Development Risk 5.Political, Policy and Legal Risk 6.Long-term Investment and Related Party Risk 7.Equity and Management Team Risk 8.Other Risks	1.General Administration 2.Department, Production Management Center, Production Department, Quality Control Department 3.General Administration Department, Marketing Service Department 4.New Product Development Department,General Administration Department 5.8.General Administration Department, Management Center 6.7.General Administration Department, Finance Division	General Administration Department, Production and Sales Meeting, Research and Development Meeting, and Management Meeting.	

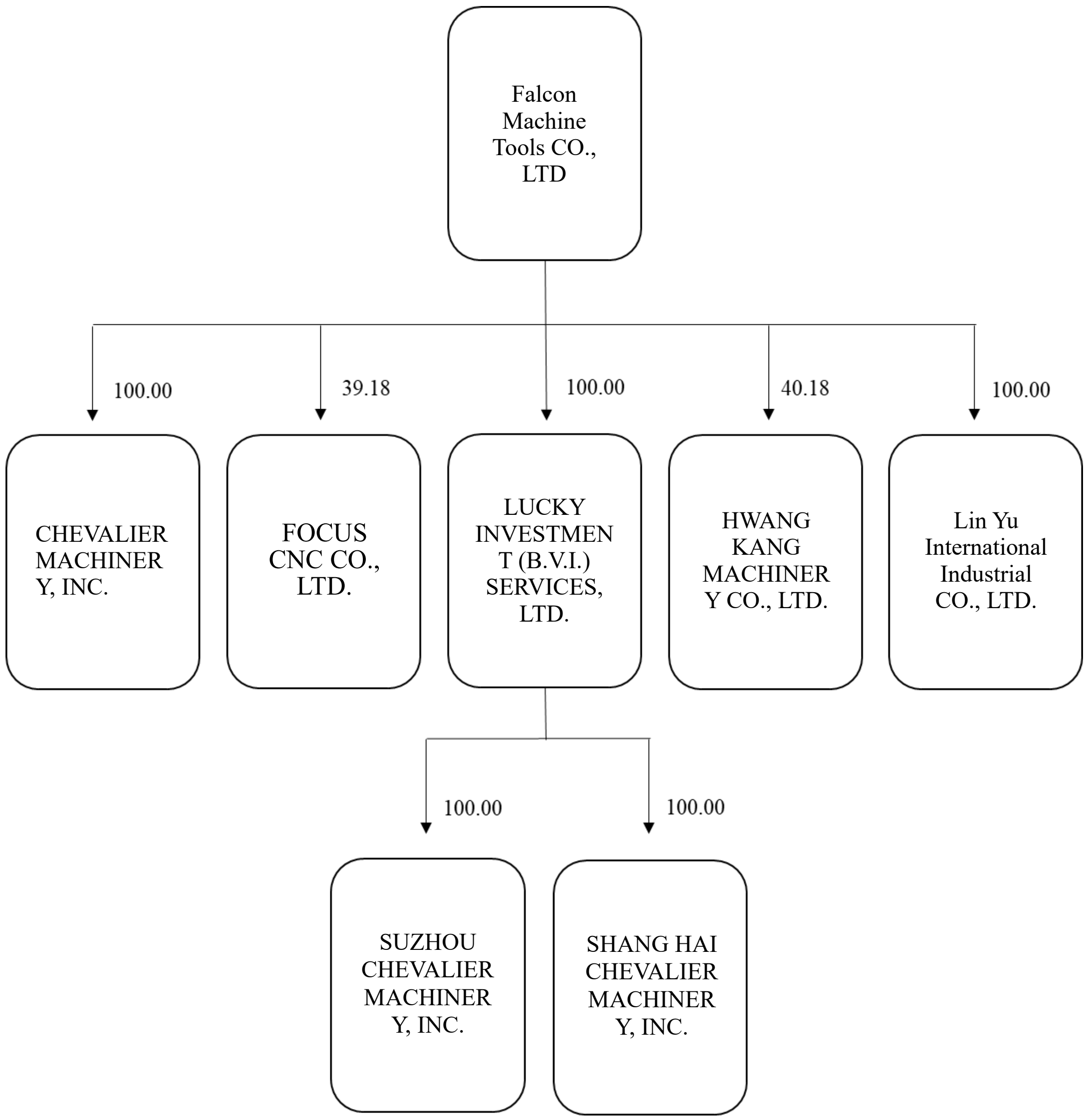
7.8.Other Major Risk: None

VIII.Special Disclosure

8.1.Summary of Affiliates Companies

8.1.1.Related Party Transactions in Annual Report

I.Organizational Chart of the Affiliated Companies of Falcon Machine Tools CO., LTD



