

KUO TOONG INTERNATIONAL CO., LTD.
PARENT COMPANY ONLY
FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2021 AND 2020
WITH
REPORT OF INDEPENDENT AUDITORS

The reader is advised that these financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

Independent Auditors' Report Translated from Chinese

To KUO TOONG INTERNATIONAL CO., LTD.

Opinion

We have audited the accompanying parent company only balance sheets of KUO TOONG INTERNATIONAL CO., LTD. (the “Company”) as of 31 December 2021 and 2020, and the related parent company only statements of comprehensive income, changes in equity and cash flows for the years ended 31 December 2021 and 2020, and notes to the parent company only financial statements, including the summary of significant accounting policies (together “the parent company only financial statements”).

In our opinion, the parent company only financial statements referred to above present fairly, in all material respects, the financial position of the Company as of 31 December 2021 and 2020, and its financial performance and cash flows for the years ended 31 December 2021 and 2020, in conformity with the requirements of 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 auditing standards generally accepted in the Republic of China on Taiwan. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Parent Company Only Financial Statements section of our report. We are independent of the Company in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China on Taiwan (the “Norm”), and we have fulfilled our other ethical responsibilities in accordance with the Norm. Based on our audits and the reports of other auditors, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 2021 parent company only financial statements. These matters were addressed in the context of our audit of the parent company only financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Operating Revenue

For the year ended 31 December 2021, the Company's public work construction revenue amounted to NT\$1,404,074 thousand, and constituted 60% of total revenue, and is significant to parent company only financial statements. Because public work construction revenue is gradually satisfied over time and recognize revenue by degree of completion while the degree of completion is measured as the cumulative cost incurred as a proportion of the estimated total contract cost. The assumptions used in relation to the estimated total contract costs may involve significant management estimates and judgements, therefore we determined this as a key audit matter..

Our audit procedures included but not limited to assessing the timing and accuracy regarding the recognition of construction revenues and costs; selecting samples of significant contracts and interviewing management to understand the specific clauses involving recognition of revenue in each significant contract; selecting samples to test the rationality of estimated amount about total cost of contracts, the degree of completion of contracts, the reasonableness of the variable consideration of contracts and onerous contract losses; check the relevant vouchers of the current cost and expenses to confirm the correctness of the current construction in progress; recalculate the completion percentage to confirm the rationality of the recognition of revenue.

We also assessed the adequacy of disclosures of public work construction revenue. Please refer to Notes V and VI to the Company's parent company only financial statements.

2. Contingent Liabilities – Fines to Overdue Construction

Kuo Toong Company's main business operations include engineering contracts signed with customers. The possible fines for overdue projects involve significant estimates and judgments, therefore, they are considered key audit matters.

Our audit procedures included selecting samples of significant contracts and interviewing with management to understand the clauses of breach of contract regarding overdue construction; reviewing the communication documents between the Company and the owners and the mediation meeting minutes from authorities, and reviewing the management's assessment documents and the lawyers' opinions on major disputes to assess whether the Company disclosed contingent liabilities appropriately.

We also assessed the adequacy of disclosures of relevant contingent liabilities. Please refer to Note V and VI to the Group's consolidated financial statement.

Responsibilities of Management and Those Charged with Governance for the Parent Company Only Financial Statements

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

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

Those charged with governance, including audit committee, are responsible for overseeing the financial reporting process of the Company and its subsidiaries.

Auditor's Responsibilities for the Audit of the Parent Company Only Financial Statements

Our objectives are to obtain reasonable assurance about whether the parent company only financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 auditing standards generally accepted in the Republic of China on Taiwan 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 parent company only financial statements.

As part of an audit in accordance with auditing standards generally accepted in the Republic of China on Taiwan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the parent company only 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 internal control of the Company.
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 ability to continue as a going concern of the Company. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company only 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 auditor's 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 parent company only financial statements, including the accompanying notes, and whether the parent company only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the parent company only 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 2021 parent company only financial statements and are therefore the key audit matters. We describe these matters in our auditor's 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.

Huang, Shih-Chieh

Lee, Fang-Wen

Ernst & Young, Taiwan

31 March 2022

Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese

KUO TOONG INTERNATIONAL CO., LTD.

PARENT COMPANY ONLY BALANCE SHEETS

31 December 2021 and 2020

(Expressed in Thousands of New Taiwan Dollars)

| ASSETS | Notes | 31 Dec. 2021 | 31 Dec. 2020 |
|--|-------------------|--------------------|--------------------|
| Current Assets | | | |
| Cash and cash equivalents | IV/VI.1 | \$209,390 | \$95,447 |
| Financial assets measured at amortized cost-current | IV/VI.3 、 19/VIII | 429,823 | 374,045 |
| Current contract assets | IV/VI.18 、 19 | 740,685 | 698,377 |
| Notes receivable-net | IV/VI.4 、 19 | 20,653 | 5,572 |
| Accounts receivable-net | IV/VI.5 、 19 | 212,760 | 189,206 |
| Accounts receivable - related parties -net | IV/VI.5/VII | 1,657,929 | 1,527,974 |
| Other receivables | IV/VI.6 、 19 | 381,669 | 3,506 |
| Other receivables -related parties | IV/VI.6/VII | 32,051 | 24,851 |
| Inventories-net | IV/VI.7 | 262,551 | 213,514 |
| Other current assets | IV/VI.8/VII | 40,680 | 37,887 |
| Construction deposit paid | | 69,254 | 58,855 |
| Total current assets | | 4,057,445 | 3,229,234 |
| Non-current assets | | | |
| Financial assets at fair value through other comprehensive income-noncurrent | IV/VI.2 | 95,025 | 95,025 |
| Financial assets measured at amortized cost-non-current | IV/VI.3 、 19/VIII | 87,491 | 79,705 |
| Investments accounted for under equity method | IV/VI.9 | 2,798,261 | 2,957,217 |
| Property, plant and equipment | IV/VI.10/VIII | 316,052 | 354,577 |
| Intangible assets | IV | 296 | 466 |
| Deferred tax assets | IV/VI.23 | 30,820 | 35,346 |
| Guarantee deposits paid | VIII | 18,290 | 16,128 |
| Long-term receivables | VI.5/VIII | - | 426,943 |
| Other non-current assets -others | IV/VI.8 | 73,519 | 12,418 |
| Total non-current assets | | 3,419,754 | 3,977,825 |
| Total Assets | | \$7,477,199 | \$7,207,059 |

(The accompanying notes are an integral part of the parent company only financial statements.)

English Translation of Financial Statements Originally Issued in Chinese

KUO TOONG INTERNATIONAL CO., LTD.

PARENT COMPANY ONLY BALANCE SHEETS

31 December 2021 and 2020

(Expressed in Thousands of New Taiwan Dollars)

| LIABILITIES AND SHAREHOLDERS' EQUITY | Notes | 31 Dec. 2021 | 31 Dec. 2020 |
|--|--------------|--------------|--------------|
| Current liabilities | | | |
| Short-term loans | IV/VI.11/VII | \$894,341 | \$1,123,967 |
| Short-term notes payable | IV/VI.12 | 9,958 | 9,976 |
| Contract liabilities-current | IV/VI.18 | 47,881 | 200,716 |
| Notes payable | | 102,972 | 70,305 |
| Accounts payable | | 397,243 | 422,560 |
| Accounts payable -related parties | VII | 737 | 931 |
| Other payables | VI.13 | 156,866 | 159,360 |
| Other payables - related parties | VI.13/VII | 8,894 | 8,894 |
| Current tax liabilities | IV/VI.23 | 125,313 | - |
| Bonds due within one year or one business cycle | IV/VI.14 | 249,951 | - |
| Long-term loans due within one year or one business cycle | IV/VI.15/VII | 55,973 | 80,021 |
| Other current liabilities - others | | 120,598 | 126,056 |
| Total current liabilities | | 2,170,727 | 2,202,786 |
| Non-current liabilities | | | |
| Bonds payable | IV/VI.14 | - | 249,755 |
| Long-term loans | IV/VI.15 | 337,729 | 136,223 |
| Deferred tax liabilities | IV/VI.23 | 122,805 | 125,946 |
| Net defined benefit liabilities - non current | IV/VI.16 | 27,305 | 43,522 |
| Refundable deposits received | | 17,600 | 25,179 |
| Total non-current liabilities | | 505,439 | 580,625 |
| Total liabilities | | 2,676,166 | 2,783,411 |
| Equity attributable to the parent company | | | |
| Capital | IV/VI.17 | | |
| Common stock | | 2,480,782 | 2,480,782 |
| Capital surplus | IV/VI.17 | 1,470,181 | 1,470,181 |
| Retained earnings | IV/VI.17 | | |
| Legal reserve | | 355,058 | 345,099 |
| Special reserve | | 241,753 | 267,662 |
| Unappropriated earnings | | 502,813 | 101,677 |
| Subtotal | | 1,099,624 | 714,438 |
| Other equity | IV/VI.22 | | |
| Exchange differences resulting from translating the financial statements of a foreign operations | | (150,187) | (142,386) |
| Unrealized (profit) and loss of financial assets measured at fair value through other comprehensive income | | (99,367) | (99,367) |
| Subtotal | | (249,554) | (241,753) |
| Total equity | | 4,801,033 | 4,423,648 |
| Total liabilities and equity | | \$7,477,199 | \$7,207,059 |

(The accompanying notes are an integral part of the parent company only financial statements.)

English Translation of Financial Statements Originally Issued in Chinese

KUO TOONG INTERNATIONAL CO., LTD.

PARENT COMPANY ONLY OF COMPREHENSIVE INCOME

For the years ended 31 December 2021 and 2020

(Expressed in Thousands of New Taiwan Dollars)

| ITEMS | Notes | 2021 | 2020 |
|---|-------------------|-------------|-------------|
| Operating revenues | IV/VI.18 | \$2,346,646 | \$1,400,128 |
| Operating costs | IV/VI.7、16、20/VII | (1,538,195) | (1,102,808) |
| Gross profit | | 808,451 | 297,320 |
| Unrealized gross profit on sales | | (6,459) | (94,732) |
| Realized gross profit on sales | | (2,403) | 104,907 |
| Gross profit-net | | 799,589 | 307,495 |
| Operating expenses | IV/VI.16、20/VII | | |
| Sales and marketing expenses | | (4,860) | (6,332) |
| General and administrative expenses | | (69,233) | (71,646) |
| Research and development expenses | | (11,940) | (10,221) |
| Expected credit impairment (losses) profit | IV/VI.19 | 808 | 1,367 |
| Subtotal | | (85,225) | (86,832) |
| Operating income | | 714,364 | 220,663 |
| Non-operating income and expenses | | | |
| Other revenue | VI.21 | 46,044 | 27,858 |
| Other gain and loss | VI.21 | 206 | (8,679) |
| Financial costs | VI.21 | (33,488) | (25,882) |
| Share of profit or loss of associates and joint ventures | IV/VI.9 | (154,893) | (57,921) |
| Subtotal | | (142,131) | (64,624) |
| Income from continuing operations before income tax | | 572,233 | 156,039 |
| Income tax expense | IV/VI.23 | (123,866) | (30,968) |
| Net income | | 448,367 | 125,071 |
| Other comprehensive income (lose) | IV/VI.22 | | |
| Items that may not be reclassified subsequently to profit or loss | | | |
| Remeasurements of the defined benefit plan | | (1,451) | (31,851) |
| Unrealized loss on investments in equity instruments at fair value through other comprehensive income | | - | 6,683 |
| Income tax related to items that may not be reclassified subsequently | | 290 | 6,370 |
| To be reclassified to profit or loss in subsequent periods | | | |
| Exchange differences resulting from translating the financial statements of a foreign operations | | (7,801) | 19,226 |
| Total other comprehensive income, net of tax | | (8,962) | 428 |
| Total comprehensive income | | \$439,405 | \$125,499 |
| Earnings per share (NTD) | | | |
| Earnings per share-basic | IV/VI.24 | \$1.81 | \$0.50 |
| Earnings per share-diluted | IV/VI.24 | \$1.80 | \$0.50 |

(The accompanying notes are an integral part of the parent company only financial statements.)

English Translation of Financial Statements Originally Issued in Chinese

KUO TOONG INTERNATIONAL CO., LTD.

PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

| ITEMS | Common Stock | Capital surplus | Retained earnings | | | Other equity | | Treasury Stock | Total Equity |
|--|--------------|-----------------|-------------------|-----------------|-------------------------|--|---|----------------|--------------|
| | | | Legal reserve | Special reserve | Unappropriated earnings | Exchange differences resulting from translating the financial statements of a foreign operations | Unrealized gain (Loss) on financial assets at fair value through other comprehensive income | | |
| | 3110 | 3200 | 3310 | 3320 | 3350 | 3410 | 3420 | 3500 | 3XXX |
| Balance as of 1 January 2020 | \$2,492,242 | \$1,478,537 | \$326,197 | \$148,236 | \$197,737 | \$(161,612) | \$(106,050) | \$- | \$4,375,287 |
| Appropriation and distribution of 2019 retained earning | | | | | | | | | |
| Legal Reserve | - | - | 18,902 | - | (18,902) | - | - | - | - |
| Special Reserve | - | - | - | 119,426 | (119,426) | - | - | - | - |
| Cash dividends | - | - | - | - | (57,322) | - | - | - | (57,322) |
| Net income for the year ended 31 December 2020 | - | - | - | - | 125,071 | - | - | - | 125,071 |
| Other comprehensive income, net of tax for the year ended 31 December 2020 | - | - | - | - | (25,481) | 19,226 | 6,683 | - | 428 |
| Total comprehensive income | - | - | - | - | 99,590 | 19,226 | 6,683 | - | 125,499 |
| Treasury stock acquired | - | - | - | - | - | - | - | (19,816) | (19,816) |
| Treasury stock retired | (11,460) | (8,356) | - | - | - | - | - | 19,816 | - |
| Balance as of 31 December 2020 | \$2,480,782 | \$1,470,181 | \$345,099 | \$267,662 | \$101,677 | \$(142,386) | \$(99,367) | \$- | \$4,423,648 |
| Balance as of 1 January 2021 | \$2,480,782 | \$1,470,181 | \$345,099 | \$267,662 | \$101,677 | \$(142,386) | \$(99,367) | \$- | \$4,423,648 |
| Appropriation and distribution of 2020 retained earning | | | | | | | | | |
| Legal Reserve | - | - | 9,959 | - | (9,959) | - | - | - | - |
| Cash dividends | - | - | - | - | (62,020) | - | - | - | (62,020) |
| Reversal of special reserve | - | - | - | (25,909) | 25,909 | - | - | - | - |
| Net income for the year ended 31 December 2021 | - | - | - | - | 448,367 | - | - | - | 448,367 |
| Other comprehensive income, net of tax for the year ended 31 December 2021 | - | - | - | - | (1,161) | (7,801) | - | - | (8,962) |
| Total comprehensive income | - | - | - | - | 447,206 | (7,801) | - | - | 439,405 |
| Balance as of 31 December 2021 | \$2,480,782 | \$1,470,181 | \$355,058 | \$241,753 | \$502,813 | \$(150,187) | \$(99,367) | \$- | \$4,801,033 |

(The accompanying notes are an integral part of the parent company only financial statements.)

English Translation of Financial Statements Originally Issued in Chinese

KUO TOONG INTERNATIONAL CO., LTD.

PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS

For the year ended 31 December 2021 and 2020

(Expressed in Thousands of New Taiwan Dollars)

| ITEMS | 2021 | 2020 | ITEMS | 2021 | 2020 |
|--|-----------|-----------|---|-------------|-------------|
| Cash flows from operating activities: | | | Cash flows from investing activities: | | |
| Net income before tax | \$572,233 | \$156,039 | Acquisition of financial assets at amortised cost | (63,564) | (101,233) |
| Adjustments for: | | | Acquisition of equity investments under equity method | (29,000) | - |
| Income and expense adjustments: | | | Disposal of equity investments under equity method | - | 38 |
| Depreciation | 53,289 | 47,766 | Acquisition of property, plant and equipment | (14,772) | (31,011) |
| Amortization | 309 | 706 | Disposal of property, plant and equipment | 728 | 17,260 |
| Expected credit impairment (gain) losses | (808) | (1,367) | Decrease(Increase) in refundable deposits | (12,561) | |
| Interest expense | 33,488 | 25,882 | Decrease(Increase) in refundable deposits | - | 18,987 |
| Interest revenue | (28,080) | (24,610) | Acquisition of intangible assets | (139) | - |
| Share of losses(profit) of subsidiaries, associates and joint ventures recognized by the equity method | 154,893 | 57,921 | Decrease (increase) of other non-current financial assets | (61,101) | 10,537 |
| (Gain) on disposal of property, plant and equipment | (59) | (6,014) | Dividends received | 16,400 | 294 |
| Losses on disposal of investments accounted for under equity method | - | 12 | Net cash flow from investing activities | (164,009) | (85,128) |
| Impairment loss on non-financial assets | - | 35,799 | | | |
| Unrealized gross profit | 6,459 | 94,732 | Cash flows from financing activities: | | |
| Realized gross profit | 2,403 | (104,907) | Increase in short-term loans | 1,147,000 | 1,617,175 |
| Unrealized foreign currency exchange gains | (9,533) | (24,470) | Decrease in short-term loans | (1,365,848) | (1,424,873) |
| Income and expense adjustments | 212,361 | 101,450 | Decrease in short-term notes payable | (18) | (24) |
| Changes in operating assets and liabilities: | | | Increase in long-term loans | 385,100 | 154,900 |
| Contract assets | 11,429 | (23,633) | Decrease in long-term loans | (199,901) | (189,440) |
| Notes receivable-net | (15,081) | 473 | Decrease in deposits received | (7,579) | (759) |
| Accounts receivable-net | (23,554) | (178,704) | Cash dividends | (62,020) | (57,322) |
| Accounts receivable- related parties -net | (129,955) | (52,696) | Treasury stock buyback cost | - | (19,816) |
| Other receivables | (4,149) | (726) | Net cash used in financing activities | (103,266) | 79,841 |
| Other receivables - related parties | (7,200) | 6,846 | | | |
| Inventories | (49,037) | (17,790) | Net increase(decrease) in cash and cash equivalents | 113,943 | (17,369) |
| Other current assets | (8,904) | (5,837) | Cash and cash equivalents at beginning of period | 95,447 | 112,816 |
| Contract liabilities | (152,835) | (42,261) | Cash and cash equivalents at end of period | \$209,390 | \$95,447 |
| Notes payable | 32,667 | (4,516) | | | |
| Accounts payable | (25,317) | 24,329 | | | |
| Accounts payable - related parties | (194) | (9,121) | | | |
| Other payables | (2,415) | 97,974 | | | |
| Other payables - related parties | - | (22,308) | | | |
| Other current liabilities | (5,458) | (20,387) | | | |
| Accrued pension liabilities | (17,668) | (10,107) | | | |
| Cash generated from operations | 386,923 | (975) | | | |
| Interest received | 24,544 | 21,433 | | | |
| Interests paid | (33,371) | (25,561) | | | |
| Income tax paid | 3,122 | (6,979) | | | |
| Net cash provided by operating activities | 381,218 | (12,082) | | | |

(The accompanying notes are an integral part of the parent company only financial statements.)

