

**KUEN LING MACHINERY  
REFRIGERATING CO., LTD.  
PARENT COMPANY ONLY FINANCIAL  
STATEMENTS AND INDEPENDENT AUDITORS’  
REPORT  
DECEMBER 31, 2022 AND 2021**

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

KUEN LING MACHINERY REFRIGERATING CO., LTD.  
DECEMBER 31, 2022 AND 2021 PARENT COMPANY ONLY FINANCIAL  
STATEMENTS AND INDEPENDENT AUDITORS' REPORT  
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## INDEPENDENT AUDITORS' REPORT TRANSLATED FROM CHINESE

PWCR22000470

To the Board of Directors and Shareholders of Kuen Ling Machinery Refrigerating Co., Ltd.

### ***Opinion***

We have audited the accompanying parent company only balance sheets of Kuen Ling Machinery Refrigerating Co., Ltd. (the "Company") as at December 31, 2022 and 2021, and the related parent company only statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the parent company only financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the reports of other auditors (please refer to the *Other matter* section), the accompanying parent company only financial statements present fairly, in all material respects, the parent company only financial position of the Company as at December 31, 2022 and 2021, and its parent company only financial performance and its parent company only cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

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

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and Standards on Auditing of the Republic of China. Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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 Company's 2022 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, we do not provide a separate opinion on these matters.

Key audit matters for the Company's 2022 parent company only financial statements are stated as follows:

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

#### Description

Please refer to Note 4(23) of parent company only financial statement for accounting policies on revenue recognition, and Note 6(18) for details of operating revenue.

The Company's operating revenue arises from revenue from contracts with customers and mainly from customer acceptance and transfer of the products, such as condensers, chillers, chiller units and condensing units. Contract revenue is recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. The transfer of control of the product to the customer and the fulfillment of performance obligations usually involve manual work and judgment, which may result in inappropriate timing of revenue recognition around the balance sheet date, and the aforementioned circumstances were also existing in the Company's subsidiaries which were accounted for using equity method. Therefore, we consider the appropriateness of cut-off on sales revenue as one of the key audit matters for this year's audit.

#### How our audit addressed the matter

We performed the following audit procedures on the above key audit matter:

1. Obtained an understanding and assessed the accounting policies of revenue recognition.
2. Obtained an understanding, assessed and tested the effectiveness of the design and the execution of internal controls on revenue recognition.
3. Performed cut-off tests on contract revenue in a certain period around balance sheet date to ascertain that the revenue was recognised when control of goods has been transferred, and there is no performance obligation that could affect the customer acceptance of the products.

## **Accounts receivable impairment valuation**

### Description

Please refer to Note 4(6) of parent company only financial statements for accounting policy on accounts receivable, Note 5 for the uncertainty of accounting estimates and assumptions in relation to accounts receivable impairment valuation, Note 6(2) for details of accounts receivable and Note 12(2) for details of information relating to credit risk of accounts receivable.

The Company evaluates the lifetime expected credit loss amount of the accounts receivable and recognises loss allowance. The evaluation method used considers the historical transaction records, operation and current financial conditions of individual significant customers or customers of similar credit risk groups, and incorporates the effect of the time value of money. The identification of individual significant customers, the differentiation of similar credit risk groups and the aforementioned evaluation methods involve the subjective judgment of the management authority, which has a significant impact on the measurement of the expected credit loss of receivables, and the aforementioned circumstances were also existing in the Company's subsidiaries (shown as investments accounted for using equity method). Therefore, we consider the Company's and its subsidiaries' accounts receivable impairment valuation as one of the key audit matters for this year in our audit.

### How our audit addressed the matter

We performed the following audit procedures on the above key audit matter:

1. Obtained an understanding of the Company's operation and sales customers. Assessed the reasonableness of policies and process applied in allowance for uncollectible accounts receivable, including identifying individual significant customers, classifying the similar credit risk groups and objective evidence for determining expected credit losses.
2. Obtained an understanding of the effectiveness of the design and implementation of the internal control procedures over the Company's credit management and the assessment of lifetime expected credit losses of receivables.
3. Assessed the reasonableness of the amounts of significant expected credit losses individually assessed by management and the expected credit losses assessed based on similar credit risk groups.
4. Performed subsequent collection tests on accounts receivable for expected credit losses that occur simply to reflect the time value of money to assess the reasonableness of expected credit losses.

## **Other matter – Reference to the audits of other auditors**

We did not audit the financial statements of certain investments accounted for using the equity method which were audited by other auditors. Therefore, our opinion expressed herein, insofar as it relates to the amounts included in respect of these associates, is based solely on the reports of the other auditors. The balance of these investments accounted for using the equity method amounted to NT\$11,865 thousand and NT\$11,684 thousand, both constituting 1% of the total assets as at December 31, 2022 and 2021, and the comprehensive income recognised from associates and joint ventures accounted for using the equity method amounted to NT\$2,195 thousand and NT\$2,238 thousand, constituting 1% and 2% of the total comprehensive income for the years then ended, respectively.

## ***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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

## ***Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Standards on Auditing of the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error



and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these parent company only financial statements.

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

1. Identify and assess the risks of material misstatement of the 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 Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the disclosures, 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 entity audit. We remain solely responsible for our audit opinion.

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

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

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

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WANG, CHUN-KAI

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Wu, Chien-Chih

For and on behalf of PricewaterhouseCoopers, Taiwan

March 22, 2023

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

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

**KUEN LING MACHINERY REFRIGERATING CO., LTD.**  
**PARENT COMPANY ONLY BALANCE SHEETS**  
**DECEMBER 31, 2022 AND 2021**  
(Expressed in thousands of New Taiwan dollars)

Assets		Notes	December 31, 2022		December 31, 2021	
			AMOUNT	%	AMOUNT	%
Current assets						
1100	Cash and cash equivalents	6(1)	\$ 97,477	4	\$ 165,544	8
1140	Current contract assets	6(18)	7,589	-	48,363	2
1150	Notes receivable, net	6(2)	9,394	-	8,508	-
1160	Notes receivable due from related parties, net	6(2) and 7	55,228	3	43,480	2
1170	Accounts receivable, net	6(2)	164,543	7	72,869	3
1180	Accounts receivable due from related parties, net	6(2) and 7	174,148	8	220,321	10
1210	Other receivables due from related parties	7	11,846	1	3,983	-
1220	Current tax assets		16,664	1	16,664	1
130X	Inventories	6(3)	456,250	20	357,191	17
1410	Prepayments		29,998	1	34,361	2
1479	Other current assets, others	8	2,519	-	1,253	-
11XX	Total current assets		1,025,656	45	972,537	45
Non-current assets						
1517	Non-current financial assets at fair value through other comprehensive income	6(4)	9,759	1	9,759	-
1550	Investments accounted for using equity method	6(5)	824,517	37	775,825	36
1600	Property, plant and equipment	6(6), 7 and 8	325,173	14	320,194	15
1755	Right-of-use assets	6(7) and 7	12,981	1	19,701	1
1780	Intangible assets		4,478	-	6,634	-
1840	Deferred income tax assets	6(23)	25,431	1	28,065	1
1920	Guarantee deposits paid	8	17,812	1	18,223	1
1930	Long-term notes and accounts receivable	6(8)	1,256	-	1,733	-
1990	Other non-current assets, others		7,406	-	12,196	1
15XX	Total non-current assets		1,228,813	55	1,192,330	55
1XXX	Total assets		\$ 2,254,469	100	\$ 2,164,867	100