II.The relationships, mutual shareholding ratios, shareholdings, and actual investment amounts between affiliated companies.

2023/04/23;Unit:Share/NT$ Thousands

Affiliated Company Name	Relationship with the Company	Actual Investment Amount	Company's Investment or Holding of Affiliated Company Shares		Affiliated Company's Holding of the Company's Shares	
			Share	%	Share	%
CHEVALIER MACHINERY, INC.	Subsidiary	103,047	2,120	100%	-	-
LUCKY INVESTMENT (B.V.I.) SERVICES, LTD.	Subsidiary	279,900	8,795	100%	-	-
Lin Yu International Industrial CO., LTD.	Subsidiary	50,000	5,000	100%	-	-
FOCUS CNC CO., LTD.	Affiliated Company	16,910	8,337	39.18%	1,593	2.07%
HWANG KANG MACHINERY CO., LTD.	Affiliated Company	17,897	2,287	40.18%	-	-
SUZHOU CHEVALIER MACHINERY, INC.	Subsidiary	284,850	-	100%	-	-
SHANG HAI CHEVALIER MACHINERY, INC.	Subsidiary	110,509	-	100%	-	-

III.Basic information of each affiliated company

Unit: NT$ /US$

Company Name	Date of Establishment	Address	Paid-in Capital	Main Business or Production Items
CHEVALIER MACHINERY, INC.	1982.10.07	9925 TABOR PLACE SANTA FE SPRINGS, CA90670, USA 77871RENCHEN,Schwarzwaldstr.1	USD2,120,000	Machinery import and distribution business
LUCKY INVESTMENT(B.V.I.) SERVICES,LTD.	2000.12.16	P.O.BOX3321 ROAD TOWN, TORTOLA(B.V.I.)	USD12,342,622	General investment business
Lin Yu International Industrial CO., LTD.	2022.12.09	8 F., No. 150, Bo'ai 2nd Rd., Zuoying Dist., Kaohsiung City 813357, Taiwan (R.O.C.)	NT50,000,000	Real estate agency, brokerage, trading, and leasing business
FOCUS CNC CO., LTD.	2002.01.14	No. 16, Longshan 2nd St., Daya Dist., Taichung City 428006, Taiwan (R.O.C.)	NT212,800,000	Manufacturing of machinery equipment
HWANG KANG MACHINERY CO., LTD.	1994.07.21	No. 262, Xinggong Rd., Hemei Township, Changhua County 508003, Taiwan (R.O.C.)	NT56,927,090	Manufacturing and trading of machinery sheet metal
SUZHOU CHEVALIER MACHINERY, INC.	2011.06.29	No. 58 Huangpujiang Road, Southeast High-Tech Development Zone, Changshu City, Jiangsu Province	USD13,338,000	Manufacturing and trading of machinery
SHANG HAI CHEVALIER MACHINERY, INC.	2001.06.21	No. 168 Yumin Road, Malu Industrial Park, Jiading District, Shanghai	USD3,390,000	Manufacturing and trading of machinery

IV.Information regarding common shareholders for companies under control or subsidiary companies: Not applicable

V.The main industries covered by the overall affiliated companies' business operations are:

a. Main business: Manufacturing and processing of various types of machine tools, domestic and foreign sales, as well as related import and export trading and investment activities.

b. General investment business.

c. Real estate agency, brokerage, and leasing business: including general advertising services, landscape and interior design, residential and building development and leasing, etc.

d. For details on the main business or production items of each affiliated company, please refer to the list of basic information of affiliated companies as detailed in Section 3 above.