English Translation of Financial Statements Originally Issued in Chinese

KUO TOONG INTERNATIONAL CO., LTD.

NOTES TO INDIVIDUAL FINANCIAL STATEMENTS

For the Years Ended 31 December 2021 and 2020

(Expressed in Thousands of New Taiwan Dollars Unless Otherwise Stated)

I. HISTORY AND ORGANIZATION

(1) KUO TOONG INTERNATIONAL CO., LTD. (the “Company”) was incorporated under the laws of the Republic of China (the “ROC”) in July 1978.

The Company's main business is manufacturing and trading various prestressed concrete pipes, straight steel pipes, propelling steel pipes, ductile iron pipes, cement products, spare parts, assembling and embedding of various water pipes, spare parts, and precision chemical material manufacturing.

(2) The Company became an over-the-counter company on Taiwan Stock Exchange on 9 September 2002.

II. DATE AND PROCEDURES OF AUTHORIZATION OF FINANCIAL STATEMENTS FOR ISSUE

The financial statements of the Company for the years ended 31 December 2021 and 2020 were authorized for issue in accordance with a resolution of the Board of directors on 31 March 2022.

III. NEWLY ISSUED OR REVISED STANDARDS AND INTERPRETATIONS

1. Changes in accounting policies resulting from applying for the first time certain standards and amendments

The Company applied for the first time International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are recognized by Financial Supervisory Commission (“FSC”) and become effective for annual periods beginning on or after 1 January 2021. The application of these new standards and amendments had no material impact on the Company.

2. Standards or interpretations issued, revised or amended, by International Accounting Standards Board (“IASB”) which are endorsed by FSC, but not yet adopted by the Company as at the end of the reporting period are listed below.

| Items | New, Revised or Amended Standards and Interpretations | Effective Date issued by IASB |
|-------|---|-------------------------------|
| a | Narrow-scope amendments of IFRS, including Amendments to IFRS 3, Amendments to IAS 16, Amendments to IAS 37 and the Annual Improvements | 1 January 2022 |

(a) Narrow-scope amendments of IFRS, including Amendments to IFRS 3, Amendments to IAS 16, Amendments to IAS 37 and the Annual Improvements:

A. Updating a Reference to the Conceptual Framework (Amendments to IFRS 3)

The amendments updated IFRS 3 by replacing a reference to an old version of the Conceptual Framework for Financial Reporting with a reference to the latest version, which was issued in March 2018. The amendments also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential “day 2” gains or losses arising for liabilities and contingent liabilities. Besides, the amendments clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Conceptual Framework.

B. Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)

The amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.

C. Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments clarify what costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous.

D. Annual Improvements to IFRS Standards 2018 - 2020

Amendment to IFRS 1

The amendment simplifies the application of IFRS 1 by a subsidiary that becomes a first-time adopter after its parent in relation to the measurement of cumulative translation differences.

Amendment to IFRS 9 Financial Instruments

The amendment clarifies the fees a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

Amendment to Illustrative Examples Accompanying IFRS 16 Leases

The amendment to Illustrative Example 13 accompanying IFRS 16 modifies the treatment of lease incentives relating to lessee’s leasehold improvements.

Amendment to IAS 41

The amendment removes a requirement to exclude cash flows from taxation when measuring fair value thereby aligning the fair value measurement requirements in IAS 41 with those in other IFRS Standards.

The abovementioned standards and interpretations were issued by IASB and endorsed by FSC so that are applicable for annual periods beginning on or after 1 January 2022 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 are listed below.

| Items | New, Revised or Amended Standards and Interpretations | Effective Date issued by IASB |
|-------|--|-------------------------------|
| a | 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 |
| b | IFRS 17 “Insurance Contracts” | 1 January 2023 |
| c | Classification of Liabilities as Current or Non-current – Amendments to IAS 1 | 1 January 2023 |
| d | Disclosure Initiative - Accounting Policies – Amendments to IAS 1 | 1 January 2023 |
| e | Definition of Accounting Estimates – Amendments to IAS 8 | 1 January 2023 |
| f | Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12 | 1 January 2023 |

- (a) 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

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 associate 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 loss 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.

(b) 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 company of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. The carrying amount of a company 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 it was amended in June 2020 and 2021. The amendments include deferral of the date of initial application of IFRS 17 by two years to annual beginning on or after 1 January 2023 (from the original effective date of 1 January 2021); provide additional transition reliefs; simplify 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 on or after 1 January 2023.

(c) 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.

(d) Disclosure Initiative - Accounting Policies – Amendments to IAS 1

The amendments improve accounting policy disclosures that to provide more useful information to investors and other primary users of the financial statements.

(e) Definition of Accounting Estimates – Amendments to IAS 8

The amendments introduce the definition of accounting estimates and included other amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to help companies distinguish changes in accounting estimates from changes in accounting policies.

(f) Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

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 taxable and deductible temporary differences.

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. As the Company is still currently determining the potential impact of the standards and interpretations listed under, it is not practicable to estimate their impact on the Company at this point in time. The remaining new or amended standards and interpretations have no material impact on the Company.

IV. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Statement of compliance

The financial statements of the Company for the years ended 31 December 2021 and 2020 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers ("the Regulations").

2. Basis of preparation

The Company prepares individual financial reports in accordance with the standards for the preparation of financial reports for securities issuers. According to Article 21 of the Securities Issuer's Financial Report Preparation Standards, the current profit and loss and other comprehensive profit and loss of the individual financial report are the same as the current profit and loss and other comprehensive profit and loss in the financial report prepared on a consolidated basis attributable to the owners of the parent company. The equity of the owners of the financial report is the same as the equity attributable to the owners of the parent company in the financial report prepared on the basis of the merger. Therefore, investment subsidiaries are expressed in individual financial reports as "investments using the equity method", and necessary evaluation adjustments are made.

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

3. Foreign currency transactions

The Company’s financial statements are presented in NT\$, which is also the Company’s functional currency.

Transactions in foreign currencies are initially recorded by the Company 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:

- (a) 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.
- (b) Foreign currency items within the scope of IFRS 9 *Financial Instruments* are accounted for based on the accounting policy for financial instruments.
- (c) 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 NT\$ at the closing rate of exchange prevailing at the reporting 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 the 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 partial disposals are accounted for as disposals:

- (a) when the partial disposal involves the loss of control of a subsidiary that includes a foreign operation; and
- (b) when the retained interest after the partial disposal of an interest in a joint arrangement or a partial disposal of an interest in an associate that includes a foreign operation is a financial asset that includes a foreign operation.

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 non-controlling interests in that foreign operation. In partial disposal of an associate or joint arrangement 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:

- (a) The Company expects to realize the asset, or intends to sell or consume it, in its normal operating cycle
- (b) The Company holds the asset primarily for the purpose of trading
- (c) The Company expects to realize the asset within twelve months after the reporting period
- (d) 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 non-current.

A liability is classified as current when:

- (a) The Company expects to settle the liability in its normal operating cycle
- (b) The Company holds the liability primarily for the purpose of trading
- (c) The liability is due to be settled within twelve months after the reporting period
- (d) 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 comprise cash on hand, demand deposits and short-term, highly liquid time deposits (including ones that have maturity within 3 months) or investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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 instruments: 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 recognize 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:
 - (i) 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.
 - (ii) 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 balance sheet.

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 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 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 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 XII for further details on credit risk.

(3) Derecognition of financial assets

A financial asset is derecognized when:

- i. The rights to receive cash flows from the asset have expired
- ii. The Company has transferred the asset and substantially all the risks and rewards of the asset have been transferred
- iii. 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 equity

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.

Compound instruments

The Company evaluates the terms of the convertible bonds issued to determine whether it contains both a liability and an equity component. Furthermore, the Company assesses if the economic characteristics and risks of the put and call options contained in the convertible bonds are closely related to the economic characteristics and risk of the host contract before separating the equity element.

For the liability component excluding the derivatives, its fair value is determined based on the rate of interest applied at that time by the market to instruments of comparable credit status. The liability component is classified as a financial liability measured at amortized cost before the instrument is converted or settled.

For the embedded derivative that is not closely related to the host contract (for example, if the exercise price of the embedded call or put option is not approximately equal on each exercise date to the amortized cost of the host debt instrument), it is classified as a liability component and subsequently measured at fair value through profit or loss unless it qualifies for an equity component. The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. Its carrying amount is not remeasured in the subsequent accounting periods. If the convertible bond issued does not have an equity component, it is accounted for as a hybrid instrument in accordance with the requirements under IFRS 9 *Financial Instruments*.

Transaction costs are apportioned between the liability and equity components of the convertible bond based on the allocation of proceeds to the liability and equity components when the instruments are initially recognized.

On conversion of a convertible bond before maturity, the carrying amount of the liability component being the amortized cost at the date of conversion is transferred to equity.

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 instrument

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:

- (a) In the principal market for the asset or liability, or
- (b) 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. Inventories

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 - Purchase cost under weighted-average cost

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.

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.

10. Investments accounted for using the equity method

The Company's investment in subsidiaries is based on the Article 21 of the Securities Issuer's Financial Report Preparation Standards, expressed as "investments using the equity method" and made necessary evaluation adjustments to enable individual financial reporting of the current period's profit and loss and other comprehensive gains and losses. The current profit and loss and other comprehensive gains and losses in the financial report prepared on the basis of the merger are the same as the share of the owners of the parent company, and the owner's equity of the individual financial report is the same as the equity of the owners of the parent company in the financial report prepared on the basis of the merger. These adjustments are mainly due to the consideration of the treatment of the consolidated financial statements of the investment subsidiary in accordance with IFRS No. 10 "Consolidated Financial Statements" and the differences in the application of IFRS at different levels of reporting entities, and debits or credits to "adopt equity Subjects such as "Investment under the law", "Share of profits and losses of subsidiaries, affiliates and joint ventures using the equity method" or "Share of other comprehensive profits and losses of subsidiaries, affiliates and joint ventures using the equity method".

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 prorata 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 accounted for using the equity method. 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 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 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. Furthermore, if an investment in an associate becomes an investment in a joint venture, the entity continues to apply the equity method and does not remeasure the retained interest.

11. 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 recognizes 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:

| | |
|-------------------------|------------|
| Buildings | 3~55 years |
| Machinery and equipment | 2~20 years |
| Other equipment | 2~20 years |

An item of property, plant and equipment and 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.

12. 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, excluding capitalized development costs, 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.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is 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 is 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.

Computer software

The cost of computer software is amortized on a straight-line basis over the estimated useful life (3 to 10 years).

13. 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 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 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.

A cash generating unit, or groups of cash-generating units, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the cash generating unit (group of units), then to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

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

14. Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, 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.

15. 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 manufactures and sells merchandise. 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 are prestressed concrete pipes and ductile iron pipes etc. Revenue from sales is based on the price specified in the contract.

The credit period of the Company's merchandise sales transaction is usually set in accordance with the contract, most of the contracts recognize the accounts receivable when the control of goods is transferred and the unconditional right to receive the consideration is recognized. Such accounts receivable usually have a short period and has no significant financial components.

Construction contract

The Company is engaged in the contracting business of public works. Since the assets are controlled by the customer at the time of construction, the revenue is gradually recognized over time based on the proportion of the project cost incurred to date in the estimated total contract cost. The contract includes fixed and variable consideration. The customer pays a fixed amount of money according to the agreed schedule. Certain changes in consideration (such as fines and price adjustment subsidies calculated on the basis of the number of overdue days) are estimated at the most probable amount. The Company only recognizes income within the range where the accumulated income is highly likely to not undergo a major turnaround. If the amount of recognized income has not been requested, it is recognized as contract assets. When there is an unconditional right to the consideration, the contract assets are transferred to accounts receivable. However, there are some contracts, because part of the consideration is first charged to the customer when signing the contract.

The company assumes the obligation to provide labor services in the future, so it is recognized as a contract liability.

If it is impossible to reasonably measure the degree of completion of the performance obligations of the construction contract, the contract revenue is only recognized within the range of expected recoverable costs.

When the company expects that the unavoidable cost of fulfilling the obligations of an engineering contract exceeds the expected economic benefits from the contract, it shall recognize the liability provision for the onerous contract.

If the situation changes, the estimates of revenue, cost and completion level will be revised, and the resulting increase or decrease will be reflected in the profit and loss during the period when the management is aware of the change of the situation and make corrections.

16. 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.

17. Post-employment benefits

All regular employees of the Company are entitled to a pension plan that is 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 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 employees 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. Re-measurements, 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 or 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.

18. Share-based payment transactions

The cost of equity-settled transactions between the Company and its subsidiaries is recognized based on the fair value of the equity instruments granted. The fair value of the equity instruments is determined by using an appropriate pricing model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

19. Income taxes

Income tax expense (income) 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:

- i. 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
- ii. In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, 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:

- i. 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
- ii. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse 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 deferred tax 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 accordingly.

Deferred tax assets and deferred tax 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.

V. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's financial statements require management to make judgements, 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 assumption and estimate could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

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) Revenue recognition

The recognition of the company's construction contract profit and loss is based on the completion of the contract activities to recognize the contract revenue and contract costs respectively, and the completion degree is measured by the ratio of the contract costs incurred so far to the estimated total contract costs. The company considers the nature of each project, estimated construction period, project, construction process, construction method and estimated contract amount to estimate the total contract cost. Any changes in the above estimation basis may cause a significant adjustment of the estimated amount.

(2) Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques including the income approach (for example the discounted cash flows model) or market approach. Changes in assumptions about these factors could affect the reported fair value of the financial instruments. Please refer to Note XII for more details.

(3) Trade receivables—estimation of impairment loss

The Company estimates the impairment loss of trade 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 VI for more details.

(4) Inventory Valuation

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 VI for more details.

(5) Impairment of Non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on 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 less incremental costs that would be directly attributable to the disposal of the asset or cash generating unit. The value in use calculation is based on a discounted cash flow model. The cash flows projections are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. For further explanation, please refer to Note VI.

(6) 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 countries 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.

(7) Provision

Provision for litigation compensation is estimated by pending litigation that is likely to produce unfavorable results to the Company and the amount of loss can be reasonably estimated. However, due to the relatively high uncertainty of the litigation itself, the actual compensation amount or asset impairment caused by the impact of the final result may be materially different from the estimation.

VI. CONTENTS OF SIGNIFICANT ACCOUNTS

1. Cash and cash equivalents

| | 31 Dec. 2021 | 31 Dec. 2020 |
|----------------|------------------|-----------------|
| Cash on hand | \$2,196 | \$2,138 |
| Check Deposit | 166 | 1,197 |
| Saving Account | 207,028 | 92,112 |
| Total | \$209,390 | \$95,447 |

2. Financial assets at fair value through other comprehensive income

| | 31 Dec. 2021 | 31 Dec. 2020 |
|--|--------------|--------------|
| Equity instrument investments measured at fair value through other comprehensive income – Non-current: | | |
| Unlisted companies' stock | \$95,025 | \$95,025 |

The Company classified certain of its financial assets at fair value through other comprehensive income were not pledged.

For equity instrument investments measured at fair value through other comprehensive income, the Company did not recognize dividends for the years ended 31 December 2021 and 2020.

3. Financial assets measured at amortized cost

| | 31 Dec. 2021 | 31 Dec. 2020 |
|-------------------------------|------------------|------------------|
| Time Deposits | \$147,036 | \$131,279 |
| Saving Account-pledge account | 370,278 | 322,471 |
| Total | <u>\$517,314</u> | <u>\$453,750</u> |
| | | |
| Current | \$429,823 | \$374,045 |
| Non-current | 87,491 | 79,705 |
| Total | <u>\$517,314</u> | <u>\$453,750</u> |

The Company classified certain financial assets as financial assets measured at amortized cost.

Please refer to Note VI (19) for more details on loss allowance and Note VIII for more details on financial assets measured at amortized cost under pledge and Note XII for more details on credit risk.

4. Notes Receivables

| | 31 Dec. 2021 | 31 Dec. 2020 |
|---------------------------------------|-----------------|----------------|
| Notes receivables | \$20,653 | \$5,572 |
| Less: allowance for doubtful accounts | - | - |
| Total | <u>\$20,653</u> | <u>\$5,572</u> |

Notes receivables were not pledged.