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**KUEN LING MACHINERY REFRIGERATING CO., LTD.**  
**PARENT COMPANY ONLY BALANCE SHEETS**  
**DECEMBER 31, 2022 AND 2021**  
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity			Notes	December 31, 2022		December 31, 2021				
				AMOUNT	%	AMOUNT	%			
Current liabilities										
2100	Short-term borrowings	6(9) and 8	\$	152,096	7	\$	163,991	8		
2130	Current contract liabilities	6(18)		41,109	2		13,064	1		
2150	Notes payable	7		14,824	1		11,942	1		
2170	Accounts payable	7		177,361	8		182,919	8		
2200	Other payables	6(10)		117,030	5		95,221	4		
2230	Current tax liabilities			9,216	-		3,874	-		
2250	Current provisions	6(11)		36,219	1		36,502	2		
2280	Current lease liabilities	7		2,960	-		4,430	-		
2320	Long-term liabilities, current portion	6(12) and 8		20,000	1		20,000	1		
2399	Other current liabilities, others			643	-		630	-		
21XX	Total current liabilities			571,458	25		532,573	25		
Non-current liabilities										
2540	Long-term borrowings	6(12) and 8		15,000	1		35,000	2		
2570	Deferred income tax liabilities	6(23)		54,034	3		52,118	2		
2580	Non-current lease liabilities	7		7,937	-		15,580	1		
2640	Net defined benefit liability, non-current	6(13)		69,729	3		96,602	4		
25XX	Total non-current liabilities			146,700	7		199,300	9		
2XXX	Total Liabilities			718,158	32		731,873	34		
Equity										
Share capital										
3110	Ordinary share	6(14)		761,524	34		761,524	35		
Capital surplus										
3200	Capital surplus	6(15)		128,616	6		128,616	6		
Retained earnings										
3310	Legal reserve	6(16)		245,884	11		230,637	11		
3320	Special reserve			102,117	4		96,241	4		
3350	Unappropriated retained earnings			379,612	17		318,093	15		
Other equity interest										
3400	Other equity interest	6(17)	(	81,442)	(	4)	(	102,117)	(	5)
3XXX	Total equity			1,536,311	68		1,432,994	66		
Significant contingent liabilities and unrecognised contract commitments										
Significant events after the balance sheet date										
3X2X	Total liabilities and equity		\$	2,254,469	100	\$	2,164,867	100		

The accompanying notes are an integral part of these parent company only financial statements.

**KUEN LING MACHINERY REFRIGERATING CO., LTD.**  
**PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME**  
**YEARS ENDED DECEMBER 31, 2022 AND 2021**  
(Expressed in thousands of New Taiwan dollars, except for earnings per share amounts)

				Year ended December 31			
				2022		2021	
Items	Notes			AMOUNT	%	AMOUNT	%
4000 Operating revenue	6(18) and 7			\$ 1,427,701	100	\$ 1,162,181	100
5000 Operating costs	6(3)(21)(22) and 7	(		1,210,892)	( 85)	( 986,873)	( 85)
5900 Gross profit				216,809	15	175,308	15
5910 Unrealised profit from sales		(		1,566)	-	( 88)	-
5950 Gross profit from operations				215,243	15	175,220	15
Operating expenses	6(21)(22) and 7						
6100 Selling expenses		(		54,260)	( 4)	( 53,415)	( 4)
6200 Administrative expenses		(		96,584)	( 6)	( 91,635)	( 8)
6300 Research and development expenses		(		40,073)	( 3)	( 33,491)	( 3)
6450 Impairment loss (impairment gain and reversal of impairment loss) determined in accordance with IFRS 9	12(2)			1,977	-	2,443	-
6000 Total operating expenses		(		188,940)	( 13)	( 176,098)	( 15)
6900 Net operating loss				26,303	2	( 878)	-
Non-operating income and expenses							
7100 Interest income				186	-	149	-
7010 Other income	6(19) and 7			33,394	2	32,332	3
7020 Other gains and losses	6(20) and 7			5,374	-	( 780)	-
7050 Finance costs	6(7)(9)(12) and 7	(		3,000)	-	( 1,637)	-
7070 Share of profit of subsidiaries, associates and joint ventures accounted for using equity method				152,584	11	129,788	11
7000 Total non-operating income and expenses				188,538	13	159,852	14
7900 Profit before income tax				214,841	15	158,974	14
7950 Income tax expense	6(23)	(		10,795)	( 1)	( 8,181)	( 1)
8200 Profit for the year				\$ 204,046	14	\$ 150,793	13
<b>Other comprehensive income</b>							
<b>Components of other comprehensive income that will not be reclassified to profit or loss</b>							
8311 Gains on remeasurements of defined benefit plans	6(13)	\$		19,588	1	\$ 2,095	-
8349 Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(23)	(		3,918)	-	( 419)	-
8310 Components of other comprehensive income that will not be reclassified to profit or loss				15,670	1	1,676	-
<b>Components of other comprehensive income that will be reclassified to profit or loss</b>							
8361 Exchange differences on translation of foreign financial statements				20,675	2	( 5,876)	-
8300 Other comprehensive income (loss)		\$		36,345	3	( \$ 4,200)	-
8500 Total comprehensive income				\$ 240,391	17	\$ 146,593	13
<b>Earnings per share</b>							
9750 Basic earnings per share	6(24)			\$ 2.68		\$ 1.98	
9850 Diluted earnings per share				\$ 2.65		\$ 1.96	

The accompanying notes are an integral part of these parent company only financial statements.

KUEN LING MACHINERY REFRIGERATING CO., LTD.  
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY  
YEARS ENDED DECEMBER 31, 2022 AND 2021  
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

				Retained Earnings			Other equity interest		
	Notes	Share capital - common stock	Capital surplus, additional paid-in capital	Legal reserve	Special reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations	Unrealised gains (losses) from financial assets measured at fair value through other comprehensive income	Total equity
<u>Year ended December 31, 2021</u>									
Balance at January 1, 2021		\$ 761,524	\$ 128,616	\$ 210,371	\$ 97,590	\$ 336,845	(\$ 62,923 )	(\$ 33,318 )	\$ 1,438,705
Profit for the year		-	-	-	-	150,793	-	-	150,793
Other comprehensive income (loss)	6(17)	-	-	-	-	1,676	( 5,876 )	-	( 4,200 )
Total comprehensive income (loss)		-	-	-	-	152,469	( 5,876 )	-	146,593
Appropriation and distribution of 2020 retained earnings:									
Legal reserve appropriated		-	-	20,266	-	( 20,266 )	-	-	-
Reversal of special reserve		-	-	-	( 1,349 )	1,349	-	-	-
Cash dividends	6(16)	-	-	-	-	( 152,304 )	-	-	( 152,304 )
Balance at December 31, 2021		\$ 761,524	\$ 128,616	\$ 230,637	\$ 96,241	\$ 318,093	(\$ 68,799 )	(\$ 33,318 )	\$ 1,432,994
<u>Year ended December 31, 2022</u>									
Balance at January 1, 2022		\$ 761,524	\$ 128,616	\$ 230,637	\$ 96,241	\$ 318,093	(\$ 68,799 )	(\$ 33,318 )	\$ 1,432,994
Profit for the year		-	-	-	-	204,046	-	-	204,046
Other comprehensive income	6(17)	-	-	-	-	15,670	20,675	-	36,345
Total comprehensive income		-	-	-	-	219,716	20,675	-	240,391
Appropriation and distribution of 2021 retained earnings:									
Legal reserve appropriated		-	-	15,247	-	( 15,247 )	-	-	-
Reversal of special reserve		-	-	-	5,876	( 5,876 )	-	-	-
Cash dividends	6(16)	-	-	-	-	( 137,074 )	-	-	( 137,074 )
Balance at December 31, 2022		\$ 761,524	\$ 128,616	\$ 245,884	\$ 102,117	\$ 379,612	(\$ 48,124 )	(\$ 33,318 )	\$ 1,536,311

The accompanying notes are an integral part of these parent company only financial statements.

KUEN LING MACHINERY REFRIGERATING CO., LTD.  
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2022 AND 2021  
(Expressed in thousands of New Taiwan dollars)

		Year ended December 31	
	Notes	2022	2021
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>			
Profit before tax		\$ 214,841	\$ 158,974
Adjustments			
Adjustments to reconcile profit (loss)			
Expected credit gain	12(2)	( 1,977 )	( 2,443 )
Depreciation expense (including amortisation of right-of-use assets)	6(6)(7)(21)	28,283	27,434
Amortisation charge	6(21)	2,577	3,012
Share of loss of subsidiaries, associates and joint ventures accounted for using equity method		( 152,584 )	( 129,788 )
Interest expense		3,000	1,637
Interest income		( 186 )	( 149 )
Dividend income	6(19)	( 1,707 )	( 1,841 )
Gains on disposals of property, plant and equipment	6(20)	( 257 )	( 42 )
Gains arising from lease modification	6(7)(20)	( 3,094 )	-
Unrealised profit (loss) from sales		1,566	88
Changes in operating assets and liabilities			
Changes in operating assets			
Current contract assets		40,774	( 33,237 )
Notes receivable		( 886 )	( 1,348 )
Notes receivable due from related parties		( 11,748 )	11,280
Accounts receivable (including long-term notes and accounts receivables)		( 89,220 )	34,229
Accounts receivable due from related parties		46,173	15,603
Other receivables due from related parties		( 2,838 )	( 2,593 )
Inventories		( 99,059 )	( 116,948 )
Prepayments		4,363	843
Other current assets, others		( 1,267 )	1,014
Changes in operating liabilities			
Current contract liabilities		28,045	( 9 )
Notes payable		2,882	( 54,997 )
Accounts payable		( 5,558 )	76,755
Other payables		23,797	( 26,522 )
Current provisions		( 282 )	( 5,362 )
Other current liabilities, others		13	105
Net defined benefit liability, non-current		( 7,285 )	( 4,354 )
Cash inflow (outflow) generated from operations		18,366	( 48,659 )
Interest received		186	149
Dividends received		123,721	129,109
Interest paid		( 2,968 )	( 1,568 )
Income taxes paid		( 4,821 )	( 4,478 )
Net cash flows from operating activities		134,484	74,553