VI.Information on the directors, supervisors, and general managers of each affiliated company

Company Name	Title	Name or Representative	Shareholding Held	
			Shares	%
CHEVALIER MACHINERY, INC.	Director	Falcon Machine Tools CO., LTD Representative: Chiu, Ching-Hsiung	2,120,000	100%
LUCKY INVESTMENT(B.V.I)SERVICES ,LTD.	Director	Falcon Machine Tools CO., LTD Representative: Zhang, Po-Yuan	12,342,622	100%
Lin Yu International Industrial CO., LTD.	Director Supervisor	Falcon Machine Tools CO., LTD Representative: Lin, Tsung-Lin Falcon Machine Tools CO., LTD Representative: Tsai, Tsung-Hsueh	5,000,000 5,000,000	100% 100%
FOCUS CNC CO., LTD.	Chairman Director Director Director Director Supervisor	Zhang, Po-Ming Falcon Machine Tools CO., LTD Representative: Zhang, Shun-Fu Zhang, Ming-Lun ARLINGTON INT. ENT. CO., LTD. Representative: Eric He, Shen-Yuan Ji, Meng-ru	2,000 8,337,476 100,000 6,992,582 18,146 85,113	0.009% 39.18% 0.47% 32.86% 0.09% 0.40%
HWANG KANG MACHINERY CO., LTD.	Chairman Director Director Director Director Supervisor	Hsu, Lai-Chun Falcon Machine Tools CO., LTD Representative: Chang, Po-yuan Chen, Shi-En Tseng, Jui-Wen Hsu, Chao-Ying Zhang, Shun-Fu	1,281,020 2,287,285 466,124 384,374 0 0	22.50% 40.18% 8.19% 6.75% 0% 0%
SUZHOU CHEVALIER MACHINERY, INC.	Chairman Director Director Supervisor	Zhang, Yu-Chai Song, Wen-Long Peng, Quan Lin, Ying-Tzu	USD9,000,000	69.75%
SHANG HAI CHEVALIER MACHINERY, INC.	Chairman Director Director Supervisor	Zhang, Yu-Chai Zhang, Jih-Chang Chou, Kun-Jung Wen, Chen-Min	USD3,390,000	100%

VII.Operational Overview of Affiliated Companies:

Unit: NT$ Thousands

Company Name	Capital	Total Assets	Total Liabilities	Net Worth	Operating Revenue	Operating Profit	Net Income (After Tax)	EPS (After Tax)
CHEVALIER MACHINERY, INC.	69,236	412,897	149,791	263,106	445,315	34,564	24,925	11.76
LUCKY INVESTMENT (B.V.I)SERVICES LTD.	286,130	275,594	105,918	169,676	0	0	(13,360)	(1.08)
Lin Yu International Industrial CO., LTD.	50,000	50,297	902	49,395	0	(614)	(605)	(0.12)
FOCUS CNC CO., LTD.	212,800	815,918	461,961	353,957	518,957	35,737	40,934	1.92
HWANG KANG MACHINERY CO., LTD.	56,927	166,505	105,533	60,722	144,154	3,392	2,162	0.38
SUZHOU CHEVALIER MACHINERY, INC.	370,973	472,612	218,632	253,980	272,093	(39,311)	(50,709)	(3.79)
SHANG HAI CHEVALIER MACHINERY, INC.	156,502	98,730	322	98,408	0	(66)	(13,360)	(3.94)

Note 1:The financial statements of foreign companies are converted based on the exchange rate of NTD: USD = 30.71: 1 and RMB: NTD = 4.408: 1 on the balance sheet date.

8.2 Transactions of privately placed securities during the current fiscal year and up to the date of publication of this annual report: None.

8.3 The Shares in the Company Held or Disposed of by Subsidiaries in the Most Recent Years: None.

8.4 Other necessary supplementary information: None.

8.5 During the latest fiscal year and up to the date of printing this annual report, events that have occurred under Article 36, Paragraph 2, Subparagraph 2 of the Securities and Exchange Act which have a material impact on shareholder equity or the price of securities: None.

Falcon Machine Tools Co., Ltd.

Chairman Lin, Tsung-Lin