The Company adopted IFRS 9 for impairment assessment . Please refer to Note VI (19) for more details on accumulated impairment and Note XII for details on credit risk.

5. Accounts Receivable and Long-term Receivable

| | 31 Dec. 2021 | 31 Dec. 2020 |
|--|--------------------|--------------------|
| Accounts Receivable | \$220,153 | \$196,599 |
| Long-term receivable (Note) | - | 426,943 |
| Less: allowance for doubtful accounts | (7,393) | (7,393) |
| Subtotal | <u>212,760</u> | <u>616,149</u> |
| Accounts receivable from related parties | 1,657,929 | 1,527,974 |
| Less: allowance for doubtful accounts | - | - |
| Subtotal | <u>1,657,929</u> | <u>1,527,974</u> |
| Total | <u>\$1,870,689</u> | <u>\$2,144,123</u> |
| | | |
| Current(Recognized as accounts receivable - net) | \$1,870,689 | \$1,717,180 |
| Non-current(Recognized as long term accounts receivable) | - | 426,943 |
| Total | <u>\$1,870,689</u> | <u>\$2,144,123</u> |

Please refer to Note VIII for more details on accounts receivable under pledge.

Accounts receivables are generally regulated by contracts. Account receivable amounted to NT\$1,878,082 thousand and NT\$2,151,516 thousand as at 31 December 2021 and 2020. Please refer to Note VI(19) for more details on impairment of accounts receivables for the years ended 31 December 2021 and 2020 and please refer to Note XII for credit risk disclosure.

(Note) the Company's long-term receivable As the Company settled the case of "New Construction of Hushan Water Purification Plant", with the proprietor, was transferred to other receivable. Please refer to Note IX(V).1 for more details.

6. Other Receivables

| | 31 Dec. 2021 | 31 Dec. 2020 |
|--|-------------------------|------------------------|
| Other receivables | \$419,365 | \$42,010 |
| Less: allowance for doubtful accounts | (37,696) | (38,504) |
| Subtotal | <u>381,669</u> | <u>3,506</u> |
| Other receivables from related parties | 32,051 | 24,851 |
| Less: allowance for doubtful accounts | - | - |
| Subtotal | <u>32,051</u> | <u>24,851</u> |
| Total | <u><u>\$413,720</u></u> | <u><u>\$28,357</u></u> |

Information on changes of loss allowance for other receivables for the years ended 31 December 2021 and 2020 are as follows:

| | Other Receivable |
|--------------------------------|------------------------|
| 1 Jan. 2021 | \$38,504 |
| Decrease in other receivable | (808) |
| Write-off due to uncollectible | - |
| 31 Dec. 2021 | <u><u>\$37,696</u></u> |
| | |
| 1 Jan. 2020 | \$38,504 |
| Increase in other receivable | - |
| Write-off due to uncollectible | - |
| 31 Dec. 2020 | <u><u>\$38,504</u></u> |

7. Inventories

| | 31 Dec. 2021 | 31 Dec. 2020 |
|------------------|-------------------------|-------------------------|
| Raw materials | \$66,863 | \$33,147 |
| Work in progress | 138,594 | 89,655 |
| Finished goods | 57,094 | 90,712 |
| Total | <u><u>\$262,551</u></u> | <u><u>\$213,514</u></u> |

The cost of inventories recognized in expenses amounted to NT\$588,320 thousand and NT\$473,241 thousand for the years ended 31 December 2021 and 2020, including the clearance of inventories in all aging intervals in 2021, resulting in a decrease in the amount of sluggish inventories set aside by the Company, thereby generating inventory reversal benefits of NT\$10,756 thousand and recognized inventory depreciation losses of NT\$4,567 thousand in 2020.

No inventories were pledged.

8. Other Current Asset and Other Non-current Assets

| | 31 Dec. 2021 | 31 Dec. 2020 |
|---------------------------|------------------|-----------------|
| Prepayments | \$27,817 | \$26,526 |
| Prepayments for equipment | 73,519 | 12,418 |
| Others | 12,863 | 11,361 |
| Total | \$114,199 | \$50,305 |
| | | |
| Current | \$40,680 | \$37,887 |
| Non-current | 73,519 | 12,418 |
| Total | \$114,199 | \$50,305 |

(1) Prepayments include prepayments for insurance and prepayments for various business expenses.

(2) Other advance payments are for construction consulting fees, temporary project miscellaneous expenses, and subcontracted projects disbursement, etc.

9. Investments Accounted For Under The Equity Method

The following table lists the investments accounted for using the equity method of the Company:

| Investees | 31 Dec. 2021 | | 31 Dec. 2020 | |
|---|--------------------|-------------------------|--------------------|-------------------------|
| | Carrying amount | Percentage of ownership | Carrying amount | Percentage of ownership |
| Investments in Associates | | | | |
| Kuo Toong International LLC. | \$599,482 | 100.00% | \$629,355 | 100.00% |
| Hsiyu Seawater Desalination Co., Ltd. | 43,787 | 100.00% | 13,318 | 100.00% |
| Jie Mao International Co., Ltd. | 53,278 | 100.00% | 84,987 | 100.00% |
| Jianyi Construction Co., Ltd. | 138,543 | 100.00% | 148,651 | 100.00% |
| Kuo Hsin Technology Co., Ltd. | 58,760 | 73.60% | 67,799 | 73.60% |
| Dinteng Co., Ltd. | 1,578,047 | 50.50% | 1,511,052 | 50.50% |
| Fujian Tai Ming Casting Pipes Technology Co, Ltd. | 323,802 | 43.57% | 499,566 | 43.57% |
| Marvel Line Co., Ltd. | 2,562 | 0.76% | 2,489 | 0.76% |
| Total | \$2,798,261 | | \$2,957,217 | |

(1) Hsiyu Seawater Desalination Co., Ltd. issued 2,900 thousand new shares with a cash capital increase on 31 March 2021. The company acquired 2,900 thousand shares at a price of 29,000 thousand. The shareholding ratio of Hsiyu Seawater Desalination Co., Ltd. remains unchanged.

(2) In July 2012, the company generated goodwill due to the acquisition of 100% equity of Jianyi Construction Co., Ltd., which was mainly derived from the expected merger synergy, revenue growth and future market development. No.36 stipulates that for business combination to obtain goodwill, at least an impairment test shall be conducted every year. When the impairment test is performed, the goodwill is related to the cash-generating unit of Jianyi Construction Co., Ltd. The impairment of goodwill is calculated by calculating the cash-generating unit. The recovery amount and the book value of the net assets are assessed whether impairment is required. As Jianyi Construction Co., Ltd. failed to obtain the project bid, the actual operating income growth was not as expected. Therefore, the company and the outsourced independent evaluation experts evaluated the recoverable amount of the cash-generating unit in the Republic of China in 2021 and 2020. It is less than the book amount, so the impairment loss of goodwill of NT\$0 thousand and NT\$34,021 thousand are recognized respectively.

(3) The above-mentioned subsidiaries will pay NT\$16,400 thousand and NT\$294 thousand in cash dividends to the company as of 31 December 2021 and 2020, respectively.

(4) For information on the company's consolidated subsidiaries, please also refer to the company's 2021 consolidated financial statements.

Investment subsidiaries

The investment of subsidiaries in individual financial reports is expressed as "investments using the equity method" and necessary evaluation adjustments are made.

10. Property, plant and equipment

| | 31 Dec. 2021 | 31 Dec. 2020 |
|--|------------------|------------------|
| Owner occupied property, plant and equipment | <u>\$316,052</u> | <u>\$354,577</u> |

Owner occupied property, plant and equipment

| | Land | Buildings | Machinery and equipment | Other Equipment | Construction in progress | Total |
|--|------------------|------------------|-------------------------------|--------------------|-----------------------------|--------------------|
| Cost: | | | | | | |
| 1 Jan. 2021 | \$106,322 | \$180,052 | \$835,030 | \$105,544 | \$4,687 | \$1,231,635 |
| Additions | - | 2,139 | 11,270 | 1,363 | - | 14,772 |
| Disposal | - | - | (30,917) | (1,687) | - | (32,604) |
| Other | - | - | 661 | - | - | 661 |
| 31 Dec. 2021 | \$106,322 | \$182,191 | \$816,044 | \$105,220 | \$4,687 | \$1,214,464 |
| 1 Jan. 2020 | | | | | | |
| 1 Jan. 2020 | \$106,322 | \$188,973 | \$794,285 | \$104,670 | \$6,894 | \$1,201,144 |
| Additions | - | 595 | 25,725 | 2,540 | 2,151 | 31,011 |
| Disposal | - | (9,836) | (15,591) | (1,666) | (18) | (27,111) |
| Other | - | 320 | 30,611 | - | (4,340) | 26,591 |
| 31 Dec. 2020 | \$106,322 | \$180,052 | \$835,030 | \$105,544 | \$4,687 | \$1,231,635 |
| Depreciation and impairment | | | | | | |
| 1 Jan. 2021 | \$- | \$117,201 | \$680,038 | \$79,819 | \$- | \$877,058 |
| Depreciation | - | 7,109 | 41,694 | 4,486 | - | 53,289 |
| Disposal | - | - | (30,248) | (1,687) | - | (31,935) |
| 31 Dec. 2021 | \$- | \$124,310 | \$691,484 | \$82,618 | \$- | \$898,412 |
| 1 Jan. 2020 | | | | | | |
| 1 Jan. 2020 | \$- | \$111,183 | \$657,419 | \$74,777 | \$- | \$843,379 |
| Depreciation | - | 7,766 | 35,706 | 4,294 | - | 47,766 |
| Impairment loss | - | - | - | 1,778 | - | 1,778 |
| Disposal | - | (1,748) | (13,087) | (1,030) | - | (15,865) |
| 31 Dec. 2020 | \$- | \$117,201 | \$680,038 | \$79,819 | \$- | \$877,058 |
| Net book value: | | | | | | |
| 31 Dec. 2021 | \$106,322 | \$57,881 | \$124,560 | \$22,602 | \$4,687 | \$316,052 |
| 31 Dec. 2020 | \$106,322 | \$62,851 | \$154,992 | \$25,725 | \$4,687 | \$354,577 |

Refer to Note VIII for details of guarantees for property, plant and equipment.

11. Short-term Loans

| | Interest rate range | 31 Dec. 2021 | 31 Dec. 2020 |
|-----------------|---------------------|------------------|--------------------|
| Secured loans | 1.73%~2.09% | \$798,560 | \$1,123,967 |
| Unsecured loans | 1.72%~2.00% | 95,781 | - |
| Total | | <u>\$894,341</u> | <u>\$1,123,967</u> |

Secured bank loans are pledged with asset mortgage. Please refer to Note VIII for the detail of the assets pledged as collateral.

12. Short-term notes payable

The Company's net short-term notes are as follows:

| | 31 Dec. 2021 | 31 Dec. 2020 |
|--|----------------|----------------|
| Commercial papers payable | \$10,000 | \$10,000 |
| Less: Discount of commercial paper payable | (42) | (24) |
| Total | <u>\$9,958</u> | <u>\$9,976</u> |

Please refer to Note VIII for more details on assets pledged as security for short-term notes payable.

13. Other Payable

| | 31 Dec. 2021 | 31 Dec. 2020 |
|---------------------------------|------------------|------------------|
| Salaries Payable | \$28,082 | \$27,190 |
| Other expenses payable | 63,808 | 45,599 |
| Equipment payments payable | 3,429 | 318 |
| Other payable – related parties | 8,894 | 8,894 |
| Other payable - others | <u>61,547</u> | <u>86,253</u> |
| Total | <u>\$165,760</u> | <u>\$168,254</u> |

14. Bonds payable

| | 31 Dec. 2021 | 31 Dec. 2020 |
|-----------------------------------|------------------|------------------|
| Secured and non-convertible bonds | \$250,000 | \$250,000 |
| Less: Discount of bonds payable | (49) | (245) |
| Net | <u>\$249,951</u> | <u>\$249,755</u> |
| Less: Current portion | <u>(249,951)</u> | - |
| Total | <u>\$-</u> | <u>\$249,755</u> |

(1) On 2 April 2019, the Company issued secured corporate bond amounted to NT\$250,000 thousand par rate of 0.78%. The issuance period is from 2 April 2019 to 3 April 2022.
(2) Please refer to Note VI(21) for the interests expenses on bonds payable.

15. Long-term Loans

Details are as follows:

| Creditors | 31 Dec. 2021 | Interest | Redemption |
|--------------------------------------|-------------------------|-------------|---|
| | | rate (Note) | |
| Export-Import Bank | \$23,317 | | From 31 October 2018 to 31 October 2022. |
| Secured Loan | | | The grace period is 18 months. The principal shall be repaid by amortization evenly every 6 months after the grace period, and interest is paid monthly. |
| Shanghai Commercial Bank | 14,000 | | From 20 December 2019 to 20 September 2023, repayment began on 20 January 2020 amortized and interest paid monthly. |
| Secured Loan | | | |
| Taiwan Cooperative Bank Secured Loan | 163,470 | | From 14 August 2020 to 14 August 2023, interest will be paid on a monthly basis and will be deducted at 30% of the actual remitted payment. The remaining balance will be repaid upon maturity in a lump sum. |
| FCB Leasing Co., Ltd. | 16,656 | | From 3 September 2020 to 3 August 2022, interest was paid on a monthly basis and principal was repaid at maturity. |
| Credit Loan | | | |
| Shanghai Commercial Bank | 34,000 | | From 22 March 2021 to 22 March 2026, repayment began on 22 April 2021, amortized and interest paid monthly. |
| Secured Loan | | | |
| Taichung Bank Leasing Co., Ltd. | 142,259 | | From 15 October 2021 to 15 March 2026, interest paid on a basis and will be deducted 40% of the actual remitted payment. The remaining balance will be repaid upon maturity in a lump sum. |
| Credit Loan | | | |
| Subtotal | 393,702 | | |
| Less: current portion | (55,973) | | |
| Total | <u><u>\$337,729</u></u> | | |

Note: Interest rate range is between 1.65%~4.50%.

| Creditors | 31 Dec. 2020 | Interest rate(Note) | Redemption |
|---|------------------|---------------------|---|
| Export-Import Bank Secured Loan | \$46,634 | | From 31 October 2018 to 31 October 2022. The grace period is 18 months. The principal shall be repaid by amortization evenly every 6 months after the grace period, and interest is paid monthly. |
| FCB Leasing Co., Ltd. Credit Loan | 20,827 | | From 6 June 2019 to 6 May 2021, interest was paid on a monthly basis and principal was repaid at maturity. |
| Taichung Bank Leasing Co., Ltd. Credit Loan | 2,869 | | From 9 August 2019 to 9 January 2021, repayment began on 9 August 2019, amortized and interest paid monthly. |
| Shanghai Commercial Bank Secured Loan | 22,000 | | From 20 December 2019 to 20 September 2023, repayment began on 20 January 2020, amortized and interest paid monthly. |
| Taiwan Cooperative Bank Secured Loan | 82,250 | | From 14 August 2020 to 14 August 2023, interest will be paid on a monthly basis and will be deducted at 30% of the actual remitted payment. The remaining balance will be repaid upon maturity in a lump sum. |
| FCB Leasing Co., Ltd. Credit Loan | 41,664 | | From 3 September 2020 to 3 August 2022, interest was paid on a monthly basis and principal was repaid at maturity. |
| Subtotal | 216,244 | | |
| Less: current portion | (80,021) | | |
| <u>Total</u> | <u>\$136,223</u> | | |

Note: Interest rate range is between 1.65%~4.5%.

Please refer to Note VIII for more details on long-term borrowings under pledge.

16. 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 31 December 2021 and 2020 are NT\$11,181 thousand and NT\$4,953 thousand, respectively.

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 2% ~ 3% 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. Before end of each year, the Company makes estimates of the balance in the designated labor pension fund. If the amount is inadequate to pay pensions calculated for workers retiring in the following year, the Company will make up the difference in one appropriation before the end of March of 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 regards 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 IAS 19. The Company expects to contribute NT\$886 thousand to its defined benefit plan during the 12 months beginning after 31 December 2021.

The defined benefit obligations were expected to mature in 2029 as of 31 December 2021 and 2020, respectively.