(Continued)

KUEN LING MACHINERY REFRIGERATING CO., LTD.  
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2022 AND 2021  
(Expressed in thousands of New Taiwan dollars)

		Year ended December 31	
	Notes	2022	2021
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Acquisition of investments accounted for using equity method		\$ -	( \$ 8,541 )
Purchase of property, plant and equipment	6(25)	( 23,771 )	( 35,988 )
Increase in prepayments for business facilities		( 5,674 )	( 10,102 )
Proceeds from disposal of property, plant and equipment	6(25)	257	42
Intangible assets		( 421 )	( 399 )
Decrease (increase) in guarantee deposits paid		411	( 160 )
Increase in other non-current assets		( 1,418 )	-
Net cash flows used in investing activities		( 30,616 )	( 55,148 )
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Proceeds from short-term borrowings	6(26)	686,741	315,853
Repayment of short-term borrowings	6(26)	( 698,636 )	( 166,747 )
Repayment of long-term borrowings	6(26)	( 20,000 )	( 20,000 )
Payments of lease liabilities	6(26)	( 2,966 )	( 4,430 )
Cash dividends paid	6(16)	( 137,074 )	( 152,304 )
Net cash flows used in financing activities		( 171,935 )	( 27,628 )
Net decrease in cash and cash equivalents		( 68,067 )	( 8,223 )
Cash and cash equivalents at beginning of year	6(1)	165,544	173,767
Cash and cash equivalents at end of year	6(1)	\$ 97,477	\$ 165,544

The accompanying notes are an integral part of these parent company only financial statements.



KUEN LING MACHINERY REFRIGERATING CO., LTD.  
NOTES TO THE PARENT COMPANY ONLY FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

1. History and Organisation

KUEN LING REFRIGERATING CO., LTD. (the “Company”) was incorporated in April 1988 under the provisions of the Company Act of the Republic of China (R.O.C.). The Company is primarily engaged in the installation, maintenance, repair, manufacturing, processing, trading, domestic and foreign sales business and lease business of condensers, chillers, chiller units and condensing units.

The Company’s shares have been traded in the Taipei Exchange starting from September 2000.

2. The Date of Authorisation for Issuance of the Financial Statements and Procedures for Authorisation

These parent company only financial statements were authorised for issuance by the Board of Directors on March 22, 2023.

3. Application of New Standards, Amendments and Interpretations

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

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

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

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

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

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

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendments to IAS 1, ‘Disclosure of accounting policies’	January 1, 2023
Amendments to IAS 8, ‘Definition of accounting estimates’	January 1, 2023

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

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

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

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

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

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

4. Summary of Significant Accounting Policies

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

(1) Compliance statement

The parent company only financial statements of the Company have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers".

(2) Basis of preparation

A. Except for the following items, the parent company only financial statements have been prepared under the historical cost convention:

- (a) Financial assets at fair value through other comprehensive income measured at fair value.
- (b) Defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.

- B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations that came into effect as endorsed by the FSC (collectively referred herein as the “IFRSs”) requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

(3) Foreign currency translation

The parent company only financial statements are presented in New Taiwan dollars, which is the Company’s functional and the Company’s presentation currency.

A. Foreign currency transactions and balances

- (a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.
- (b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.
- (c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- (d) All foreign exchange gains and losses are presented in the statement of comprehensive income within ‘other gains and losses’.

B. Translation of foreign operations

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

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

(4) Classification of current and non-current items

- A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
- (a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;
  - (b) Assets held mainly for trading purposes;
  - (c) Assets that are expected to be realised within twelve months from the balance sheet date;
  - (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.
- B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:
- (a) Liabilities that are expected to be settled within the normal operating cycle;
  - (b) Liabilities arising mainly from trading activities;
  - (c) Liabilities that are to be settled within twelve months from the balance sheet date;
  - (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(5) Financial assets at fair value through other comprehensive income

- A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Company has made an irrevocable election at initial recognition to recognise changes in fair value in other comprehensive income.
- B. On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Company measures the financial assets at fair value plus transaction costs. The Company subsequently measures the financial assets at fair value. The changes in fair value of equity investments that were recognised in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognised as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably.

(6) Accounts and notes receivable

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

(7) Impairment of financial assets

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

(8) Derecognition of financial assets

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

(9) Inventories

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

(10) Investments accounted for using equity method / subsidiaries and associates

- A. Subsidiaries are all entities controlled by the Company. The Company controls an entity when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.
- B. Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Company are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Company.
- C. The Company's share of its subsidiaries' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Company's share of losses in a subsidiary equals or exceeds its interest in the subsidiary, the Company continues to recognise losses proportionate to its ownership.
- D. The Company's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

- E. Associates are all entities over which the Company has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognised at cost.
- F. When changes in an associate's equity do not arise from profit or loss or other comprehensive income of the associate and such changes do not affect the Company's ownership percentage of the associate, the Company recognises the Company's share of change in equity of the associate in 'capital surplus' in proportion to its ownership.
- G. Unrealised gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Company.
- H. When the Company disposes its investment in an associate and loses significant influence over this associate, the amounts previously recognised in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it retains significant influence over this associate, the amounts previously recognised in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.
- I. Pursuant to the Regulations Governing the Preparation of Financial Reports by Securities Issuers, profit (loss) of the current period and other comprehensive income in the parent company only financial statements shall equal to the amount attributable to owners of the parent in the consolidated financial statements. Owners' equity in the parent company only financial statements shall equal to equity attributable to owners of the parent in the consolidated financial statements.

(11) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.
- B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.

- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change.

The estimated useful lives of property, plant and equipment are as follows:

Buildings and structures	3 ~ 55 years
Machinery and equipment	3 ~ 15 years
Transportation equipment	3 ~ 6 years
Office equipment	4 ~ 10 years
Leasehold improvements	5 ~ 10 years
Other equipment	3 ~ 11 years

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

- A. Leases are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Company. For short-term leases or leases of low-value assets, lease payments are recognised as an expense on a straight-line basis over the lease term.
- B. Lease liabilities include the net present value of the remaining lease payments at the commencement date, discounted using the incremental borrowing interest rate. Lease payments are comprised of the following:
- (a) Fixed payments, less any lease incentives receivable;
  - (b) Variable lease payments that depend on an index or a rate;
  - (c) Amounts expected to be payable by the lessee under residual value guarantees;
  - (d) The exercise price of a purchase option, if the lessee is reasonably certain to exercise that option; and
  - (e) Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The Company subsequently measures the lease liability at amortised cost using the interest method and recognises interest expense over the lease term. The lease liability is remeasured and the amount of remeasurement is recognised as an adjustment to the right-of-use asset when there are changes in the lease term or lease payments and such changes do not arise from contract modifications.

- C. At the commencement date, the right-of-use asset is stated at cost comprising the following:
- (a) The amount of the initial measurement of lease liability;
  - (b) Any lease payments made at or before the commencement date;
  - (c) Any initial direct costs incurred by the lessee; and

- (d) An estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

The right-of-use asset is measured subsequently using the cost model and is depreciated from the commencement date to the earlier of the end of the asset's useful life or the end of the lease term.

When the lease liability is remeasured, the amount of remeasurement is recognised as an adjustment to the right-of-use asset.

(13) Intangible assets

Intangible assets mainly pertain to computer software which is stated at cost and amortised on a straight-line basis over its estimated useful life of 3 to 5 years.

(14) Impairment of non-financial assets

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

(15) Borrowings

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

(16) Accounts and notes payable

- A. Accounts payable are liabilities for purchases of raw materials, goods or services and notes payable are those resulting from operating and non-operating activities.
- B. The short-term accounts and notes payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(17) Derecognition of financial liabilities

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

(18) Offsetting financial instruments

Financial assets and liabilities are offset and reported in the net amount in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.



(19) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date.