The following table summarizes the cost of the defined benefit plan recognized to profit and loss:

| | 2021 | 2020 |
|--|----------------|--------------|
| Current service costs | \$1,724 | \$764 |
| Net interest on the Net Defined Benefit Liability(Asset) | 126 | 145 |
| Total | \$1,850 | \$909 |

Reconciliations of liabilities (assets) of the defined benefit obligation and plan assets at fair value are as follows:

| | 31 Dec. 2021 | 31 Dec. 2020 | 1 Jan. 2020 |
|---------------------------------|-----------------|-----------------|-----------------|
| Defined benefit obligation | \$64,324 | \$78,732 | \$56,163 |
| Plan assets at fair value | (37,019) | (35,210) | (34,385) |
| Net defined benefit liabilities | <u>\$27,305</u> | <u>\$43,522</u> | <u>\$21,778</u> |

Reconciliation of liability (asset) of the defined benefit plan are as follows:

| | Defined benefit obligation | Plan assets at fair value | Net defined benefit liabilities (assets) |
|--|----------------------------|---------------------------|--|
| 1 Jan. 2020 | 56,163 | (34,385) | 21,778 |
| The Cost of Defined Benefit Plan recognized to Profit and Loss: | | | |
| Current service cost | 764 | - | 764 |
| Interest expense (income) | 381 | (236) | 145 |
| Subtotal | <u>57,308</u> | <u>(34,621)</u> | <u>22,687</u> |
| Remeasurements of the defined benefit liabilities/assets: | | | |
| Actuarial gains and losses arising from changes in financial assumptions | 2,902 | - | 2,902 |
| Experience adjustments | 30,161 | - | 30,161 |
| Remeasurements of the defined benefit assets | - | (1,212) | (1,212) |
| Subtotal | <u>33,063</u> | <u>(1,212)</u> | <u>31,851</u> |
| Payment of benefit obligation | <u>(11,639)</u> | <u>2,069</u> | <u>(9,570)</u> |
| Contributions by employer | - | (1,446) | (1,446) |
| 31 Dec. 2020 | \$78,732 | <u>\$35,210</u> | <u>\$43,522</u> |
| The cost of Defined Benefit Plan recognized to Profit and Loss: | | | |
| Current service costs | 1,724 | - | 1,724 |
| Interest expense (income) | 229 | (103) | 126 |
| Subtotal | <u>80,685</u> | <u>(35,313)</u> | <u>45,372</u> |
| Remeasurements of the net defined benefit liability/asset: | | | |
| Actuarial gains and losses arising from changes in financial assumptions | (1,047) | - | (1,047) |
| Experience adjustments | 3,046 | - | 3,046 |
| Remeasurements of the defined benefit assets | - | (548) | (548) |
| Subtotal | <u>1,999</u> | <u>(548)</u> | <u>1,451</u> |
| Payment of benefit obligation | <u>(18,360)</u> | <u>6,390</u> | <u>(11,970)</u> |
| Contributions by employer | - | (7,548) | (7,548) |
| 31 Dec. 2021 | <u>\$64,324</u> | <u>(\$37,019)</u> | <u>\$27,305</u> |

The principal assumptions used in determining the Company's defined benefit plan are shown below:

| | 31 Dec. 2021 | 31 Dec. 2020 |
|-----------------------------------|--------------|--------------|
| Discount rate | 0.47% | 0.29% |
| Expected rate of salary increases | 1.00% | 1.00% |

A sensitivity analysis for significant assumption as at 31 December 2021 and 2020 is, as shown below:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | Defined benefit obligations increase | Defined benefit obligations decrease | Defined benefit obligations increase | Defined benefit obligations decrease |
| Discount Rate increases by 0.25% | \$- | \$(1,421) | \$- | \$(1,736) |
| Discount Rate decreases by 0.25% | 1,472 | - | 1,798 | - |
| Rate of future salary increase by 0.25% | 1,439 | - | 1,757 | - |
| Rate of future salary decrease by 0.25% | - | (1,397) | - | (1,705) |

The sensitivity analysis above are based on a change in a significant assumption (for example: change in discount rate or future salary), keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

There was no change in the methods and assumptions used in preparing the sensitivity analysis compared to the previous period.

17. Equity

(1) Common stock

As at December 31 2021 and 2020, the Company's authorized common share capital totaled NT\$3,000,000 thousand, each at a par value of \$10 for 300,000 thousand shares. Both the issued share capital amounted to NT\$2,480,782 thousand, at a par value of \$10 per share, for 248,078 thousand shares. Each share has one voting right and the right to receive dividends.

The Company's board meeting held on 9 July 2020 has passed a resolution. According to Article 28-2 of the Securities and Exchange Act, the Company retired 1,146 thousand shares of treasury shares, and the amount of capital reduction was NT\$11,460 thousand, making 13 July 2020 the capital reduction base date for the retirement of treasury shares. This capital increase has been submitted to the Financial Supervisory Commission for approval and the change of registration has been completed.

(2) Capital surplus

| | 31 Dec. 2021 | 31 Dec. 2020 |
|---|--------------------|--------------------|
| Common stock | \$1,388,625 | \$1,388,625 |
| Unproportionally subscribed equity investment to adjust the capital reserve | 16,308 | 16,308 |
| Treasury stock transactions | 38,932 | 38,932 |
| Employee stock options | 24,113 | 24,113 |
| Invalidation of conversion rights of convertible corporate debt | 2,203 | 2,203 |
| Total | \$1,470,181 | \$1,470,181 |

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 in cash or in the form of dividend shares to its shareholders in proportion to the number of shares being held by each of them.

(3) Treasury stock

The Company's board meeting held on 19 March 2020 passed a resolution to repurchase treasury shares in accordance with Article 28-2 of the Securities Exchange Act to maintain the Company's credit and the shareholders' rights. As of 19 May 2020 (the expiry date of the repurchase period), 1,146 thousand treasury shares had been repurchased, totaling NT\$19,816 thousand, and the average repurchase price of NT\$17.31 per share.

The Company retired 1,146 thousand treasury shares on 13 July 2020, totaling NT\$19,816 thousand, including the retired capital of NT\$11,460 thousand and the issued share premium of NT\$8,356 thousand.

(4) Retained earnings and dividend policies

The Company's Articles of Incorporation provide that the current net income, after deducting the previous years' losses, shall set aside 10% as legal reserve and special reserve according to the company laws and other regulations of R.O.C., unless the legal reserve has reached the total capital of the Company. The retained earnings shall be provisioned or reversed in accordance with the law or the competent authority. If there is any surplus, together with the undistributed retained earnings over the past few years, the board of directors should come up with a retained earnings distribution plan and submit it to the shareholders meeting for resolution.

According to the R.O.C. Company Act, the Company's net income, after deducting previous years' losses, if any, is appropriated as legal reserve prior to any distribution until such reserve is equal to the Company's paid-in capital. The Company Act provides that where legal reserve may be distributed by issuing new shares or by cash, only the portion of legal reserve which exceeds 25% of the paid-in capital may be distributed.

When the Company distributes distributable earnings, it shall set aside to special reserve, an amount equal to "other net deductions from shareholders" equity for the current fiscal year, provided that if the Company has already set aside special reserve according to the requirements for the adoption of IFRS, it shall set aside supplemental special reserve based on the difference between the amount already set aside and other net deductions from shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed from the special reserve.

The FSC on 31 March 2021 issued Order No. Jin-Guan-Cheng-Fa-Zi-1090150022, which sets out the following provisions for compliance:

On a public company's first-time adoption of the TIFRS, 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 an equal amount of special reserve. Following a company's adoption of the TIFRS for the preparation of its financial reports, when distributing distributable earnings, it shall set aside to special reserve based on the difference between the amount already set aside and the total debit balance of other shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

For the first-time adoption of IFRS, the retained earnings set aside was both NT\$39,793 thousand as of 1 January 2021 and 2020. In addition, the Company did not use, dispose of or reclassify any related assets from 1 January to 31 December 2021 and 2020, therefore they did not reverse the retained earnings to undistributed retained earnings. As of 31 December 2021 and 2020, the amount of the first adoption of retained earnings were both NT\$39,793 thousand.

The Company's distribution of earnings and cash dividends per share in 2020 and 2019 were approved respectively through the shareholders' meeting on 22 July 2021 and 19 June 2020 as follows:

| | Appropriation of earnings | | Cash dividend per share | |
|-----------------|---------------------------|----------|-------------------------|------------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Legal reserve | \$9,959 | \$18,902 | | |
| Special reserve | (25,909) | 119,426 | | |
| Cash dividends | 62,020 | 57,322 | NT\$0.25/ per share | NT\$0.23/ per share |

The Company's distribution of earnings and cash dividends per share in 2021 was not proposed at the board meeting held on 31 March 2022.

Please refer to Note VI(20) for relevant information about estimation basis and recognized amounts for employees' compensation and remuneration to directors.

18. Operating revenues

| | 2021 | 2020 |
|-------------------------------|--------------------|--------------------|
| Revenue from client contracts | | |
| Sales - Merchandise | \$740,324 | \$693,604 |
| Sales - Construction | 1,404,074 | 705,835 |
| Sales- Rendering of Services | 202,248 | 689 |
| Total | <u>\$2,346,646</u> | <u>\$1,400,128</u> |

Analysis of revenue from contracts with customers during the year is as follows:

(1) Disaggregation of revenue

For the year ended 31 December 2021

| | Taiwan Operating Department |
|----------------------------------|--------------------------------|
| Pipe Fittings | \$740,324 |
| Public Work Construction Revenue | 1,404,074 |
| Service Revenue | 202,248 |
| Total | \$2,346,646 |

Timing of Revenue Recognition:

| | |
|--------------------------------------|--------------------|
| Goods Transferred at a point in Time | \$740,324 |
| Construction Transferred Over Time | 1,404,074 |
| Labor Transferred Over Time | 202,248 |
| Total | \$2,346,646 |

For the year ended 31 December 2020

| | Taiwan Operating Department |
|----------------------------------|--------------------------------|
| Pipe Fittings | \$693,604 |
| Public Work Construction Revenue | 705,835 |
| Service Revenue | 689 |
| Total | \$1,400,128 |

Timing of Revenue Recognition

| | |
|--------------------------------------|--------------------|
| Goods Transferred at a point in Time | \$693,604 |
| Construction Transferred Over Time | 705,835 |
| Labor Transferred Over Time | 689 |
| Total | \$1,400,128 |

(2) Contract balances

A. Contract assets – current

| | 31 Dec. 2021 | 31 Dec. 2020 | 1 Jan. 2020 |
|--------------------------|--------------|--------------|-------------|
| Public Work Construction | \$740,685 | \$698,377 | \$674,744 |

The engineering retention generated by the Company's operations is interest-free and will be recovered at the end of the individual construction contract retention period, which is the normal operating cycle of the Company, which usually exceeds one year. The retention receivables as of 31 December 2021, 31 December 2020, and 1 January 2020 amounted to NT\$77,572 thousand, NT\$44,140 thousand and NT\$30,917 thousand, respectively, classified as contract assets.

B. Contract liabilities - current

| | 31 Dec. 2021 | 31 Dec. 2020 | 1 Jan. 2020 |
|--------------------------|-----------------|------------------|------------------|
| Public Work Construction | \$17,010 | \$165,317 | \$222,603 |
| Advanced Receipts | 30,871 | 35,399 | 20,374 |
| Total | \$47,881 | \$200,716 | \$242,977 |

(3) The changes in contract assets and contract liabilities are mainly due to the difference between the time when the Company transfers goods or services to customers to meet the performance obligations and the time when the customers pay. There were no other major changes for the years ended 31 December 2021 and 2020.

19. Expected credit losses/(gains)

| | 2021 | 2020 |
|--|------------|------------------|
| Operating Expense- Expected credit losses(gains) | | |
| Contract assets | \$- | \$- |
| Notes Receivable | - | - |
| Accounts Receivable and Long-Term | - | (1,367) |
| Total | \$- | \$(1,367) |

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

The credit risk for measured at amortized cost is assessed as low (the same as the assessment result in the beginning of the period). Therefore, the loss allowance is measured at an amount equal to 12-month expected credit losses. As the Company transacts with are financial institutions with good credit, no allowance for losses has been provided in 2021 and 2020.

The Company measures the loss allowance of its Contract Assets and Trade Receivables (including note receivables and trade receivables) at an amount equal to lifetime expected credit losses. The Company considers that the credit loss is actually included in the impairment loss except for individual customers by counterparties' credit rating, by geographical region and by industry sector and its loss allowance is measured by using provision matrix, details are as follows:

(1) The total book value of the contract assets was NT\$740,685 thousand and NT\$698,377 thousand, and the amount of loss allowance measured by the expected credit loss rate of 0% was NT\$0 thousand.

(2) Accounts receivables are divided into groups based on factors such as the counterparty credit rating, region and industry. Provision matrix is used to measure the loss allowance. For counterparties facing financial difficulties, individual assessment are adopted for loss allowance. The relevant information is as follows:

As at 31 December 2021

| | Not yet due (Note) | Overdue | | | | Total |
|---------------------------------|-----------------------|------------|-------------|--------------|------------|--------------------|
| | | <=90 days | 91-180 days | 181-360 days | >=361 days | |
| Gross carrying amount | \$1,898,342 | \$- | \$- | \$- | \$7,393 | \$1,898,735 |
| Loss ratio | 0% | 0% | 0% | 0% | 100% | |
| Lifetime expected credit losses | - | - | - | - | 7,393 | 7,393 |
| Carrying amount | <u>\$1,898,342</u> | <u>\$-</u> | <u>\$-</u> | <u>\$-</u> | <u>\$-</u> | <u>\$1,891,342</u> |

Note: The Company's notes receivables are not overdue.

As at 31 December 2020

| | Not yet due (Note) | Overdue | | | | Total |
|---------------------------------|-----------------------|------------|--------------|--------------|------------|--------------------|
| | | <=90 days | 91-180 days | 181-360 days | >=361 days | |
| Gross carrying amount | \$2,149,311 | \$- | \$384 | \$- | \$7,393 | \$2,157,088 |
| Loss ratio | 0% | 0% | 0% | 0% | 100% | |
| Lifetime expected credit losses | - | - | - | - | 7,393 | 7,393 |
| Carrying amount | <u>\$2,149,311</u> | <u>\$-</u> | <u>\$384</u> | <u>\$-</u> | <u>\$-</u> | <u>\$2,149,695</u> |

Note: The Company's notes receivables are not overdue.

The movement in the provision for impairment of contract assets, note receivables, trade receivables and other receivables for the years ended 31 December 2021 and 2020 is as follows:

| | Contract Assets | Notes Receivables | Trade Receivables |
|--|-----------------|-------------------|-------------------|
| 1 Jan. 2021 | \$- | \$- | \$7,393 |
| Addition/(reversal) for the current period | - | - | - |
| 31 Dec. 2021 | \$- | \$- | \$7,393 |
| | | | |
| 1 Jan. 2020 | \$- | \$- | \$8,760 |
| Addition/(reversal) for the current period | - | - | (1,367) |
| 31 Dec. 2020 | \$- | \$- | \$7,393 |

20. Employee benefit, depreciation, and amortization expense are summarized as follows :

| | 2021 | | | 2020 | | |
|----------------------------|-----------------|--------------------|--------------|-----------------|--------------------|--------------|
| | Operating costs | Operating expenses | Total Amount | Operating costs | Operating expenses | Total Amount |
| Employee benefits expense | | | | | | |
| Salaries | \$132,244 | \$46,270 | \$178,514 | \$124,235 | \$36,632 | \$160,867 |
| Labor and health insurance | 12,094 | 2,670 | 14,764 | 10,439 | 2,465 | 12,904 |
| Pension | 10,728 | 2,303 | 13,031 | 3,385 | 2,117 | 5,502 |
| Remuneration of directors | - | 7,885 | 7,885 | - | 2,687 | 2,687 |
| Other personnel expenses | 6,711 | 1,833 | 8,544 | 5,023 | 1,051 | 6,074 |
| Depreciation | 49,604 | 3,685 | 53,289 | 41,725 | 6,041 | 47,766 |
| Amortization | 28 | 281 | 309 | 69 | 637 | 706 |

(1) The number of employees of the company as of 31 December 2021 and 2020 were 224 and 215, respectively; among whom the number of directors who did not serve as employees concurrently were 7 and 5, respectively.

(2) Companies whose stocks have been listed on the stock exchange or the OTC trading center should disclose the following information:

- A. The average employee benefit expense for the year was NT\$990 thousand. The average employee benefit cost of the previous year was NT\$883 thousand.
- B. The average employee salary cost of this year was NT\$ 823 thousand. The average employee salary cost of the previous year was NT\$ 766 thousand.
- C. The average employee salary cost adjustment changes decreased by 7.44%.
- D. The supervisor's remuneration for this year was NT\$0, and the supervisor's remuneration for the previous year is NT\$0. The Company has set up an audit committee to replace the supervisory function, so the amount was NT\$0.
- E. The Company's salary and remuneration policy (including directors, supervisors, managers and employees):

The remunerations of directors, general managers and deputy general managers are determined in accordance with the company's articles of association and regulations, and are reviewed by the Salary and Compensation Committee and approved by the board of directors.

The remuneration of the directors of the company is determined in accordance with the company's articles of association, and with reference to the company's overall operating performance, future risks and development trends of the industry, as well as the individual's performance achievement rate and contribution to the company, and reasonable remuneration is given. Relevant performance appraisal and reasonableness of remuneration have been reviewed by the Salary and Compensation Committee and the Board of Directors, and the remuneration system will be reviewed in a timely manner based on actual operating conditions and relevant laws and regulations.

Manager's remuneration includes salary and employee remuneration. According to the position held, the responsibilities assumed and the salary standard of the company's managers, the payment shall be reviewed by the Salary and Compensation Committee and approved by the board of directors.

Employees are paid according to the salary level of the position in the industry market, the scope of the position's rights and responsibilities, and the degree of contribution to the company's operating goals. The procedures for determining the remuneration, in addition to referring to the company's overall operating performance, and based on factors such as consumer price index, salary market conditions, company financial status and performance appraisal, provide reasonable remuneration.

According to the Articles of Incorporation, 2 % of profit of the current year is distributable as employees' compensation and no higher than 2% of profit of the current year is distributable as remuneration to directors and supervisors. However, the company's accumulated losses shall have been covered. 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.

Based on the profit level, the Company estimated the amounts of the employees' compensation and remuneration to directors and supervisors for year ended 31 December 2021 to be NT\$11,799 thousand and NT\$5,899 thousand, respectively, recognized as employee benefits expense. Based on the profit level the Company estimated the amounts of the employees' compensation and remuneration to directors and supervisors for the year ended 31 December 2020 amount to be NT\$2,735 thousand and NT\$1,367 thousand, respectively, recognized as employee benefits expense.

A resolution was approved at a Board of Directors meeting held on 31 March 2022 to distribute NT\$11,799 thousand and NT\$5,899 thousand in cash as employee's compensation and remuneration to directors and supervisors, respectively. There is no significant difference between the distributed employee bonuses and remuneration to directors and supervisors and the amount recognized as employee benefits expense in the financial statements of 2021.

No material differences exist between the estimated amounts and the actual distribution of the employee compensation and remuneration to directors and supervisors for the year ended 31 December 2020.

21. Non-operating income and expenses

(1) Other income

| | 2021 | 2020 |
|--------------------|-----------------|-----------------|
| Interest income | \$28,080 | \$24,610 |
| Other income-other | 17,964 | 3,248 |
| Total | \$46,044 | \$27,858 |

(2) Other gains and losses

| | 2021 | 2020 |
|---|--------------|------------------|
| Gain on disposal of property, plant and equipment | \$59 | \$6,014 |
| Foreign exchange losses, net | 9,260 | 24,962 |
| Impairment loss of property, plant and equipment | - | (35,799) |
| Others | (9,113) | (3,856) |
| Total | \$206 | \$(8,679) |

(3) Finance costs

| | 2021 | 2020 |
|-------------------|------------|------------|
| Interest expenses | \$(33,488) | \$(25,882) |

22. Components of other comprehensive income

For the year ended 31 December 2021

| | Arising during the period | Tax Benefit (Expense) | Net of Tax |
|---|---------------------------------|--------------------------|------------------|
| Items that will not be reclassified subsequently to profit or loss: | | | |
| Remeasurements of defined benefit pension plans | \$(1,451) | \$290 | \$(1,161) |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translation of foreign operations | (7,801) | - | (7,801) |
| Total other comprehensive income | \$(9,252) | \$290 | \$(8,962) |

For the year ended 31 December 2020

| | Arising during the period | Tax Benefit (Expense) | Net of Tax |
|--|---------------------------------|--------------------------|--------------|
| Items that will not be reclassified subsequently to profit or loss: | | | |
| Remeasurements of defined benefit pension plans | \$(31,851) | \$6,370 | \$(25,481) |
| Unrealized gains from equity investments measured at fair value through other comprehensive income | 6,683 | - | 6,683 |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translation of foreign operations | 19,226 | - | 19,226 |
| Total other comprehensive income | \$(5,942) | \$6,370 | \$428 |

23. Income tax

The major components of income tax expense (income) are as follows:

Income tax expense (income) recognized in profit or loss

| | 2021 | 2020 |
|--|------------------|-----------------|
| Current income tax expense: | | |
| Current income tax charge | \$125,313 | \$- |
| Adjustments in respect of current income tax of prior periods | (3,122) | 1,081 |
| Deferred tax expense (income): | | |
| Deferred tax expense relating to origination and reversal of temporary differences | 1,675 | 29,887 |
| Total income tax expense | <u>\$123,866</u> | <u>\$30,968</u> |

Income tax recognized in other comprehensive income

| | 2021 | 2020 |
|--|----------------|----------------|
| Deferred income tax expense (benefits): | | |
| Determine the benefit plan and then measure the number | \$(290) | \$6,370 |
| Income tax related to other comprehensive profit and loss components | <u>\$(290)</u> | <u>\$6,370</u> |

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

| | 2021 | 2020 |
|---|------------------|------------------|
| Accounting profit before tax from continuing operations | <u>\$572,233</u> | <u>\$156,039</u> |
| Tax amount calculated at the domestic tax rate applicable to income in relevant countries | \$114,446 | \$31,208 |
| Tax effect of revenues exempt from taxation | (8,573) | - |
| Tax effect of expenses not deductible for tax purposes | 95 | 18,388 |
| Tax effect of deferred tax assets/liabilities | 18,344 | (19,709) |
| Adjustments in respect of current income tax of prior periods | (3,122) | 1,081 |
| Undistributed retained earnings - Levy | <u>2,676</u> | - |
| Total income tax expense recognized in profit and loss | <u>\$123,866</u> | <u>\$30,968</u> |

The balance of deferred income tax assets (liabilities) related to the following items:

For the year ended 31 December 2021:

| | Recognized in | | | |
|---|---------------|---------------------------|---------------------|---------------------------|
| | Recognized | others | | |
| | Opening | in profit and | Comprehensive | Ending |
| | Balance | loss | profit and loss | balance |
| Temporary difference | | | | |
| Net defined benefit liabilities-non-current | \$8,705 | \$(3,534) | \$290 | \$5,461 |
| Inter-affiliated company transactions | 225 | 1,772 | - | 1,997 |
| Unrealized exchange losses (gains), net | (4,983) | 3,141 | - | (1,842) |
| Unrealized impairment losses | 11,895 | - | - | 11,895 |
| Land appreciation tax preparation | (13,383) | - | - | (13,383) |
| Investment under the equity method | (107,580) | - | - | (107,580) |
| Other | 14,521 | (3,054) | - | 11,467 |
| Deferred income tax benefits (expense) | | <u><u>\$(1,675)</u></u> | <u><u>\$290</u></u> | |
| Deferred income tax assets/(liabilities) net | | <u><u>\$(90,600)</u></u> | | <u><u>\$(91,985)</u></u> |
| The information expressed on the balance sheet is as follows: | | | | |
| Deferred tax assets | | <u><u>\$35,346</u></u> | | <u><u>\$30,820</u></u> |
| Deferred income tax liabilities | | <u><u>\$(125,946)</u></u> | | <u><u>\$(122,805)</u></u> |

For the year ended 31 December 2020:

| | Opening Balance | Recognized in in profit and loss | others | Comprehensive profit and loss | Ending difference |
|---|-----------------|--|--------|----------------------------------|----------------------|
| Temporary difference | | | | | |
| Net defined benefit liabilities-non-current | \$4,356 | \$(2,021) | | \$6,370 | \$8,705 |
| Inter-affiliated company transactions | 2,260 | (2,035) | | - | 225 |
| Unrealized exchange losses (gains), net | (1,306) | (3,677) | | - | (4,983) |
| Unrealized impairment loss | 11,540 | 355 | | - | 11,895 |
| Loss deduction | 24,616 | (24,616) | | - | - |
| Land appreciation tax preparation | (13,383) | - | | - | (13,383) |
| Investment under the equity method | (107,580) | - | | - | (107,580) |
| Other | 12,414 | 2,107 | | - | 14,521 |
| Deferred income tax benefits (expenses) | | <u>\$(29,887)</u> | | <u>\$6,370</u> | |
| Deferred income tax assets/(liabilities) net | | <u>\$67,083</u> | | | <u>\$(90,600)</u> |
| The information expressed on the balance sheet is as follows: | | | | | |
| Deferred tax assets | | <u>\$55,186</u> | | | <u>\$35,346</u> |
| Deferred income tax liabilities | | <u>\$(122,269)</u> | | | <u>\$(125,946)</u> |

The information on unused tax losses of the Company is summarized as follows:

| Year of occurrence | Tax losses for the period | Unused balance | | |
|--------------------|---------------------------|----------------|--------------|----------------------|
| | | 31 Dec. 2021 | 31 Dec. 2020 | Last deductible year |
| 2017 | 113,880 | \$- | \$113,880 | 2027 |

Unrecognized deferred income tax assets

As of 31 December 2021 and 2020, the total amount of unrecognized deferred income tax assets of the Company was NT\$0 thousand and NT\$22,776 thousand.

The assessment of income tax returns

As of 31 December 2021, the Company's income tax filings is as follows:

| The Company | The assessment of income tax returns 2019 |
|-------------|--|
|-------------|--|

24. Earnings per share

Basic earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible bonds payable) by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

| | 2021 | 2020 |
|--|-------------------------|-------------------------|
| (1) Basic earnings per share | | |
| Profit attributable to ordinary equity holders of the Company (in thousand NT\$) | <u><u>\$448,367</u></u> | <u><u>\$125,071</u></u> |
| Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands) | <u><u>248,078</u></u> | <u><u>248,510</u></u> |
| Basic earnings per share (NT\$) | <u><u>\$1.81</u></u> | <u><u>\$0.50</u></u> |
| (2) Diluted earnings per share | | |
| Profit attributable to ordinary equity holders of the Company (in thousand NT\$) | <u><u>\$448,367</u></u> | <u><u>\$125,071</u></u> |
| Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands) | 248,078 | 248,510 |
| Effect of dilution: | | |
| Employee bonus - stock (in thousands) | 554 | 117 |
| Weighted average number of ordinary shares outstanding after dilution (in thousands) | <u><u>248,632</u></u> | <u><u>248,627</u></u> |
| Diluted earnings per share (NT\$) | <u><u>\$1.80</u></u> | <u><u>\$0.50</u></u> |

During the reporting date and the date the financial statement was prepared, no other transactions affected the common shares and dilutive potential ordinary shares.

VII. RELATED PARTIES TRANSACTIONS

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

Name and nature of relationship of the related parties

| Name of the related parties | Nature of relationship of the related parties |
|--|---|
| Hsiyu Seawater Desalination Co., Ltd. | Associate |
| Kuo Yang Environment Technology Co., Ltd. | Associate |
| Kuo Hsin Technology Co., Ltd. | Associate |
| Jianyi Construction Co., Ltd. | Associate |
| Marvel Line Co., Ltd. | Associate |
| Kuo Chuang Engineering Co., Ltd. | Associate |
| Xiamen Kuo Hsin Century Technology Co., Ltd | Associate |
| Fujian Tai Ming Co, Ltd. Casting Pipes Technology Co., Ltd | Associate |
| Dinteng Co, Ltd. | Associate |
| Hong Ya Man | Director of the Company |
| Liang Jia Yuan | Director of the Company (Note1) |
| Ye Qin Zheng | President of the Company (Note2) |
| Du Guan zhen | Vice president of the Company |

Note1: Stepped down from the position of the Company's chairman in 30 June 2020.

Note2: Stepped down from the position of the Company's president in 14 June 2021.

Significant related party transactions

1. Sales

| | 2021 | 2020 |
|----------------------------------|-----------|-----------|
| Associates | | |
| Kuo Chuang Engineering Co., Ltd. | \$195,129 | \$319,396 |

Due to the different specifications of pipes and packaging materials, the sales prices sold by the company to related parties have no general transaction prices to compare, and the payment shall be collected as agreed in the sales contract.

2. Construction revenue

| | 2021 | 2020 |
|---|------------------|------------------|
| Associates | | |
| Kuo Yang Environment Technology Co., Ltd. | \$300,951 | \$314,606 |
| Others | 6,523 | 8,300 |
| Total | <u>\$307,474</u> | <u>\$322,906</u> |

The total contract price of the contract of the related party is based on the negotiation between the two parties, and the payment is requested according to the progress of the construction of the project, and the payment period for the related party is extended if necessary. In addition, the company's contract assets and contract liabilities arising from the contracting of projects to related parties are as follows:

| | Contract assets | | Contract liabilities | |
|---------------------|------------------------|----------------|------------------------|--------------------|
| | For the years ended 31 | | For the years ended 31 | |
| | December | December | December | December |
| | 2021 | 2020 | 2021 | 2020 |
| Associates | | | | |
| Kuo Yang | | | | |
| Environment | | | | |
| Technology Co., Ltd | \$18,043 | | \$486,836 | \$414,151 |
| Jianyi Construction | | | | |
| Co., Ltd. | - | 1,497 | 537,896 | 1,195,303 |
| Total | <u>\$18,043</u> | <u>\$1,497</u> | <u>\$1,024,732</u> | <u>\$1,609,454</u> |

3. Purchase

| | 2021 | 2020 |
|------------|----------------|----------------|
| Associates | | |
| Others | <u>\$3,869</u> | <u>\$3,451</u> |

As the company's purchases from related parties comprise different types of goods, there is no general transaction price for comparison. The payment period is about 60 to 90 days, which is equivalent to ordinary transactions.

4. Amounts owed by related parties

| | 31 Dec. 2021 | 31 Dec. 2020 |
|--|--------------------|--------------------|
| Associates | | |
| Kuo Yang Environment Technology Co., Ltd | \$1,584,660 | \$1,527,974 |
| Jianyi Construction Co., Ltd. | - | - |
| Kuo Chuang Engineering Co., Ltd. | 73,269 | - |
| Total | <u>\$1,657,929</u> | <u>\$1,527,974</u> |

As of 31 December 2021 and 31 December 2020, retention receivables amounted to NT\$0 thousand and NT\$1,497 thousand, recognized as contract assets.

5. Amounts owed to related parties

| | 31 Dec. 2021 | 31 Dec. 2020 |
|------------|---------------------|---------------------|
| Associates | | |
| Others | <u><u>\$737</u></u> | <u><u>\$931</u></u> |

6. Others

(1) Other receivables-related parties

| | 31 Dec. 2021 | 31 Dec. 2020 |
|---|------------------------|------------------------|
| Associates | | |
| Kuo Yang Environment Technology Co., Ltd.(Note) | \$27,459 | \$23,923 |
| Others | <u>4,592</u> | <u>928</u> |
| Total | <u><u>\$32,051</u></u> | <u><u>\$24,851</u></u> |

Note: The interest on accounts receivable from the company's subsidiary-Kuo Yang Environmental Technology Co., Ltd. is calculated based on the interest rate of the long-term borrowing from financial institutions by Kuo Yang Environmental Technology Co., Ltd. in 2021 and 2020. The interest income for the eight years was 27,459 thousand and 23,923 thousand, which are reported under other income.

(2) The amount of construction funds collected by the Company from the owner on behalf of its related parties is listed below:

| Account Listed Items | Categories of Related Parties | 31 Dec. 2021 | | 31 Dec. 2020 | |
|------------------------------------|----------------------------------|--------------|--------------|--------------|--------------|
| | | 31 Dec. 2021 | 31 Dec. 2020 | 31 Dec. 2021 | 31 Dec. 2020 |
| Other payable – related parties | Associate | \$8,894 | | \$8,894 | |
| Other current liabilities | Associate | 113,313 | | 113,313 | |

(3) For the years ended 31 December 2021 and 2020, the Company provided demand deposits of NT\$35,525 thousand and NT\$27,187 thousand for bank loans of subsidiaries to pledge to banks, respectively.

(4) As of 31 December 2021 and 2020, the subsidiary Xiamen Guoxin Century Technology Co., Ltd. provided fixed deposits of NT\$371,002 thousand and NT\$502,221 thousand to the bank for the company's bank loans.

(5) As of 31 December 2021 and 2020, the subsidiary Kuo Hsin Technology Co., Ltd. provided real estate, plant and equipment for the company's bank loans at NT\$ 75,019 thousand and NT\$ 80,257 thousand, respectively.

(6) As of 2021 and 2020, the Company borrowed money from financial institutions. In accordance with the requirements of part of the loan contract, the Company's key management staffs provided joint guarantees.

8. Key management personnel compensation

| | 2021 | 2020 |
|------------------------------|-----------------|-----------------|
| Short-term employee benefits | \$23,415 | \$22,041 |
| Post-employment benefits | 835 | 1,048 |
| Total | \$24,250 | \$23,089 |

VIII. ASSETS PLEDGED AS COLLATERAL

The Company has the following Assets pledged as Collateral:

| Items | Book Value | | Purpose of pledge |
|--|--------------------|--------------------|---|
| | 31 Dec. 2021 | 31 Dec. 2020 | |
| Financial assets measured at amortized costs - current | \$429,823 | \$374,034 | Short-term loans, short-term notes payable, Construction Performance, CPC credit sale collateral and guaranteed warranty |
| Financial assets measured at amortized costs – non-current | 87,491 | 79,705 | Penghu desalinated water contract performance guarantee, bonds payable, Construction Performance Guarantee, long-term borrowings and Litigation Liability Guarantee |
| xProperty, plant and equipment | 117,953 | 122,272 | Long-term borrowings, Short-term loans |
| Investments accounted for under the equity method | 677,660 | 775,141 | Bond, Long-term loans. |
| Total | \$1,312,927 | \$1,351,152 | |

IX. Significant contingencies and unrecognized contract

1. The guarantee notes deposit issued by the Company for related operating needs are as follows:

| | 31 Dec. 2021 | 31 Dec. 2020 |
|---|-----------------|-----------------|
| Performance Guarantee for Purchase Contract | \$2,950 | \$2,000 |
| Performance Guarantee for Sales Contract | 86,061 | 86,030 |
| Total | \$89,011 | \$88,030 |

2. The performance guarantee issued by the Bank due to the Company's contracting projects is as follows:

| | 31 Dec. 2021 | 31 Dec. 2020 |
|---|------------------|------------------|
| Guarantee of performance of the contracted work | \$590,762 | \$663,258 |
| Guarantee of performance in the contract of sales | 10,000 | 15,000 |
| Total | \$600,762 | \$678,258 |

3. Because of the issuance of the first domestic secured corporate bonds by the Company on 31 December 2021 and 2020, the bank provided guarantees with a credit line of NT\$251,950 thousand.