(20) Employee benefits

A. Short-term employee benefits

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

B. Pensions

(a) Defined contribution plans

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

(b) Defined benefit plans

- i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Company in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds at the balance sheet date.
- ii. Remeasurements arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.
- iii. Past service costs are recognised immediately in profit or loss.

C. Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the Company's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of redundancy benefits in exchange for the termination of employment. The Company recognises expense as it can no longer withdraw an offer of termination benefits or it recognises relating restructuring costs, whichever is earlier. Benefits that are expected to be due more than 12 months after balance sheet date shall be discounted to their present value.

D. Employees' compensation and directors' remuneration

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

(21) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in which the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C. Deferred tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.
- D. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same

taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.

(22) Dividends

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

(23) Revenue recognition

A. Sales of goods

- (a) The Company manufactures and sells condensers, chillers, chiller units and condensing units and related products. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, or the Company has objective evidence that all criteria for acceptance have been satisfied.
- (b) The Company's obligation to provide a refund for faulty products under the standard warranty terms is recognised as a provision.
- (c) A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.
- (d) Some contracts include multiple deliverables. In most cases, the installation is simple, does not include an integration service and could be performed by another party or supplier. It is therefore accounted for as a separate performance obligation. In this case, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin.

B. Service revenue

Revenue from providing services is recognised in the accounting period in which the services are rendered.

C. Engineering service revenue

- (a) Some contracts include sales, installation and integration services of equipment. The equipment, the installation and the integration services provided by the Company are not distinct and are identified to be one performance obligation satisfied over time since the installation and integration services involve significant customisation and modification. The Company recognises revenue on the basis of costs incurred relative to the total expected costs.

- (b) The Company's estimate about revenue, costs and progress towards complete satisfaction of a performance obligation is subject to a revision whenever there is a change in circumstances. Any increase or decrease in revenue or costs due to an estimate revision is reflected in profit or loss during the period when the management become aware of the changes in circumstances.
- (c) The customer pays at the time specified in the payment schedule. If the services rendered exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised.

#### D. Financing components

The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money.

#### E. Incremental costs of obtaining a contract

Given that the contractual period lasts less than one year, the Company recognises the incremental costs of obtaining a contract as an expense when incurred although the Company expects to recover those costs.

#### (24) Government grants

Government grants are recognised at their fair value only when there is reasonable assurance that the Company will comply with any conditions attached to the grants and the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Company recognises expenses for the related costs for which the grants are intended to compensate.

### 5. Critical Accounting Judgements, Estimates and Key Sources of Assumption Uncertainty

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

#### Impairment assessment of accounts receivable

When there is a significant increase in credit risk on the financial instrument since initial recognition, loss allowance of the financial instrument is measured by lifetime expected credit losses. After taking into consideration all reasonable and verifiable information, the Company recognise lifetime expected credit losses for all financial instruments for which there have significant increases in credit risk since initial recognition after considering all reasonable and supportable information. The measurement of expected credit losses considers the risk or probability that a credit loss occurs.

As of December 31, 2022, the Company recognised loss allowance amounting to \$5,776.

## 6. Details of Significant Accounts

### (1) Cash and cash equivalents

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Cash on hand and revolving funds	\$ 717	\$ 636
Checking accounts and demand deposits	96,760	164,908
	<u>\$ 97,477</u>	<u>\$ 165,544</u>

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

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

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

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Notes receivable	\$ 9,418	\$ 8,532
Less: Allowance for uncollectible accounts	( 24)	( 24)
	9,394	8,508
Notes receivable due from related parties	55,228	43,480
	<u>\$ 64,622</u>	<u>\$ 51,988</u>
	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Accounts receivable	\$ 170,295	\$ 80,598
Less: Allowance for uncollectible accounts	( 5,752)	( 7,729)
	164,543	72,869
Accounts receivable due from related parties	174,148	220,321
	<u>\$ 338,691</u>	<u>\$ 293,190</u>

A. The ageing analysis of notes and accounts receivable (including related parties) that were past due but not impaired is as follows:

	<u>December 31, 2022</u>		<u>December 31, 2021</u>	
	<u>Notes receivable</u>	<u>Accounts receivable</u>	<u>Notes receivable</u>	<u>Accounts receivable</u>
Not past due	\$ 64,646	\$ 339,650	\$ 52,012	\$ 290,829
Past due:				
Up to 30 days	-	8	-	353
31 to 90 days	-	-	-	554
91 to 180 days	-	-	-	1,491
181 days to 1 year	-	-	-	640
1 to 2 year(s)	-	-	-	-
Over 2 years	-	4,785	-	7,052
	<u>\$ 64,646</u>	<u>\$ 344,443</u>	<u>\$ 52,012</u>	<u>\$ 300,919</u>

The above ageing analysis was based on past due date.

- B. As of December 31, 2022 and 2021, notes receivable and accounts receivable were all from contracts with customers. And as of January 1, 2021, the balance of receivables from contracts with customers amounted to \$412,261.
- C. As of December 31, 2022 and 2021, the Company does not hold any collateral as security for accounts receivable.
- D. As at December 31, 2022 and 2021, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the Company's notes and accounts receivable was \$403,313 and \$345,178, respectively.
- E. Information relating to credit risk of accounts receivable and notes receivable is provided in Note 12(2).
- F. Please refer to Note 6(8) for the information of long-term receivables.

(3) Inventories

	December 31, 2022		
	Cost	Allowance for valuation loss	Notes Book value
Materials and supplies	\$ 263,513	(\$ 14,053)	\$ 249,460
Work in progress	89,045		89,045
Finished goods	116,797	( 7,224)	109,573
Merchandise	3,160	( 1,963)	1,197
Inventory in transit	6,975	-	6,975
	<u>\$ 479,490</u>	<u>(\$ 23,240)</u>	<u>\$ 456,250</u>
	December 31, 2021		
	Cost	Allowance for valuation loss	Notes Book value
Materials and supplies	\$ 196,269	(\$ 12,749)	\$ 183,520
Work in progress	84,628	( 83)	84,545
Finished goods	91,286	( 7,061)	84,225
Merchandise	3,043	( 1,547)	1,496
Inventory in transit	3,405	-	3,405
	<u>\$ 378,631</u>	<u>(\$ 21,440)</u>	<u>\$ 357,191</u>

The cost of inventories recognised as expense for the year:

	Year ended December 31	
	2022	2021
Cost of goods sold	\$ 1,073,542	\$ 859,954
Loss on decline in market value	1,800	3,729
Others	135,550	123,190
	<u>\$ 1,210,892</u>	<u>\$ 986,873</u>

(4) Financial assets at fair value through other comprehensive income

Items	December 31, 2022	December 31, 2021
Non-current items:		
Equity instruments		
Unlisted stocks		
Feng-Hou Corporation	\$ 5,720	\$ 5,720
KA LING INDUSTRIAL CORP.	4,039	4,039
FULL OCEAN TRADING LIMITED	-	-
	9,759	9,759
Valuation adjustment	-	-
	<u>\$ 9,759</u>	<u>\$ 9,759</u>

A. The Company has elected to classify unlisted stocks investments that are considered to be strategic investments or steady dividend income as financial assets at fair value through other comprehensive income. The fair value of such investments all amounted to \$9,759 as at December 31, 2022 and 2021.

B. The Company has no financial assets at fair value through other comprehensive income pledged to others as collateral.

(5) Investments accounted for using equity method

Investee	December 31, 2022		December 31, 2021	
	Amount	Shareholding ratio	Amount	Shareholding ratio
Subsidiaries:				
CHING CHI INTERNATIONAL LIMITED	\$ 461,238	83%	\$ 447,352	83%
COZY AIR-CONDITIONING CO., LTD.	217,296	100%	200,024	100%
KLEAN AIR ENTERPRISE LTD.	134,118	100%	116,765	100%
I CHI INDUSTRIAL CO., LTD.	11,865	70%	11,684	70%
Associates:				
STAR ROYAL CO., LTD.	-	23.5%	-	23.5%
	<u>\$ 824,517</u>		<u>\$ 775,825</u>	

Please refer to Note 4(3) in the consolidated financial statements for the year ended December 31, 2022 for the information regarding the Company's subsidiaries.