4. Joint Venture Contracts:

| Participants of the Joint Venture Contracts | Case | 31 Dec. 2021 | | 31 Dec. 2020 | |
|--|------|----------------------|---------------------|----------------------|---------------------|
| | | Contract Total Price | Contract Proportion | Contract Total Price | Contract Proportion |
| Sheng Ho Construction Co., Ltd. | A | \$158,095 | 20.00% | \$158,095 | 20.00% |
| Sheng Ho Construction Co., Ltd. | B | 158,055 | 20.00% | 158,055 | 20.00% |
| Sheng Ho Construction Co., Ltd. | C | 279,048 | 65.00% | 279,048 | 65.00% |
| China Engineering Co., Ltd. and Liming Engineering Consulting Co., Ltd. | D | 4,077,471 | 51.85% | 4,077,471 | 51.85% |
| Mountain Forestry and Water Environmental Engineering Co., Ltd And Chin Cheng Construction Co., Ltd. | E | 3,110,476 | 65.00% | - | - |
| Sheng Ho Construction Co., Ltd. | F | 379,638 | 30.00% | - | - |
| Total | | \$8,162,783 | | \$4,672,669 | |

5. Contingent Liabilities:

(1) The completion date of the " New Construction of Hushan Water Purification Plant" contracted by the Group was determined by the proprietor to be January 2017. The proprietor believes that the Group has been overdue for 640 days and plans to impose a fine of \$406,476 thousand. (The fine will be 20% of the total contract price if the delay exceeds the upper limit regulated in the construction contract). The Group was notified by the proprietor on 1 March 2017 that the Group will be suspended from bidding on the proprietor's projects for one year in accordance with the law. The Group appealed to the Public Construction Committee of the Executive Yuan in accordance with the law, however, it was dismissed by the Public Construction Committee of the Executive Yuan on 20 October 2017, and the proprietor has already put the group on the blacklist for one year (ending on 9 November 2018) in accordance with Article 101 of the Government Procurement Act.

The Group and the proprietor failed to reach a consensus after several mediations conducted by the Public Construction Committee of the Executive Yuan. The Group withdrew the mediation case for the overdue project in dispute on 2 November 2017, and filed a civil action to the Taichung District Court of Taiwan on 21 December 2017 and an administrative action to Taichung High Administrative Court on 22 December 2017. The Taichung High Administrative Court ruled that the construction period should be extended by 247 days on 20 June 2019, the overdue period of the project was 350 days, and dismissed the Group's suspension appeal. Although the suspension has been executed, the Group still appealed to the Supreme Administrative Court on 23 July 2019 for delays that cannot be attributed to the Group. The Supreme Administrative Court rejected the appeal on 31 August 2020, and the Group filed for retrial on 30 September 2019.

In addition, after the lawyers appointed by the Group reviewed the related construction period analysis data and the expert opinions, they believed that if the project was overdue due to additional water testing projects and insufficient water sources, the construction period should be extended for at least 640 days, 597 days, 51 days or other days, and the Group can also request a reduction in overdue fine, however the disputes are still pending final judgment. As the case is still pending trial, the Group assessed that the matters mentioned above should be extended for at least 536.9 days, and estimated that the initial possible overdue days was 60.1 days. Therefore, the Group estimated that the overdue project fine would be NT\$119,555 thousand. As at 31 December 2020, the proprietor intended to transfer the Group's accounts receivable of NT\$426,943 thousand as overdue fines based on the above-mentioned overdue project. All accounts receivables in the amount were transferred to long-term receivables. On October 18, 2021, the Taichung District Court of Taiwan ruled in the first instance that the proprietor shall pay the Group \$373,207 thousand plus interest, and the proprietor appealed against the judgment. On March 7, 2022, the Group reached a settlement agreement with the Owner after the Second Instance Judge of the Taichung Branch of the High Court of Taiwan communicated with both parties and the proprietor agreed to pay the Company \$381,105 thousand, and the remaining issues of the dispute claim was abandoned and no appeal was made. The difference between the estimated amount of the overdue fine and the project overdue fine was booked as a profit or loss for 2021.

(2) Donggang Township Office of Pingtung County filed a civil action to the Pingtung District Court of Taiwan on 20 May 2019 that the Company should return the land in Xinyuan Township, Pingtung County, and pay a total of \$9,069 thousand for the past five years prior to filing the action and pay NT\$154 thousand per month for rent losses starting from 16 April 2019. The Pingtung District Court of Taiwan ruled on 7 August 2020 that the Company should pay NT\$8,937 thousand for the past five years prior to the lawsuit and NT\$156 thousand per month for rent losses since 1 July 2020.

The Company entered into a settlement agreement with Donggang Township Office in Pingtung County on 16 September 2020, and withdrew the appeal. According to the settlement agreement, the Company should pay NT\$8,937 thousand for the rent losses in the past five years prior to the lawsuit, and the interest was calculated at 5% per annum until 31 August 2020 (of which NT\$7,227 thousand started from 12 June 2019, the remaining NT\$1,710 thousand started from 23 July 2020) will be paid monthly from September 2020 to December 2022. The aforesaid amount of compensation plus the first-instance litigation costs of NT\$1,842 thousand, totaling NT\$11,231 thousand, has been estimated and recorded.

(3) For the "New Construction Project of Magong Additional 4,000 ton Seawater Desalination Plant (Magong Second Desalination Plant Phase I)" contracted by the Company, the proprietor determined that the deadline for the performance of the contract was on 12 December 2019. The proprietor believed that the project has been overdue for 405 days, and the overdue fine is calculated based on the unfinished completion ratio of 25.73%. The proprietor intended to impose overdue fines on the Company for NT\$132,044 thousand. After evaluating the related documents and analyzing the legal opinions, the Company was in the view that the reasons for the delayed construction included the location change of the sea water intake station, the impact of amendments to regulations, and the impact of Covid-19 that prevents foreign technicians from entering the country. The Company will negotiate with the proprietor for the deadline extension of the contract performance period. In addition, the proprietor determined that the uncompleted proportion of the project on 12 December 2019 was 25.73%. According to the construction record of the Company, the actual uncompleted proportion should be 3.78%. The Company also agreed with the proprietor to review the uncompleted proportion.

To sum up, the Company assessed the possible overdue fines to be between NT\$10,310 thousand and NT\$25,617 thousand. Therefore, the contract price of the works was reduced NT\$25,617 thousand of overdue fines by the Company. As at 31 December 2021, the case is still under negotiation with the proprietor.

X. Significant Disaster Losses

None.

XI. Significant subsequent events

The " New Construction of Hushan Water Purification Plant " undertaken by the Group has reached a settlement agreement with the proprietor on 11 March 2022, please note IX 5 for details.

XII. Other

1. Categories of financial instruments

| <u>Financial Assets</u> | <u>31 Dec. 2021</u> | <u>31 Dec. 2020</u> |
|---|---------------------|---------------------|
| Financial assets at fair value through other comprehensive income | \$95,025 | \$95,025 |
| Financial assets measured at amortized cost: | | |
| Cash and cash equivalents (exclude cash on hand) | 207,194 | 93,309 |
| Financial assets measured at amortized cost | 517,314 | 453,750 |
| Notes receivables | 20,653 | 5,572 |
| Trade receivables (related parties included) | 1,870,689 | 1,717,180 |
| Other receivables (related parties included) | 413,720 | 28,357 |
| Construction refundable deposits | 69,254 | 58,855 |
| Refundable deposits | 18,290 | 16,128 |
| Long-term receivables | - | 426,943 |
| Subtotal | 3,117,114 | 2,800,094 |
| Total | \$3,212,139 | \$2,895,119 |

Financial Liabilities

| | <u>31 Dec. 2021</u> | <u>31 Dec. 2020</u> |
|---|---------------------------|---------------------------|
| Financial liabilities at amortized cost: | | |
| Short-term loans and notes payable | \$904,299 | \$1,133,943 |
| Payments payable (related parties included) | 666,712 | 662,050 |
| Bond payable | 249,951 | 249,755 |
| Long-term borrowings (current portion included) | 393,702 | 216,244 |
| Refundable deposits received | <u>17,600</u> | <u>25,179</u> |
| Total | <u>\$2,232,264</u> | <u>\$2,287,171</u> |

2. Financial risk management objectives and policies

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

The Company has established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant financial activities, due approval process by the board of directors and audit committee must be carried out 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 or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise currency risk, interest rate risk, and other price risk (such as equity instruments related risks).

In practice, it is rarely the case that a single risk variable will change independently from other risk variable, there is 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 is 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 of the end of the reporting period. The Company's foreign currency risk is mainly affected by USD. Sensitivity analysis is as follows:

When NTD strengthens/weakens against USD by 1%, the profit for the years ended 31 December 2021 and 2020 decreases/increases by NT\$2,815 thousand and NT\$3,324 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 interest rate risk of the Company mainly comes from floating rate investment, fixed rate and floating rate borrowing. The Company maintains an appropriate combination of fixed and floating interest rates, supplemented by interest rate exchange contracts to manage interest rate risk, however, because it does not meet the requirements of hedge accounting, hence hedge accounting is not applied.

Sensitivity analysis of interest rate risk mainly focuses on interest rate exposure items at the end of the financial reporting period, including floating rate investments, floating rate borrowings, and interest rate exchange contracts. It is assumed to be held for an accounting year when interest rates rise or fall by ten basis points, the profit and loss of the Company in 2021 and 2020 will increase or decrease by NT\$556 thousand and NT\$793 thousand respectively.

Equity price risk

The Company's unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Company's listed equity securities are classified under held for trading financial assets or available-for-sale financial assets, while unlisted equity securities are classified as available-for-sale. The Company manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Company's senior management on a regular basis. The Company's board of directors reviews and approves all equity investment decisions.

Please refer to Note XII (8) for sensitivity analysis information of other equity instruments or derivatives that are linked to such equity instruments whose fair value measurement is categorized under Level 3.

4. Credit risk management

Credit risk is the risk that a 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.

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

As of 31 December 2021 and 2020, accounts receivables from top ten customers both represented 100% of the total accounts receivables of the Company, 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 and with no significant default risk. Consequently, there is no significant credit risk for these counterparties.

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, highly liquid equity investments, bank borrowings and convertible bonds. 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 liabilities

| | Less than 6 months | 6-12 months | 1-2 years | 2-5 years | > 5 years | Total |
|------------------------------|-----------------------|----------------|-----------|-----------|-----------|-------------|
| 31 Dec.2021 | | | | | | |
| Loans | \$130,383 | \$834,336 | \$182,699 | \$9,816 | \$9,636 | \$1,166,870 |
| Notes and accounts payable | 458,267 | 14,049 | 13,354 | 15,282 | - | 500,952 |
| Other payables | 165,760 | - | - | - | - | 165,760 |
| Bonds payable | 251,950 | - | - | - | - | 251,950 |
| Refundable deposits received | 12,784 | 898 | 1,703 | 2,215 | - | 17,600 |

| | Less than 6 months | 6-12 months | 1-2 years | 2-5 years | > 5 years | Total |
|------------------------------|-----------------------|----------------|-----------|-----------|-----------|-------------|
| 31 Dec.2020 | | | | | | |
| Loans | \$359,355 | \$871,289 | \$31,317 | \$88,250 | \$- | \$1,350,211 |
| Notes and accounts payable | 453,746 | 26,272 | 8,473 | 5,305 | - | 493,796 |
| Other payables | 162,594 | 2,085 | 3,575 | - | - | 168,254 |
| Bonds payable | - | 1,950 | 251,950 | - | - | 253,900 |
| Refundable deposits received | 14,774 | 969 | 4,251 | 5,185 | - | 25,179 |

6. Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities for the year ended 31 December 2021:

| | Long-term borrowings | | | | | |
|---------------------|-------------------------|------------------|----------------------------------|------------------|------------------|----------------------|
| | Short-term | | (current portion included) | | Refundable | |
| | Short-term Loans | notes payable | | | Bonds payable | deposits received |
| | | | | | | Total |
| 1 Jan. 2021 | \$1,123,967 | \$9,976 | \$216,244 | \$249,755 | \$25,719 | \$1,625,121 |
| Cash flows | (218,848) | (18) | 185,199 | - | (7,579) | (41,246) |
| Non-cash changes | (1,245) | - | (7,741) | 196 | - | (8,790) |
| Exchange difference | (9,533) | - | - | - | - | (9,533) |
| 31 Dec. 2021 | <u>\$894,341</u> | <u>\$9,958</u> | <u>\$393,702</u> | <u>\$249,951</u> | <u>\$17,600</u> | <u>\$1,565,552</u> |

Reconciliation of liabilities for the year ended 31 December 2020:

| | Long-term borrowings | | | | | Refundable deposits | Total |
|---------------------|-------------------------|------------------|----------------------------------|------------------|-----------------|------------------------|-------|
| | Short-term | | (current portion included) | Bonds payable | | | |
| | Short-term Loans | notes payable | | | | | |
| 1 Jan. 2020 | \$956,135 | \$9,997 | \$250,784 | \$249,559 | \$25,938 | \$1,492,413 | |
| Cash flows | 192,302 | (24) | (34,540) | - | (759) | 156,979 | |
| Non-cash changes | - | 3 | - | 196 | - | 199 | |
| Exchange difference | (24,470) | - | - | - | - | (24,470) | |
| 31 Dec. 2020 | <u>\$1,123,967</u> | <u>\$9,976</u> | <u>\$216,244</u> | <u>\$249,755</u> | <u>\$25,179</u> | <u>\$1,625,121</u> | |

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, trade receivables, accounts payable, deposit received 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, etc.) at the reporting date.
- C. Fair value of equity instruments without market quotations (including 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. Fair value of debt instruments without market quotations, bank loans, bonds payable 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 GreTai Securities Market, 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 book value of the financial assets and financial liabilities measured at amortized cost by the Company approximated their fair value.

(3) Fair value measurement hierarchy for financial instruments

Please refer to Note XII(8) for fair value measurement hierarchy for financial instruments of the Company.

8. Fair value measurement hierarchy

(1) Fair value measurement hierarchy

All asset 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 a non-recurring basis. Fair value measurement hierarchy of the Company's assets and liabilities measured at fair value on a recurring basis is as follows:

As at 31 December 2021

| | Level 1 | Level 2 | Level 3 | Total |
|---|---------|---------|----------|----------|
| Assets at fair value through other comprehensive income | | | | |
| Financial assets at fair value through other comprehensive income | \$- | \$- | \$95,025 | \$95,025 |

As at 31 December 2020

| | Level 1 | Level 2 | Level 3 | Total |
|---|---------|---------|----------|----------|
| Assets at fair value through other comprehensive income | | | | |
| Financial assets at fair value through other comprehensive income | \$- | | \$95,025 | \$95,025 |

Transfers between Level 1 and Level 2 during the period

For the years ended 31 December 2021 and 2020, there were no transfers between Level 1 and Level 2 fair value measurements.

Changes in Level 3 of the recurring fair value hierarchy

If the assets and liabilities measured by the recurring fair value of the Company belong to deemed at level 3 of the fair value hierarchy, the adjustment of the balance from the beginning to the end is listed as follows:

| | Assets |
|--|----------|
| At fair value through other comprehensive income | |
| Stock | |
| 1 Jan. 2021 | \$95,025 |
| Total gains and losses recognized | |
| Amount recognized in OCI | - |
| 31 Dec. 2021 | \$95,025 |

| | Assets |
|--|----------|
| At fair value through other comprehensive income | |
| Stock | |
| 1 Jan. 2020 | \$88,342 |
| Total gains and losses recognized | |
| Amount recognized in OCI | 6,683 |
| 31 Dec. 2020 | \$95,025 |

Information on significant unobservable inputs to valuation

Description of significant unobservable inputs to valuation of recurring fair value measurements categorized within Level 3 of the fair value hierarchy is as follows:

31 December 2021

| | Significant | | Relationship | |
|---|----------------------------------|------------------------------------|--------------------------|---|
| | Valuation techniques | unobservable inputs | Quantitative information | between inputs and fair value |
| Financial assets: | | | | |
| Measured at fair value through other comprehensive income | | | | |
| Stocks | Comparable Public Company Method | Discount for lack of marketability | 15% | The higher the lack of marketability, the lower the fair value estimation When the percentage of lack of marketability increases (decreases) by 2%, the equity of the group will decrease/increase by NT\$2,549 thousand |

31 December 2020

| | Significant | | Relationship | |
|---|----------------------------------|------------------------------------|--------------------------|---|
| | Valuation techniques | unobservable inputs | Quantitative information | between inputs and fair value |
| Financial assets: | | | | |
| Measured at fair value through other comprehensive income | | | | |
| Stocks | Comparable Public Company Method | Discount for lack of marketability | 15% | The higher the lack of marketability, the lower the fair value estimation When the percentage of lack of marketability increases (decreases) by 2%, the equity of the group will decrease/increase by NT\$2,236 thousand |

Valuation process of Level 3 fair value measurement

The Company's financial accounting department is responsible for fair value verification, using independent sources of information to bring the valuation results closer to the market, confirming that the source of the information is independent, reliable, consistent with other resources, and representing executable prices. In accordance with the Company's accounting policies on each reporting day, the changes in the value of assets and liabilities that need to be remeasured or reassessed should be analyzed to ensure that the valuation results are reasonable.

(1) Fair value measurement hierarchy of the Company's assets not measured at fair value but for which the fair value is disclosed

31 December 2021

| | Level 1 | Level 2 | Level 3 | Total |
|--|---------|---------|-------------|-------------|
| Financial assets not measured at fair value but for which the fair value is disclosed: | | | | |
| Investments accounted for under the equity method | \$- | \$- | \$2,798,261 | \$2,798,261 |

31 December 2020

| | Level 1 | Level 2 | Level 3 | Total |
|--|---------|---------|-------------|-------------|
| Financial assets not measured at fair value but for which the fair value is disclosed: | | | | |
| Investments accounted for under the equity method | \$- | \$- | \$2,957,217 | \$2,957,217 |

9. Significant assets and liabilities denominated in foreign currencies

Information regarding the significant assets and liabilities denominated in foreign currencies is listed below:

| | 31 December, 2021 | | | 31 December, 2020 | | |
|------------------------------|--------------------|-----------------------|----------|--------------------|-----------------------|---------|
| | Foreign currencies | Foreign exchange rate | NTD | Foreign currencies | Foreign exchange rate | NTD |
| <u>Financial assets</u> | | | | | | |
| Monetary items: | | | | | | |
| USD | \$1,813 | 27.63 | \$50,093 | \$67 | 28.43 | \$1,923 |
| <u>Financial liabilities</u> | | | | | | |
| Monetary items: | | | | | | |
| USD | 12,000 | 27.63 | 331,560 | 11,760 | 28.43 | 334,337 |

The above information is disclosed based on the carrying amount of foreign currency (after conversion to functional currency).

The Company has various functional currencies, no information about the foreign exchange gains or losses by a specific currency is available. For the years ended 31 December 2021 and 2020, the foreign exchange gains or losses on monetary financial assets and financial liabilities amounted to NT\$9,260 thousand, NT\$24,962 thousand, respectively.

10. 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.

11. Others

Additionally, in order to compare the financial statements, some items of the previously prepared financial statements have been reclassified.

XIII. ADDITIONAL DISCLOSURES

1. The following are additional disclosures for the Company and its affiliates as required by the R.O.C. Securities and Futures Bureau:
 - (1) Financing provided to others for the year ended 31 December 2021: Please refer to Attachment 1.
 - (2) Endorsement/Guarantee provided to others for the year ended 31 December 2021: Please refer to Attachment 2.
 - (3) Securities held as of December 31, 2021 (excluding subsidiaries, associates and joint venture): Please refer to Attachment 3.
 - (4) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20 percent of the capital stock for the year ended 31 December 2021: None.
 - (5) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20 percent of the capital stock for the year ended 31 December 2021: None.
 - (6) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20 percent of the capital stock for the year ended 31 December 2021: None.
 - (7) Related party transactions for purchases and sales amounts exceeding the lower of NT\$100 million or 20 percent of the capital stock for the year ended 31 December 2021: Please refer to Attachment 4.
 - (8) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20 percent of capital stock as of 31 December 2021: Please refer to Attachment 5.
 - (9) Name of the Investee Company, location, etc. (Do not include investees in China): Details in Attachment 6.
 - (10) Financial instruments and derivative transactions: None.

2. Information in Mainland China:

- (1) Investee company name, main businesses and products, total amount of capital, method of investment, accumulated inflow and outflow of investments from Taiwan, net income (loss) of investee company, percentage of ownership, investment income (loss), carrying amount of investments, cumulated inward remittance of earnings and limits on investment in Mainland China: Please refer to Attachment 7.
- (2) Directly or indirectly significant transactions through third regions with the investees in Mainland China, including price, payment terms, unrealized gain or loss, and other events with significant effects on the operating results and financial condition: None.

3. Main Stockholders' Information:

Main stockholders' name, shares holding amount and proportion: None.

XIV. SEGMENT INFORMATION

The Company is exempted from preparing segment information in accordance with Article 22 of the Guidelines for the Preparation of Financial Reports for Securities Issuers, and has disclosed the operating segment information in the consolidated financial report.

Attachment 1: Financing provided to others

| No. (Note 1) | Lender | Counterparty | Financial statement account | Related Party | Maximum balance for the period (Note 7) | Ending balance | Actual amount provided | Interest rate | Nature of financing (Note 4) | Amount of sales to (purchases from) Counterparty (Note 5) | Reason for short-term financing (Note 6) | Allowance for doubtful accounts | Collateral | | Limit of financing amount for individual counterparty (Note 2) | Limit of total financing amount (Note 3) |
|-----------------|-----------------------|--|-----------------------------|---------------|--|---------------------------|---------------------------|---------------|---------------------------------|--|---|---------------------------------|------------|-------|---|---|
| | | | | | | | | | | | | | Item | Value | | |
| 1 | Marvel Line Co., Ltd. | Xiamen Kuo Hsin Century Technology Co., Ltd. | Other receivables | Yes | \$248,463 (CNY 57,000) | \$246,183 (CNY 57,000) | \$246,183 (CNY 57,000) | 4.25% | 2 | \$- | Need for operating | \$- | - | \$- | \$249,638 | \$249,638 |

(Note 1) The financial information of the parent company and its subsidiaries are coded as follows:

- (1) The parent company is coded "0".
- (2) The subsidiaries are coded consecutively beginning from "1" in the order presented in the table above.

(Note 2) Limit of financing amount for individual counterparty:

- (1) Limit of financing amount for individual counterparty shall not exceed 40% of the net asset value and shall not exceed the amount of business transactions. The amount of business transactions is the amount of business transaction in recent 1 year between lender and the counterparty.
- (2) Necessary for operating: financing amount to individual counterparty shall not exceed 40% of the net asset value.

(Note 3) Limit of total financing amount shall not exceed 40% of the Company's net asset value.

(Note 4) The financing provided to others are coded as follows:

- (1) Business contacts is coded "1".
- (2) Short-term financing is coded "2".

(Note 5) If financing provided to others is coded "1", the amount of business transactions should be filled in. The amount of business transactions is the amount of business transaction in recent 1 year between lender and the counterparty.

(Note 6) If financing provided to others is coded "2". The reasons for the necessary loans and funds and the use of the loans and objects should be specified, such as refunding, purchasing equipments, need for operating, etc.

(Note 7) The balance of which is at its maximum balance of financing provided to others in the current year.

(Note 8) The New Taiwan Dollars in this table are listed in the exchange rate of 4.319 as of the end of December 2021 announced by the company.

Attachment 2: Endorsement/Guarantee provided to others

| No. (Note1) | Endorsor/ Guarantor | Receiving party | | Limit of guarantee/ endorsement amount for receiving party | Maximum balance for the period (Note13) | Ending balance (Note14) | Actual amount provided (Note15) | Amount of collateral guarantee/ endorsement | Percentage of accumulated guarantee amount to net assets value from the latest financial statement | Limit of total guarantee/ endorsement amount | Parent company's guarantee/ endorsement amount to subsidiaries | Subsidiaries' guarantee/ endorsement amount to parent company | Guarantee/ endorsement amount to company in Mainland China |
|----------------|--|--|--|--|--|-------------------------------|--|--|---|---|---|--|---|
| | | Company Name | Releationship | | | | | | | | | | |
| 0 | The Company | Hsiyu Seawater Desalination Co., Ltd. | Kuo Toong Holding Corporation | \$7,442,346 (Note 4) | \$125,000 | \$125,000 | \$85,000 | None | 2.60% | \$12,403,908 (Note 4) | Y | N | N |
| 0 | The Company | Kuo Yang Environment Technology Co., Ltd. | Kuo Toong Holding Corporation | 7,442,346 (Note 4) | 1,357,300 | 1,307,300 | 1,169,946 | None | 27.23% | 12,403,908 (Note 4) | Y | N | N |
| 0 | The Company | Fujian Taiming Casting Pipe Technology Co., Ltd. | Kuo Toong Holding Corporation | 3,360,723 (Note 2) | 1,583,652 | 1,547,889 | 1,316,006 | 35,525 | 32.24% | 4,560,981 (Note 3) | Y | N | Y |
| 1 | Xiamen Kuo Hsin Century Technology Co., Ltd. | The Company | Ultimate parent company of Xiamen Kuo Hsin | 1,065,291 (Note 5) | 512,730 | 497,340 | 331,560 | 371,002 | 158.66% | 1,420,388 (Note 6) | N | Y | N |
| 1 | Xiamen Kuo Hsin Century Technology Co., Ltd. | Fujian Taiming Casting Pipe Technology Co., Ltd. | Company with business relationships | 258,587 (CNY59,872) (Note 7) | 167,386 | 165,850 | 165,850 | 165,850 | 52.91% | 313,464 (Note8) | N | N | Y |
| 2 | Kuo Chuang Engineering Co., Ltd. | Hsiyu Seawater Desalination Co., Ltd. | Controlled by ultimate parent company | 180,000 (Note 11) | 15,000 | - | - | - | - | 300,000 (Note 12) | N | N | N |
| 3 | Kuo Hsin Technology Co., Ltd. | The Company | Parent Company of Kuo Hsin | 215,000 (Note 9) | 110,000 | 110,000 | 77,000 | 75,019 | 137.78% | 430,000 (Note 10) | N | Y | N |
| 4 | Dinteng Co., Ltd. | Kuo Yang Environment Technology Co., | Parent Company of Dinteng | 4,883,225 (Note 11) | 1,147,300 | 1,147,300 | 1,035,170 | None | 36.59% | 8,138,709 (Note 12) | Y | N | N |

(Note 1) The Company and its subsidiaries are coded as follows:

(1) The Company is coded "0".

(2) The subsidiaries are coded consecutively beginning from "1" in the order presented in the table above.

(Note 2) Shall not exceed 70% of net asset value of the Company.

(Note 3) Shall not exceed 95% of net asset value of the Company.

(Note 4) The limit of endorsement guarantee for the implementation of the "Promotion of Private Participation in Public Construction Law" for engineering projects is limited to not more than five times the company's paid-in capital; in addition, for a single enterprise, it is limited to not more than three times the company's paid-in capital.

(Note 5) It shall not exceed 1.5 times the Endorsor/Guarantor's total assets.

(Note 6) Shall not exceed twice the Endorsor/Guarantor's total assets.

(Note 7) Shall not exceed the total amount of business transactions with the company making endorsement / guarantee in the last five years.

(Note 8) Shall not exceed 100% of net asset value of the Endorsor/Guarantor.

(Note 9) Shall not exceed 50% of pad capital of the Endorsor/Guarantor.

(Note 10) Shall not exceed 100% of pad capital of the Endorsor/Guarantor.

(Note 11) Shall not exceed three times net asset value of the Endorsor/Guarantor.

(Note 12) Shall not exceed five times net asset value of the Endorsor/Guarantor.

(Note 13) The balance of which is at its maximum balance of endorsement/guarantee provided to others in the current year.

(Note 14) The guarantee quota/amount the Company and its subsidiaries are approved by the board of directors to endorse for others.

(Note 15) The actual amount drawn by the endorsed guarantee company within the limit of the endorsed guarantee balance.

(Note 16) The exchange rate of RMB to New Taiwan dollars was 1: 4.319 based on the Company's announcement made at end of December 2021.

Attachment 3: Securities held as of 31 December 2021. (Excluding subsidiaries, associates and joint ventures)

| Holding Company | Type and name of securities(Note1) | Relationship | Financial statement account | As of 31 December 2021 | | | | Note |
|---------------------------------|--|--------------|--|------------------------|------------------------|-----------------------------|------------|-------------|
| | | | | Shares (thousand) | Book value (thousands) | Percentage of ownership (%) | Fair value | |
| The Company | Unisted stock- Harbin Kuo Toong Pipeline Co., Ltd. | NA | Financial assets measured at fair value through other comprehensive gains and losses - non-current | - | \$95,025 | 25.00% | \$95,025 | Not pledged |
| | Unisted (counter) stock- Shanghai Songjiang Huaqiao Modern Agriculture Co., Ltd. | NA | Financial assets measured at fair value through other comprehensive gains and losses - non-current | - | - | 10.42% | - | Not pledged |
| | Unisted (counter) stock- Jhihben International Development Co., Ltd. | NA | Financial assets measured at fair value through other comprehensive gains and losses - non-current | 3,000,000 | - | 18.00% | - | Not pledged |
| | Unisted (counter) stock- Yuangang Industrial Co., Ltd. | NA | Financial assets measured at fair value through other comprehensive gains and losses - non-current | 2,000,000 | - | 5.00% | - | Not pledged |
| Jie Mao International Co., Ltd. | Unisted (counter) stock- Shanghai Songjiang Huaqiao Modern Agriculture Co., Ltd. | NA | Financial assets measured at fair value through other comprehensive gains and losses - non-current | - | - | 9.73% | - | Not pledged |

(Note 1) Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities within the scope of IFRS 9 'Financial instruments'.

Attachment 4: Related party transactions for purchases and sales exceeding the lower of NT\$100 million or 20 percent of the capital stock as of 31 December 2021

| Related party | Counterparty | Relationship | Intercompany Transactions | | | | Details of non-arm's length transaction | | Notes and accounts receivable (payable) | |
|--|--|---|---------------------------|-----------|---|-------|---|--|---|--|
| | | | Purchases (Sales) | Amount | Percentage of total consolidated purchase (Sales) | Terms | Unit Price | Terms | Carrying amount | Percentage of total consolidated receivables (payable) |
| The Company | Kuo Yang Environment Technology Co., Ltd. | Subsidiary | Construction revenue | \$300,951 | 12.82% | - | - | In accordance with the project contract, the payment will be received after the payment is assessed phase by phase | Accounts receivable \$1,584,660 | 83.46% |
| | Kuo Chuang Engineering Co., Ltd. | Subsidiary | Sales revenue-net | 195,129 | 8.32% | - | - | According to the sales contract, the payment will be collected month by month | Accounts receivable 59,878 | 3.15% |
| Kuo Yang Environment Technology Co., Ltd. | The Company | Ultimate parent company of Kuo Yang | Construction costs | 300,951 | 62.88% | - | - | Payment according to project contract assessment progress | Accounts payable 1,584,660 | 99.94% |
| Kuo Chuang Engineering Co., Ltd. | The Company | Ultimate parent company of Kuo Chang | Purchase-net | 195,129 | 99.24% | - | - | Pay monthly according to the purchase contract | Accounts payable 59,878 | 75.04% |
| Fujian Taiming Casting Pipe Technology Co., Ltd. | Linwu Taiming Pipe Industry Technology Co., Ltd. | Holding company's subsidiary | Sales revenue-net | 235,981 | 12.68% | - | - | According to the sales contract, the payment will be collected month by month | Accounts receivable 36,612 | 7.16% |
| Linwu Taiming Pipe Industry Technology Co., Ltd. | Fujian Taiming Casting Pipe Technology Co., Ltd. | The parent company of the holding company | Purchase-net | 235,981 | 99.07% | - | - | Pay monthly according to the purchase contract | Accounts payable - | - |

Attachment 5: Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20 percent of capital stock as of December 31, 2021

| Related party | Counterparty | Relationship | Amount | Average amount turnover | Overdue account receivable-related parties | | Amount received in subsequent period | Allowance for doubtful debts |
|-----------------------|--|-------------------------------------|---|-------------------------|--|-------------------|--------------------------------------|------------------------------|
| | | | | | Amount | Processing method | | |
| The Company | Kuo Yang Environment Technology Co., Ltd. | Subsidiary | Accounts receivable \$1,584,660 Other receivables – interests receivable \$27,459 | 19.34% | - | - | \$50,758 | - |
| Marvel Line Co., Ltd. | Xiamen Kuo Hsin Century Technology Co., Ltd. | Subsidiary of Marvel Line Co., Ltd. | Other receivables -financial accommodation \$246,183 Other receivables – interests receivable \$81,512 | - | - | - | - | - |

Attachment 6: Names, locations, main businesses and products, original investment amount, investment as of 31 December 2021, net income (loss) of investee company and investment income (loss) recognized as of 31 December 2021 (Excluding investment in Mainland China)

| Investor | Investee company | Address | Main businesses and products | Initial Investment | | Investment as of 31 December 2021 | | | Net income (loss) of investee company | Investment income (loss) recognized (Note2) | Note |
|----------|---------------------------------------|-----------------------------|---|--------------------|-------------------|-----------------------------------|----------------------------|--------------------|---------------------------------------|---|------------|
| | | | | Ending balance | Beginning balance | Number of shares(thousand) | Percentage of ownership(%) | Book value (Note1) | | | |
| Hsiyu | KuoToong International LLC. | Dealaware, USA | Engaged in reinvestment holding activities | \$23,625 | \$23,625 | 680,000 | 100.00% | \$599,482 | \$(26,440) | \$(25,069) | Subsidiary |
| | Hsiyu Seawater Desalination Co., Ltd. | Zuoying district, Kaohsiung | Water supply management, piping engineering, automatic control equipment engineering, mechanical installation, etc. | 117,000 | 88,000 | 11,700,000 | 100.00% | 43,787 | 1,469 | 1,469 | Subsidiary |
| | Jie Mao International Co., Ltd. | Zuoying district, Kaohsiung | Building materials wholesale, building materials retail, international trade and machinery wholesale, etc. | 109,000 | 109,000 | 10,900,100 | 100.00% | 53,278 | (6,448) | (6,448) | Subsidiary |
| | Kuo Hsin Technology Co., Ltd. | Zuoying district, Kaohsiung | Chemical material manufacturing and water supply management | 316,500 | 316,500 | 31,650,000 | 73.60% | 58,760 | (12,282) | (9,039) | Subsidiary |
| | Jianyi Construction Co., Ltd. | Zuoying district, Kaohsiung | Construction, dredging, sand and gravel, silt marine dumping, etc. | 174,235 | 174,235 | 17,000,000 | 100.00% | 138,543 | (10,108) | (10,108) | Subsidiary |
| | Marvel Line Co., Ltd. | SAMOA | Engaged in reinvestment holding activities | 5,319 | 5,319 | 183,488 | 0.76% | 2,562 | (26,610) | 109 | Subsidiary |
| | Dinteng Co, Ltd. | Zuoying district, Kaohsiung | Energy technology services, water supply management, machinery, equipment manufacturing and installation piping engineering, other environmental sanitation and pollution prevention services, etc. | 1,363,692 | 1,363,692 | 82,202,031 | 50.50% | 1,578,047 | 131,211 | 66,995 | Subsidiary |

| Investor | Investee company | Address | Main businesses and products | Initial Investment | | Investment as of 31 December 2021 | | | Net income (loss) of investee company | Investment income (loss) recognized (Note2) | Note |
|---------------------------------|---|-----------------------------|--|--------------------|-------------------|-----------------------------------|----------------------------|--------------------|---------------------------------------|---|------------|
| | | | | Ending balance | Beginning balance | Number of shares(thousand) | Percentage of ownership(%) | Book value (Note1) | | | |
| Jie Mao International Co., Ltd. | Kuo Chuang Engineering Co., Ltd. | Zuoying district, Kaohsiung | Water supply management and piping works, etc. | 60,000 | 60,000 | 6,000,000 | 100.00% | 63,088 | (6,427) | (6,427) | Subsidiary |
| Kuo Toong International LLC. | Marvel Line Co., Ltd. | SAMOA | Engaged in reinvestment holding activities | 731,352 | 731,352 | 23,897,211 | 99.24% | 619,354 | (26,610) | (26,408) | Subsidiary |
| Dinteng Co, Ltd. | Kuo Yang Environment Technology Co., Ltd. | Miaoli County | Machinery installation, other environmental sanitation and pollution prevention services, etc. | 2,697,221 | 2,697,221 | 244,194,858 | 100.00% | 3,130,995 | 131,048 | 131,048 | Subsidiary |

(Note1) The book value of the investment using the equity method is the net amount after deducting the unrealized gains and losses of downstream transactions.