(6) Property, plant and equipment

	Land	Buildings and structures	Machinery and equipment	Transportation equipment	Office equipment	Leasehold improvements	Other equipment	Unfinished construction and equipment under acceptance	Total
<u>At January 1, 2022</u>									
Cost	\$ 79,128	\$ 246,546	\$ 150,200	\$ 35,069	\$ 2,544	\$ 2,376	\$ 9,349	\$ 71,528	\$ 596,740
Accumulated depreciation and impairment	-	( 118,811)	( 117,778)	( 29,300)	( 1,635)	( 1,973)	( 7,049)	-	( 276,546)
	<u>\$ 79,128</u>	<u>\$ 127,735</u>	<u>\$ 32,422</u>	<u>\$ 5,769</u>	<u>\$ 909</u>	<u>\$ 403</u>	<u>\$ 2,300</u>	<u>\$ 71,528</u>	<u>\$ 320,194</u>
<u>2022</u>									
Opening net book amount as at January 1	\$ 79,128	\$ 127,735	\$ 32,422	\$ 5,769	\$ 909	\$ 403	\$ 2,300	\$ 71,528	\$ 320,194
Additions	-	2,559	12,914	1,283	331	4,247	419	-	21,753
Prepayments for equipment transferred	27,081	42,469	176	-	10,645	-	2,373	( 70,863)	11,881
Disposals-cost	-	( 78)	( 4,970)	( 2,725)	( 178)	-	( 751)	-	( 8,702)
Depreciation charge	-	( 10,371)	( 8,823)	( 2,365)	( 1,514)	( 531)	( 1,012)	-	( 24,616)
Disposals-accumulated depreciation	-	78	931	2,725	178	-	751	-	4,663
Closing net book amount as at December 31	<u>\$ 106,209</u>	<u>\$ 162,392</u>	<u>\$ 32,650</u>	<u>\$ 4,687</u>	<u>\$ 10,371</u>	<u>\$ 4,119</u>	<u>\$ 4,080</u>	<u>\$ 665</u>	<u>\$ 325,173</u>
<u>At December 31, 2022</u>									
Cost	\$ 106,209	\$ 291,496	\$ 158,320	\$ 33,627	\$ 13,342	\$ 6,623	\$ 11,390	\$ 665	\$ 621,672
Accumulated depreciation and impairment	-	( 129,104)	( 125,670)	( 28,940)	( 2,971)	( 2,504)	( 7,310)	-	( 296,499)
	<u>\$ 106,209</u>	<u>\$ 162,392</u>	<u>\$ 32,650</u>	<u>\$ 4,687</u>	<u>\$ 10,371</u>	<u>\$ 4,119</u>	<u>\$ 4,080</u>	<u>\$ 665</u>	<u>\$ 325,173</u>



	Land	Buildings and structures	Machinery and equipment	Transportation equipment	Office equipment	Leasehold improvements	Other equipment	Unfinished construction and equipment under acceptance	Total
<u>At January 1, 2021</u>									
Cost	\$ 79,128	\$ 244,754	\$ 141,336	\$ 33,826	\$ 1,911	\$ 2,376	\$ 7,214	\$ 54,540	\$565,085
Accumulated depreciation and impairment	-	( 108,399)	( 117,282)	( 27,238)	( 1,501)	( 1,815)	( 6,557)	-	( 262,792)
	<u>\$ 79,128</u>	<u>\$ 136,355</u>	<u>\$ 24,054</u>	<u>\$ 6,588</u>	<u>\$ 410</u>	<u>\$ 561</u>	<u>\$ 657</u>	<u>\$ 54,540</u>	<u>\$302,293</u>
<u>2021</u>									
Opening net book amount as at January 1	\$ 79,128	\$ 136,355	\$ 24,054	\$ 6,588	\$ 410	\$ 561	\$ 657	\$ 54,540	\$302,293
Additions	-	2,167	15,690	1,919	633	-	2,135	18,173	40,717
Prepayments for equipment transferred	-	-	1,303	-	-	-	-	( 1,185)	118
Disposals-cost	-	( 375)	( 8,129)	( 676)	-	-	-	-	( 9,180)
Depreciation charge	-	( 10,787)	( 8,625)	( 2,738)	( 134)	( 158)	( 492)	-	( 22,934)
Disposals-accumulated depreciation	-	375	8,129	676	-	-	-	-	9,180
Closing net book amount as at December 31	<u>\$ 79,128</u>	<u>\$ 127,735</u>	<u>\$ 32,422</u>	<u>\$ 5,769</u>	<u>\$ 909</u>	<u>\$ 403</u>	<u>\$ 2,300</u>	<u>\$ 71,528</u>	<u>\$320,194</u>
<u>At December 31, 2021</u>									
Cost	\$ 79,128	\$ 246,546	\$ 150,200	\$ 35,069	\$ 2,544	\$ 2,376	\$ 9,349	\$ 71,528	\$596,740
Accumulated depreciation and impairment	-	( 118,811)	( 117,778)	( 29,300)	( 1,635)	( 1,973)	( 7,049)	-	( 276,546)
	<u>\$ 79,128</u>	<u>\$ 127,735</u>	<u>\$ 32,422</u>	<u>\$ 5,769</u>	<u>\$ 909</u>	<u>\$ 403</u>	<u>\$ 2,300</u>	<u>\$ 71,528</u>	<u>\$320,194</u>

- A. For the years ended December 31, 2022 and 2021, no interest expense was capitalised as part of property, plant and equipment.
- B. The significant components of buildings include main plants, elevators and decoration equipment, which are depreciated over 55, 15 and 3 years, respectively.
- C. Information about the property, plant and equipment that were pledged to others as collateral is provided in Note 8.

(7) Leasing arrangements — lessee

- A. The Company leases various assets including land and buildings. Rental contracts are typically made for periods of 5 to 8 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose covenants, but leased assets may not be subleased, lent or used in any way that may affect the ownership of the lessor.
- B. The carrying amount of right-of-use assets and the depreciation charge are as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
	<u>Carrying amount</u>	<u>Carrying amount</u>
Land	\$ 6,298	\$ 7,873
Buildings	6,683	11,828
	<u>\$ 12,981</u>	<u>\$ 19,701</u>

  

	<u>Year ended December 31</u>	<u>Year ended December 31</u>
	<u>Depreciation charge</u>	<u>Depreciation charge</u>
	<u>2022</u>	<u>2021</u>
Land	\$ 1,575	\$ 1,575
Buildings	2,092	2,925
	<u>\$ 3,667</u>	<u>\$ 4,500</u>

- C. For the years ended December 31, 2022 and 2021, the additions to right-of-use assets were \$1,674 and \$0, respectively.
- D. The Company adjusted and decreased the scope of the lease from January 1, 2022. Due to the effect of aforementioned lease curtailment, the right-of-use assets and lease liabilities decreased in the amounts of \$4,727 and \$7,821, respectively, and gains arising from lease modifications amounting to \$3,094 were recognised (shown as other gains and losses).]
- E. Information on profit or loss in relation to lease contracts is as follows:

	<u>Year ended December 31</u>	<u>Year ended December 31</u>
	<u>2022</u>	<u>2021</u>
<u>Items affecting profit or loss</u>		
Interest expense on lease liabilities	\$ 142	\$ 256
Expense on leases of low-value assets	1,420	621
	<u>\$ 1,562</u>	<u>\$ 877</u>

- F. For the years ended December 31, 2022 and 2021, the Company's total cash outflow for leases were \$4,528 and \$5,307, respectively.
- G. Extension and termination options
- (a) Extension options are included the Company's lease contracts pertaining to land.
- (b) In determining the lease term, the Company takes into consideration all facts and circumstances that create an economic incentive to exercise an extension option. The assessment of lease period is reviewed if a significant event occurs which affects the assessment.

(8) Long-term receivables

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Total long-term accounts receivable	\$ 1,308	\$ 1,832
Less: Unrealised interest revenue	( 52)	( 99)
	<u>\$ 1,256</u>	<u>\$ 1,733</u>

As of December 31, 2022 and 2021, the circumstances of each year's expected recovery of the portion of the long-term accounts receivable collection period over one year due to installment payments sales are as follows:

<u>Term</u>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Within 1 year	\$ 492	\$ 477
Later than one year but not later than two years	507	492
Later than two years but not later than three years	257	507
Later than three years but not later than four years	-	257
More than 5 years	-	-
	<u>\$ 1,256</u>	<u>\$ 1,733</u>

A. As of December 31, 2022 and 2021, the Company does not hold any collateral as security for long-term accounts receivable.

B. As of December 31, 2022 and 2021, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the Company's long-term accounts receivable was \$1,256 and \$1,733, respectively.

C. Information relating to credit risk of long-term receivables is provided in Note 12(2).

(9) Short-term borrowings

<u>Type of borrowings</u>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Bank unsecured borrowings	\$ 152,096	\$ 163,991
Interest rate range	<u>1.43% ~ 6.29%</u>	<u>0.78% ~ 1.33%</u>

A. Interest expense recognised in profit or loss amounted to \$2,358 and \$534 for the years ended December 31, 2022 and 2021, respectively.