(Note2) The investment income recognized for this period had eliminated unrealized gain or loss on the transactions between the Company and its investees.

Attachment 7: Investment in Mainland China

| Investee company | Main Businesses and Products | Total Amount of Paid-in Capital | Method of Investment (Note 1) | Accumulated Outflow of Investment from Taiwan as of January 2021 | Investment Flows | | Accumulated Outflow of Investment from Taiwan as of 31 December 2021 | Net income (loss) of investee company | Percentage of Ownership | Investment income (loss) recognized (Note 2) | Carrying Value as of 31 December 2021 | Accumulated Inward Remittance of Earnings as of 31 December 2021 |
|---|---|----------------------------------|---|--|------------------|--------|--|---------------------------------------|-------------------------|--|---------------------------------------|--|
| | | | | | Outflow | Inflow | | | | | | |
| Xiamen Kuo Hsin Century Technology Co., Ltd. | Design, research, manufacturing, etc. of equipment and materials for seawater desalination and sewage treatment projects | \$431,900 (CNY 100,000) thousand | (1) Marvel Line Co., Ltd. | \$401,160 (USD 14,519) thousand | \$- | \$- | \$401,160 (USD 14,519) | \$(49,265) | 91.00% | \$(44,831) | \$285,209 | - |
| Xiamen Xiangyu Water Environmental Technology Engineering Co., Ltd. | Sewage treatment and recycling, tap water production and supply, etc. | 17,060 (CNY 3,950) thousand | (2) Xiamen Kuo Hsin Century Technology Co., Ltd. | - | - | - | - | 415 | 47.47% | 197 | 3,197 | (Note2) |
| Xiamen Xiangyu Rural Environmental Ecological Technology Co., Ltd. | Engineering and technical research and experimental development, environmental sanitation management, sewage treatment and its recycling | 4,319 (CNY 1,000) thousand | (2) Xiamen Xiangyu Water Environmental Technology Engineering Co., Ltd. | - | - | - | - | 4,175 | 30.86% | - | (2,645) | (Note2) |
| Fujian Taiming Casting Pipe Technology (Stock) Company | Metal structure manufacturing, architectural decoration and plumbing pipe parts manufacturing, ductile iron pipes, various pipe fittings, fittings and precision casting products manufacturing | 1,511,650 (CNY 350,000) thousand | (1) & (2) Xiamen Kuo Hsin Century Technology Co., Ltd. (Note 6) | 657,953 (USD 23,813) thousand | - | - | 657,953 (USD 23,813) | (398,586) | 55.00% | (218,360) | 410,311 | - |
| Fujian Taiming Trading Co., Ltd. | Machinery equipment, building materials, OEM products wholesale and trade brokerage and agency | 21,595 (CNY 5,000) thousand | (2) Fujian Taiming Casting Pipe Technology (Stock) Company | - | - | - | - | (14,237) | 100.00% | (14,237) | (37,761) | - |
| Linwu Taiming Pipe Industry Technology Co., Ltd. | Manufacturing of ductile iron pipes and special-shaped pipe fittings, various precision casting products | (Note3) | (2) Fujian Taiming Casting Pipe Technology (Stock) Company | - | - | - | - | (13,628) | 100.00% | (13,628) | (17,522) | - |

| Accumulated Investment in Mainland China | Investment Amounts Authorized by Investment Commission, MOEA | Upper Limit on Investment (Note 7) |
|---|--|------------------------------------|
| \$1,221,495 (USD44,209 thousand)(Note 5) | \$1,221,495 (USD44,209 thousand) (Note 5) | \$4,045,795 |

(Note1) Methods of investment are divided into three:

(1) Indirectly investment in Mainland China through companies registered in a third region. (2) Reinvest with mainland China company's own funds ; (3)Other

(Note2) The investment gains (losses) recognized for this period were recorded based on financial statements that have not been reviewed by a CPA during the period.

(Note3) The investment income recognized for this period included unrealized gains and loss.

(Note4) As of 31 December 2021, accumulated prepaid investment is NTD 28,505 thousand (CNY6,600 thousand).

(Note5) Accumulated investment outflow of the Company from Taiwan is USD 23,813 thousand (converted to NTD657,953 thousand) ; the accumulated indirect investment in Mainland China (Xiamen Kuo Hsin Century Technology Co., Ltd.)from the Company is CNY40,000 thousand(converted to NTD172,760 thousand).

(Note6) The amount of reinvestment in the mainland area includes Xinjiang Guotong Pipeline Co., Ltd., Harbin Guotong Pipeline Co., Ltd. and Shanghai Songjiang Huaqiao Modern Agriculture Co., Ltd.

(Note7) According to the provisions of 97.8.22 “Investment or Technical Cooperation Licensing in Mainland China” and “Investment or Technical Cooperation Review Principles in Mainland China”, the cumulative amount of investors' investment in mainland China depends on the upper limit of other enterprises: net value or a combined net value of 60%, whichever is higher.

(Note8)The exchange rate of USD to New Taiwan dollars was 1: 27.63 based on the Company's announcement made at end of December 2021. The exchange rate of RMB to New Taiwan dollars was 1: 4.319 based on the Company's announcement made at end of December 2021.

KUO TOONG INTERNATIONAL CO., LTD.

1.STATEMENT OF CASH AND CASH EQUIVALENTS

31 December 2021

(Expressed In Thousands of New Taiwan Dollars, Unless Specified Otherwise Stated)

| Item | Description | | Total | Note |
|--------------------------------|-------------|--------------|-----------|---|
| Cash | | | \$978 | 1.The exchange rate of the US dollar to the NTD is 1:27.63. |
| Petty cash | | | 1,218 | |
| Subtotal | | | 2,196 | |
| Bank Check Deposits | | | 166 | 2.The exchange rate of the RMB to the NTD is 1:4.319. |
| Bank Deposits-NT Dollars | | | 155,486 | |
| Bank Deposits-Foreign currency | USD | 1,806,963.08 | 49,926 | 3.The exchange rate of the EUR to the NTD is 1:31.12. |
| | RMB | 370,996.64 | 1,602 | |
| | EUR | 431.51 | 14 | |
| Subtotal | | | 207,194 | |
| Total | | | \$209,390 | |
| | | | | |

KUO TOONG INTERNATIONAL CO., LTD.

2. STATEMENT OF NOTES RECEIVABLE

31 December 2021

(Expressed In Thousands of New Taiwan Dollars, Unless Specified Otherwise Stated)

| Client | Description | Amount | Note |
|-----------------------------------|-------------|----------|--|
| Client A | | \$7,461 | The amount of individual client in others does not exceed 5% of the account balance. |
| Client B | | 6,985 | |
| Client C | | 3,901 | |
| Client D | | 2,120 | |
| Others | | 186 | |
| Subtotal | | 20,653 | |
| Less:Allowance for doubtful debts | | - | |
| Net amount | | \$20,653 | |

KUO TOONG INTERNATIONAL CO., LTD.

3. STATEMENT OF ACCOUNTS RECEIVABLE

31 December 2021

(Expressed In Thousands of New Taiwan Dollars, Unless Specified Otherwise Stated)

| Client | Description | Amount | Note |
|-----------------------------------|-------------|-----------|------|
| Client A | | \$120,499 | |
| Client B | | 47,870 | |
| Client C | | 20,958 | |
| Client D | | 15,108 | |
| Others | | 15,718 | |
| Subtotal | | 220,153 | |
| Less:Allowance for doubtful debts | | (7,393) | |
| Net amount | | \$212,760 | |

KUO TOONG INTERNATIONAL CO., LTD.

4. STATEMENT OF INVENTORIES

31 December 2021

(Expressed In Thousands of New Taiwan Dollars, Unless Specified Otherwise Stated)

| Item | Description | Amount | | Note |
|--|-------------|-----------|--------------|---|
| | | Cost | Market Price | |
| Raw materials | | \$78,585 | \$66,863 | The market price is the net realizable value. |
| Work in progress | | 147,128 | 138,594 | |
| Finished goods | | 68,828 | 57,094 | |
| Total | | 294,541 | \$262,551 | |
| Less: Allowance for inventory valuation losses | | (31,990) | | |
| Net amount | | \$262,551 | | |

KUO TOONG INTERNATIONAL CO., LTD.

5. STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED
FOR UNDER THE EQUITY METHOD

31 December 2021

(Expressed In Thousands of New Taiwan Dollars, Unless Specified Otherwise Stated)

| Investee Company | Beginning Balance | | Additions | | Decrease | | Ending Balance | | Fair value/Net assets value | | Accrual basis % | Collateral | Note | | |
|---|----------------------|-------------|----------------------|----------|----------------------|-----------------------|--------------------------------|----------------------------------|-----------------------------|--------------|-----------------|------------|--------|----------|--|
| | Shares(In thousands) | Amount | Shares(In thousands) | Amount | Shares(In thousands) | Amount | Shares(In thousands) | Amount | Unit price (NTD) | Total Amount | | | | | |
| Kuo Toong International Llc. | 680 | \$629,355 | - | \$- | - | \$25,069 (\$4,804) | (Note 1) (Note 2) | 680 | \$599,482 | 913.29 | \$621,035 | 100% | None | | |
| Hsiyu Seawater Desalination Co., Ltd. | 8,800 | 13,318 | 2,900 | (Note 7) | 29,000 1,469 | (Note 7) (Note 1) | - | 11,700 | 43,787 | 3.74 | 43,787 | 100% | None | | |
| Jie Mao International Co., Ltd. | 10,900 | 84,987 | - | 1,124 | (Note 4) | - | (16,400) (6,447) (9,986) | (Note 5) (Note 1) (Note 3) | 10,900 | 53,278 | 5.80 | 63,264 | 100% | None | |
| Jianyi Construction Co., Ltd. | 17,000 | 148,651 | - | - | - | - | (10,108) | (Note 1) | 17,000 | 138,543 | 8.15 | 138,543 | 100% | None | |
| Kuo Hsin Technology Co., Ltd. | 31,650 | 67,799 | - | - | - | - | (9,039) | (Note 1) | 31,650 | 58,760 | 1.86 | 58,760 | 73.60% | None | |
| Dinteng Co, Ltd. | 75,925 | 1,511,052 | - | 66,995 | (Note 1) | - | - | - | 75,925 | 1,578,047 | 20.85 | 1,583,300 | 50.50% | (Note 6) | |
| Fujian Taiming Casting Pipe Technology Co, Ltd. | 152,500 | 499,566 | - | - | - | - | (172,803) (2,961) | (Note 1) (Note 2) | 152,500 | 323,802 | 2.21 | 336,553 | 43.57% | None | |
| Marvel Line Co., Ltd. | 183 | 2,489 | - | 109 | (Note 1) | - | (36) | (Note 2) | 183 | 2,562 | 25.98 | 4,755 | 0.76% | None | |
| Total | | \$2,957,217 | | \$98,697 | | | \$257,653 | | | \$2,798,261 | | | | | |

(Note 1) The equity method recognizes investment income (loss).

(Note 2) Exchange differences resulting from translating the financial statements of a foreign operations

(Note 3) Downstream transactions are written off.

(Note 4) The unrealized sales benefit of the current period

(Note 5) Cash dividends paid by subsidiaries.

(Note 6) 35,300 thousand shares are mortgaged for bank loans and corporate bond guarantee.

(Note 7) New investment

KUO TOONG INTERNATIONAL CO., LTD.

6.STATEMENT OF NOTES PAYABLE

31 December 2021

(Expressed In Thousands of New Taiwan Dollars, Unless Specified Otherwise Stated)

| Client | Description | Amount | Note |
|----------|-------------|-----------|--|
| Client A | | \$8,715 | |
| Client B | | 8,499 | The amount of individual client in others does not exceed 5% |
| Client C | | 7,221 | of the account balance. |
| Client D | | 5,607 | |
| Others | | 72,930 | |
| Total | | \$102,972 | |
| | | | |

KUO TOONG INTERNATIONAL CO., LTD.

7.STATEMENT OF ACCOUNTS PAYABLE

31 December 2021

(Expressed In Thousands of New Taiwan Dollars, Unless Specified Otherwise Stated)

| Client | Description | Amount | Note |
|----------|-------------|-----------|------|
| Client A | | \$111,753 | |
| Client B | | 78,071 | |
| Client C | | 27,855 | |
| Client D | | 26,416 | |
| Client E | | 21,214 | |
| Others | | 131,934 | |
| Total | | \$397,243 | |

KUO TOONG INTERNATIONAL CO., LTD.

8.STATEMENT OF OPERATING REVENUES

For the year ended 31 December 2021

(Expressed In Thousands of New Taiwan Dollars, Unless Specified Otherwise Stated)

| Item | Amount | Amount | Note |
|-----------------------------|-------------------|-------------|------|
| Construction revenue | | \$1,404,074 | |
| Operating revenue | | | |
| Steel pipe | 1,024.70 M | 29,754 | |
| Steel pipe parts | 1 Set | 40,037 | |
| Ductile cast iron pipe | 2,343 Cubic Meter | 626,496 | |
| Ductile cast iron pipe pats | 1 Set | 5,352 | |
| Set of tubes | 83 Tube | 9,167 | |
| Curved tubes | 14 Tube | 7,686 | |
| End Ring | 1,097 Group | 17,853 | |
| Others | | 3,979 | |
| Subtotal | | 740,324 | |
| Labor revenue | | 202,248 | |
| Total | | \$2,346,646 | |

KUO TOONG INTERNATIONAL CO., LTD.

9.STATEMENT OF OPERATING COSTS

For the year ended 31 December 2021

(Expressed In Thousands of New Taiwan Dollars, Unless Specified Otherwise Stated)

| Item | Amount | Note |
|--|-------------|------|
| Cost of Goods Sold of Self-made Product | | |
| Direct material : Beginning of year | \$45,296 | |
| Add : Raw material purchased | 446,019 | |
| Transferred from Finished goods | 5,799 | |
| Transferred from conversion | 155,918 | |
| Transferred from others | 333 | |
| Less : Raw material, end of year | (78,585) | |
| Sold raw materials | (6,890) | |
| Transferred to conversion | (120,627) | |
| Transferred to expense | (24,561) | |
| Supplies and parts used | 422,702 | |
| Direct labor | 77,631 | |
| Factory overheads | 267,134 | |
| Manufacturing cost | 767,467 | |
| Add : Work in process, beginning of year | 97,255 | |
| Add : Transferred from material | 120,627 | |
| Transferred from others | 41,075 | |
| Less : Transferred to material | (155,918) | |
| Work in process, end of year | (147,128) | |
| Cost of finished goods | 723,378 | |
| Finished goods, beginning of year | 113,709 | |
| Add : Finished goods purchased | 9,947 | |
| Less : Finished goods, end of year | (68,828) | |
| Transferred to material | (5,799) | |
| Transferred to construction work-in-process | (200,658) | |
| Transferred to others | (1,010) | |
| Cost of Goods Sold of Self-made Product | 570,739 | |
| Cost of Goods Sold of Merchandise | | |
| Merchandise : Beginning of year | - | |
| Less: Turn to expenses | (2) | |
| Turn to others | (916) | |
| Commodity inventory at the end of the period | - | |
| Cost of Goods Sold of Merchandise | (918) | |
| Invoicing cost | 569,821 | |
| Cost of raw materials sold | 6,696 | |
| Revenue from sale of scraps | (39) | |
| Reversal of inventory impairment | (10,756) | |
| Others | 22,597 | |
| Construction costs | 949,876 | |
| Total operating costs | \$1,538,195 | |

KUO TOONG INTERNATIONAL CO., LTD.

10. STATEMENT OF OPERATING EXPENSES

For the year ended 31 December 2021

(Expressed In Thousands of New Taiwan Dollars, Unless Specified Otherwise Stated)

| Item | Marketing expenses | Management expenses | Research and development expenses | Expected credit impairment loss (profit) | Total | Note |
|---------------------------------------|--------------------|---------------------|-----------------------------------|--|----------|---------------------------------|
| Salary expenses | \$2,189 | \$40,301 | \$6,146 | \$- | \$48,636 | The amount of individual client |
| Travel expenses | 734 | 808 | 92 | - | 1,634 | in others does not exceed 5% |
| Insurance fee | 205 | 1,952 | 675 | - | 2,832 | of the account balance. |
| Communication fee | 373 | 379 | 5 | - | 757 | |
| Labor fee | - | 6,721 | 866 | - | 7,587 | |
| Financial expenses | - | 3,483 | - | - | 3,483 | |
| Depreciation | - | 814 | 2,871 | - | 3,685 | |
| Expected credit impairment (benefits) | - | - | - | (808) | (808) | |
| Other expenses | 1,359 | 14,775 | 1,285 | - | 17,419 | |
| Total | \$4,860 | \$69,233 | \$11,940 | (\$808) | \$85,225 | |
| | | | | | | |