B. Please refer to Note 8 for the details of collateral for the credit line for short-term borrowings.

(10) Other payables

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Salaries and wages and year-end bonuses payable	\$ 41,662	\$ 35,071
Employees' compensation payable	18,478	15,712
Project payable	19,575	2,463
Commodity tax payable	8,902	12,030
Payable on technical service expense	3,843	6,090
Payable on machinery and equipment	3,618	5,636
Directors' remuneration payable	7,038	5,299
Others	13,914	12,920
	<u>\$ 117,030</u>	<u>\$ 95,221</u>

(11) Current provisions

Warranty	2022	2021
At January 1	\$ 36,502	\$ 41,864
Additional provisions	11,238	10,479
Used during the year	( 11,115)	( 10,210)
Unused amounts reversed	( 406)	( 5,631)
At December 31	<u>\$ 36,219</u>	<u>\$ 36,502</u>

The Company gives warranties on products sold and services rendered in accordance with the contract agreement. Provision for warranty is estimated based on historical warranty experience. It is expected that provision for warranty will occur within the next year.

(12) Long-term borrowings/long-term liabilities, current portion

Type of borrowings	Borrowing period and repayment term	Interest rate range	Collateral	December 31, 2022
Long-term bank borrowings				
Secured borrowings	Borrowing period is from July 2019 to July 2024; principal is repayable in installments in accordance with the mutual agreement	1.83%	Land, buildings and structures	\$ 35,000
Less: current portion				( 20,000)
				<u>\$ 15,000</u>

Type of borrowings	Borrowing period and repayment term	Interest rate range	Collateral	December 31, 2021
Long-term bank borrowings				
Secured borrowings	Borrowing period is from July 2019 to July 2024; principal is repayable in installments in accordance with the mutual agreement	1.35%	Land, buildings and structures	\$ 55,000
Less: current portion				( 20,000)
				<u>\$ 35,000</u>

A. Interest expense recognised in profit or loss amounted to \$500 and \$847 for the years ended December 31, 2022 and 2021, respectively.

B. Please refer to Note 8 for the details of collateral for long-term borrowing.

(13) Pensions

A. (a) The Company has a defined benefit pension plan in accordance with the Labor Standards Act, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2.3% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee.

(b) The amounts recognised in the balance sheet are as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Present value of defined benefit obligations	\$ 97,008	\$ 116,051
Fair value of plan assets	( 27,279)	( 19,449)
	<u>\$ 69,729</u>	<u>\$ 96,602</u>

(c) Movements in net defined benefit liabilities are as follows:

	<u>Present value of defined benefit obligations</u>	<u>Fair value of plan assets</u>	<u>Net defined benefit liability</u>
2022			
At January 1	\$ 116,051	(\$ 19,449)	\$ 96,602
Current service cost	1,263	-	1,263
Interest expense (income)	812	( 136)	676
	<u>118,126</u>	<u>( 19,585)</u>	<u>98,541</u>
Remeasurements:			
Actuarial gains	-	( 1,331)	( 1,331)
Change in financial assumptions	( 7,307)	-	( 7,307)
Experience adjustments	( 10,950)	-	( 10,950)
Benefits paid	( 2,861)	2,861	-
	<u>( 21,118)</u>	<u>1,530</u>	<u>( 19,588)</u>
Pension fund contribution	-	( 9,224)	( 9,224)
At December 31	<u>\$ 97,008</u>	<u>(\$ 27,279)</u>	<u>\$ 69,729</u>

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
2021			
At January 1	\$ 117,496	(\$ 14,445)	\$ 103,051
Current service cost	1,101	-	1,101
Interest expense (income)	470	( 58)	412
	<u>119,067</u>	<u>( 14,503)</u>	<u>104,564</u>
Remeasurements:			
Actuarial gains	-	( 94)	( 94)
Changes in population assumption	133	-	133
Change in financial assumptions	( 3,866)	-	( 3,866)
Experience adjustments	1,732	-	1,732
Benefits paid	( 1,015)	1,015	-
	<u>( 3,016)</u>	<u>921</u>	<u>( 2,095)</u>
Pension fund contribution	-	( 5,867)	( 5,867)
At December 31	<u>\$ 116,051</u>	<u>(\$ 19,449)</u>	<u>\$ 96,602</u>

(d) The Bank of Taiwan was commissioned to manage the Fund of the Company's defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitisation products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorised by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan assets fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2022 and 2021 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

(e) The principal actuarial assumptions used were as follows:

	Year ended December 31	
	2022	2021
Discount rate	1.40%	0.70%
Future salary increases	2.50%	2.50%

Future mortality rate was estimated based on the 6th Taiwan Standard Ordinary Experience Mortality Table.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

	Discount rate		Future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
Effect on present value of defined benefit obligation				
December 31, 2022	(\$ 2,440)	\$ 2,527	\$ 2,251	(\$ 2,189)
December 31, 2021	(\$ 2,986)	(\$ 3,100)	\$ 2,769	(\$ 2,687)

The sensitivity analysis above is based on one assumption which changed while the other conditions remain unchanged. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

- (f) Expected contributions to the defined benefit pension plans of the Company for the year ending December 31, 2023 amount to \$4,100.
- (g) As of December 31, 2022, the weighted average duration of the retirement plan is 11 years.
- B. (a) Effective July 1, 2005, the Company has established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.
- (b) The pension costs under defined contribution pension plans of the Company for the years ended December 31, 2022 and 2021, were \$4,892 and \$4,670, respectively.

(14) Share capital

- A. As of December 31, 2022, the Company's authorised capital was \$1,000,000, consisting of 100,000 thousand shares of ordinary stock (including 20,000 thousand shares of convertible bonds), and the paid-in capital was \$761,524 with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected.
- B. For the years ended December 31, 2022 and 2021, the number of the Company's ordinary shares outstanding at the beginning and end of the year was both 76,152 thousand shares.

(15) Capital surplus

A. Movements on the capital surplus for the years ended December 31, 2022 and 2021 are as follows:

	<u>Share premium</u>	<u>Treasury share transactions</u>	<u>Total</u>
Balance at January 1 (at December 31)	\$ 128,615	\$ 1	\$ 128,616

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

(16) Retained earnings

A. The Company operates in a volatile industry environment and is in the stable growth stage. Considering the Company's future capital needs, long-term financial plans and to maximise shareholders' interests, and in accordance with the Company's dividend policy, the current year's earnings, if any, shall first be used to pay all taxes and offset prior years' operating losses and then 10% of the remaining amount shall be set aside as legal reserve until the amount of legal reserve is equal to the amount of total capital.

In accordance with laws, if the balance of the special reserve is insufficient compared to the total of the cumulative amount of net increase in fair value of investment property in a preceding period and the cumulative net amount of other deductions from equity in a preceding period, the Company shall first set aside an equivalent amount of special reserve from the undistributed earnings of the prior period before the appropriation of earnings. If there remains any insufficiency, it shall be set aside from the after-tax profit of the period plus items other than after-tax net profit of the period, that are included in the undistributed earnings of the period. After the provision or reversal of special reserve in accordance with the laws and regulations, the appropriation of the remaining earnings along with the unappropriated earnings of prior years shall be proposed by the Board of Directors and approved by the shareholders if dividends would be distributed by issuing new shares.

The Board of Directors of the Company can distribute all or part of the distributable dividends and bonus, capital surplus and legal reserve in the form of cash as resolved by a majority vote at their meeting attended by two-thirds of the total number of directors and report to the shareholders.

The amount of distributable dividends and shareholders' bonuses shall not be less than 50% of the distributable earnings of the current year, and cash dividends shall not be less than 10% of the total distribution of the current year.



B. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.

C. (a) In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

(b) The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Order No. Financial-Supervisory-Securities-Corporate-1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently.

In accordance with the abovementioned rules, the special reserve appropriated as a result of the Company's choice of reclassifying cumulative translation adjustment to retained earnings as of December 31, 2022 and 2021 were both \$4,607.

D. (a) On May 26, 2022 and July 20, 2021, the shareholders resolved that total dividends for the distributions of earnings for the year of 2021 and 2020 were \$137,074 and \$152,304 at \$1.80 and \$2.00 (in dollars) per ordinary share, respectively.

(b) On March 22, 2023, the Board of Directors proposed that total dividends for the distribution of earnings for the year of 2022 was \$152,304 at \$2.00 (in dollars) per ordinary share.

(17) Other equity items

2022			
	Currency translation	Unrealised gains (losses) on valuation	Total
At January 1	(\$ 68,799)	(\$ 33,318)	(\$ 102,117)
Currency translation differences:			
– Group	20,675	-	20,675
At December 31	(\$ 48,124)	(\$ 33,318)	(\$ 81,442)
2021			
	Currency translation	Unrealised gains (losses) on valuation	Total
At January 1	(\$ 62,923)	(\$ 33,318)	(\$ 96,241)
Currency translation differences:			
– Group	( 5,876)	-	( 5,876)
At December 31	(\$ 68,799)	(\$ 33,318)	(\$ 102,117)

(18) Operating revenue

A. Disaggregation of revenue from contracts with customers

The Company derives operating revenue from contracts with customers and mainly from the transfer of goods and services over time and at a point in time in the following major product categories:

	Year ended December 31	
	2022	2021
Equipment unit	\$ 1,201,886	\$ 949,446
System integration construction	94,701	85,087
Repairs and maintenance revenue	131,114	127,648
	<u>\$ 1,427,701</u>	<u>\$ 1,162,181</u>
	Year ended December 31	
	2022	2021
Timing of revenue recognition:		
At a point in time	\$ 1,201,886	\$ 949,446
Over time	225,815	212,735
	<u>\$ 1,427,701</u>	<u>\$ 1,162,181</u>

B. Contract assets and liabilities

(a) The Company has recognised the following revenue-related contract assets and liabilities:

	December 31, 2022	December 31, 2021	January 1, 2021
Contract assets:			
System integration construction contract	<u>\$ 7,589</u>	<u>\$ 48,363</u>	<u>\$ 15,126</u>
Contract liabilities:			
Equipment unit contract	\$ 29,074	\$ 13,064	\$ 12,995
System integration construction contract	12,035	-	78
	<u>\$ 41,109</u>	<u>\$ 13,064</u>	<u>\$ 13,073</u>

(b) Revenue recognised that was included in the contract liability balance at the beginning of the year

	Year ended December 31	
	2022	2021
Equipment unit contract	\$ 6,378	\$ 6,669
System integration construction contract	-	78
	<u>\$ 6,378</u>	<u>\$ 6,747</u>

(c) As of December 31, 2022, the total transaction price allocated to unfulfilled performance obligations amounted to \$330,189. The Company recognised the revenue based on the stage of completion of the system integration construction contract over time. The construction was expected to be completed in 2023~2024.

(19) Other income

	Year ended December 31	
	2022	2021
Dividend income	\$ 1,707	\$ 1,841
Income from managerial services (Note)	24,773	22,362
Other income	6,914	8,129
	<u>\$ 33,394</u>	<u>\$ 32,332</u>

Note: Details are provided in Note 7, Related party transactions.

(20) Other gains and losses

	Year ended December 31	
	2022	2021
Gains arising from lease modifications	\$ 3,094	\$ -
Foreign exchange losses	2,127	( 789)
Gains on disposals of property, plant and equipment	257	42
Others	( 104)	( 33)
	<u>\$ 5,374</u>	<u>(\$ 780)</u>

Note: Details are provided in Note 7, Related party transactions.

(21) Expenses by nature

	Year ended December 31	
	2022	2021
Change in inventory of finished goods and work in progress	\$ 29,928	\$ 53,174
Raw materials used	865,968	719,647
Employee benefit expense	186,369	170,744
Depreciation charge	28,283	27,434
Amortisation charge	2,577	3,012
Operating lease expenses	1,420	621
Other expenses	285,287	188,339
	<u>\$ 1,399,832</u>	<u>\$ 1,162,971</u>

(22) Employee benefit expense

	Year ended December 31	
	2022	2021
Wages and salaries	\$ 148,719	\$ 136,184
Labour and health insurance fees	12,831	12,827
Pension costs	6,831	6,183
Directors' emoluments	9,851	7,612
Other personnel expenses	8,137	7,938
Operating lease expenses	<u>\$ 186,369</u>	<u>\$ 170,744</u>

- A. In accordance with the Articles of Incorporation of the Company, a ratio of distributable profit of the current year shall be distributed as employees' compensation and directors' remuneration. The ratio shall be 3% ~ 7% for employees' compensation and shall not be higher than 3% for directors' remuneration. If the Company has accumulated deficit, earnings should be channeled to cover losses. The employees' compensation may be distributed in the form of shares or cash and the employees include the employees of subsidiaries of the Company meeting certain specific requirements. The aforementioned current year's earnings represent current year's profit before deducting tax and distributing employees' compensation and directors' remuneration.
- B. For the years ended December 31, 2022 and 2021, employees' compensation was accrued at \$16,423 and \$12,365, respectively; while directors' remuneration was accrued at \$7,038 and \$5,299, respectively. The aforementioned amounts were recognised in salary expenses. The employees' compensation and directors' remuneration were estimated and accrued based on 7% and 3% of distributable profit of current year for the year ended December 31, 2022. The employees' compensation and directors' remuneration resolved by the Board of Directors were \$16,423 and \$7,038, and the employees' compensation will be distributed in the form of cash. Employees' compensation and directors' remuneration of 2021 as resolved by the Board of Directors were in agreement with those amounts recognised in the 2021 financial statements. Information about employees' compensation and directors' remuneration of the Company as resolved by the Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(23) Income tax

A. Income tax expense

(a) Components of income tax expense

	Year ended December 31	
	2022	2021
Current tax:		
Current tax on profits for the year	\$ 11,589	\$ 5,737
Tax on undistributed earnings	-	1,572
Prior year income tax (over) underestimation	( 1,426)	1,264
Total current tax	10,163	8,573
Deferred tax:		
Origination and reversal of temporary differences	632	( 392)
Income tax expense	\$ 10,795	\$ 8,181

(b) The income tax (charge)/credit relating to components of other comprehensive income is as follows:

	Year ended December 31	
	2022	2021
Remeasurement of defined benefit obligations	\$ 3,918	\$ 419

B. Reconciliation between income tax expense and accounting profit

	Year ended December 31	
	2022	2021
Tax calculated based on profit before tax and statutory tax rate	\$ 42,968	\$ 31,795
Effects from tax exempt income by tax regulation (	30,747)	( 26,450)
Additional tax on undistributed earnings	-	1,572
Prior year income tax (over) underestimation	( 1,426)	1,264
Income tax expense	\$ 10,795	\$ 8,181

C. Amounts of deferred tax assets or liabilities as a result of temporary differences are as follows:

	2022			
	At January 1	Recognised in profit or loss	Recognised in other comprehensive income	At December 31
Temporary differences:				
–Deferred tax assets:				
Pension costs	\$ 13,977	\$ 1,887	(\$ 3,918)	\$ 11,946
Product service guarantee	7,300	( 56)	-	7,244
Allowance for inventory valuation losses	4,288	360	-	4,648
Allowance for bad debts	841	( 453)	-	388
Unused compensated absence	488	-	-	488
Others	1,171	( 454)	-	717
	<u>28,065</u>	<u>1,284</u>	<u>( 3,918)</u>	<u>25,431</u>
–Deferred tax liabilities:				
Gain on investment	( 52,118)	( 1,916)	-	( 54,034)
	<u>(\$ 24,053)</u>	<u>(\$ 632)</u>	<u>(\$ 3,918)</u>	<u>(\$ 28,603)</u>

	2021			
	At January 1	Recognised in profit or loss	Recognised in other comprehensive income	At December 31
Temporary differences:				
–Deferred tax assets:				
Pension costs	\$ 14,848	(\$ 452)	(\$ 419)	\$ 13,977
Product service guarantee	8,373	( 1,073)	-	7,300
Allowance for inventory valuation losses	3,542	746	-	4,288
Allowance for bad debts	1,398	( 557)	-	841
Unused compensated absence	488	-	-	488
Others	-	1,171	-	1,171
	<u>28,649</u>	<u>( 165)</u>	<u>( 419)</u>	<u>28,065</u>
–Deferred tax liabilities:				
Gain on investment	( 52,635)	517	-	( 52,118)
Unrealised exchange gain	( 40)	40	-	-
	<u>( 52,675)</u>	<u>557</u>	<u>-</u>	<u>( 52,118)</u>
	<u>(\$ 24,026)</u>	<u>\$ 392</u>	<u>(\$ 419)</u>	<u>(\$ 24,053)</u>

D. The Company's income tax returns through 2020 have been assessed and approved by the Tax Authority. As of the report date, the Company has no significant administrative remedies for pending tax.

(24) Earnings per share

	Year ended December 31, 2022		
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders	<u>\$ 204,046</u>	<u>76,152</u>	<u>\$ 2.68</u>
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 204,046	76,152	
Assumed conversion of all dilutive potential ordinary shares:			
Employees' compensation	-	876	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 204,046</u>	<u>77,028</u>	<u>\$ 2.65</u>

	Year ended December 31, 2021		
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 150,793	76,152	\$ 1.98
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 150,793	76,152	
Assumed conversion of all dilutive potential ordinary shares:			
Employees' compensation	-	826	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	\$ 150,793	76,978	\$ 1.96

(25) Supplemental cash flow information

A. Investing activities with partial cash payments:

	Year ended December 31	
	2022	2021
Purchase of property, plant and equipment	\$ 21,753	\$ 40,717
Add: Opening balance of payable on equipment	5,636	907
Less: Ending balance of payable on equipment	(3,618)	(5,636)
Cash paid	\$ 23,771	\$ 35,988
Disposal of property, plant and equipment	\$ 5,282	\$ -
Add: Opening balance of other receivables	-	-
Less: Ending balance of other receivables	(5,025)	-
Cash received during the year	\$ 257	\$ -

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

	Year ended December 31	
	2022	2021
Prepayments for equipment transferred to property, plant and equipment	\$ 11,881	\$ 118
Long-term borrowings, current portion	\$ 20,000	\$ 20,000
Increase in right-of-use assets	\$ 1,674	\$ -
Less: Increase in lease liabilities	( 1,674)	-
	\$ -	\$ -
Decrease in right-of-use assets	\$ 4,727	\$ -
Less: Decrease in lease liabilities	( 7,821)	-
Gains arising from lease modifications	(\$ 3,094)	\$ -

(26) Changes in liabilities from financing activities

	January 1, 2022	Changes in		December 31, 2022
		cash flow from financing activities	Changes in other non-cash items	
Short-term borrowings	\$ 163,991	(\$ 11,895)	\$ -	\$ 152,096
Long-term borrowings (Note 1)	55,000	( 20,000)	-	35,000
Lease liability (Note 2)	20,010	( 2,966)	( 6,147)	10,897
Liabilities from financing activities-gross	<u>\$ 239,001</u>	<u>(\$ 34,861)</u>	<u>(\$ 6,147)</u>	<u>\$ 197,993</u>
	January 1, 2021	Changes in		December 31, 2021
		cash flow from financing activities	Changes in other non-cash items	
Short-term borrowings	\$ 14,885	\$ 149,106	\$ -	\$ 163,991
Long-term borrowings (Note 1)	75,000	( 20,000)	-	55,000
Lease liability (Note 2)	24,440	( 4,430)	-	20,010
Liabilities from financing activities-gross	<u>\$ 114,325</u>	<u>\$ 124,676</u>	<u>\$ -</u>	<u>\$ 239,001</u>

Note 1: Including current portion.

Note 2: In addition, refer to Note 6(25) for supplemental cash flow information.



## 7. Related Party Transactions

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

Names of related parties	Relationship with the Company
CHING CHI INTERNATIONAL LIMITED	The subsidiary of the Company
KUEN LING MACHINERY REFRIGERRATING (SHANGHAI) CO., LTD. (SHANGHAI KUEN LING)	The subsidiary of the Company
KUEN LING MACHINERY REFRIGERATING (SUZHOU) CO., LTD. (SUZHOU KUEN LING)	The subsidiary of the Company
KLEAN AIR ENTERPRISE LTD.	The subsidiary of the Company
KUEN LING MACHINERY REFRIGERATING (VIETNAM) CO., LTD. (VIETNAM KUEN LING)	The subsidiary of the Company
PT KUEN LING INDONESIA	The subsidiary of the Company
COZY AIR-CONDITIONING CO., LTD. (COZY AIR-CONDITIONING)	The subsidiary of the Company
I CHI INDUSTRIAL CO., LTD.	The subsidiary of the Company
TECO Electric & Machinery Co., Ltd. (TECO Electric & Machinery)	Entity with significant influence over the Company
AOK TECHNICAL SERVICE CO., LTD.	Entity with significant influence over the Company
TESEN ELECTRONIC CO., LTD.	Entity with significant influence over the Company
Top-Tower Enterprises Co., Ltd.	Entity with significant influence over the Company
JIANGXI TECO AIR CONDITIONING EQUIPMENT CO., LTD. (JIANGXI TECO)	Entity with significant influence over the Company
TECO (Philippines) 3C & Appliance Inc.	Entity with significant influence over the Company

### (2) Significant related party transactions

#### A. Operating revenue

	Year ended December 31	
	2022	2021
Sales of goods:		
Subsidiaries		
COZY AIR-CONDITIONING	\$ 861,303	\$ 699,504
VIETNAM KUEN LING	30,861	28,508
Others	1,262	1,334
	<u>893,426</u>	<u>729,346</u>

	Year ended December 31	
	2022	2021
Entities with significant influence over the Company		
TECO Electric & Machinery	95,803	74,184
Others	4,076	2,812
	<u>99,879</u>	<u>76,996</u>
	<u>\$ 993,305</u>	<u>\$ 806,342</u>

Because there is no similar counterparty or transaction, the price of goods sold to related parties is conducted by mutual agreement. The collection term is 60 to 197 days after monthly billings for related parties, which is not materially different from the general transaction terms.

B. Purchases

	Year ended December 31	
	2022	2021
Purchases of goods:		
Subsidiaries		
SUZHOU KUEN LING	\$ 24,186	\$ 7,370
SHANGHAI KUEN LING	-	1,121
	<u>24,186</u>	<u>8,491</u>
Entities with significant influence over the Company		
JIANGXI TECO	-	2,239
TECO Electric & Machinery	190	732
	<u>190</u>	<u>2,971</u>
	<u>\$ 24,376</u>	<u>\$ 11,462</u>

Because there is no similar counterparty or transaction, the purchase prices with related parties are conducted by mutual agreement. The payment term is 30 to 90 days after the receipt of goods, which is not materially different from the general transaction terms.

C. Other income

	Year ended December 31	
	2022	2021
Sales of services		
Subsidiaries		
COZY AIR-CONDITIONING(Management services)	\$ 24,773	\$ 22,362

The transaction prices for labor services provided by the Company to related parties are determined in accordance with mutual agreement, and the collection term is 90 days after monthly billings.

#### D. Receivables

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Notes receivable:		
Entities with significant influence over the Company		
TECO Electric & Machinery	<u>\$ 55,228</u>	<u>\$ 43,480</u>
Accounts receivable:		
Subsidiaries		
COZY AIR-CONDITIONING	164,399	200,081
Others	<u>3,019</u>	<u>3,849</u>
	<u>167,418</u>	<u>203,930</u>
Entities with significant influence over the Company		
TECO Electric & Machinery	6,240	16,326
Others	<u>490</u>	<u>65</u>
	<u>6,730</u>	<u>16,391</u>
	<u>174,148</u>	<u>220,321</u>
Other receivables:		
Subsidiaries		
COZY AIR-CONDITIONING	<u>11,846</u>	<u>3,983</u>
	<u>\$ 241,222</u>	<u>\$ 267,784</u>

Other receivables mainly arise from payments receivable by the Company for providing management services.

#### E. Payables

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Notes payable:		
Entities with significant influence over the Company		
TECO Electric & Machinery	\$ 8	\$ 131
Other	<u>6</u>	<u>-</u>
	<u>14</u>	<u>131</u>

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Accounts payable:		
Subsidiaries		
SUZHOU KUEN LING	<u>1,831</u>	<u>245</u>
Entities with significant influence over the Company		
TECO Electric & Machinery	49	111
Other	<u>35</u>	<u>-</u>
	<u>84</u>	<u>111</u>
	<u>1,915</u>	<u>356</u>
Total	<u>\$ 1,929</u>	<u>\$ 487</u>

F. Lease transactions — lessee

(a) The Company leases land and buildings from Cozy Air-Conditioning. Rental contracts are typically made for the period from 2019 to 2027. Rents are paid monthly.

(b) Lease liability

i. Outstanding balance:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Subsidiaries		
COZY AIR-CONDITIONING	<u>\$ 7,833</u>	<u>\$ 17,559</u>

ii. Interest expense:

	<u>Year ended December 31</u>	
	<u>2022</u>	<u>2021</u>
Subsidiaries		
COZY AIR-CONDITIONING	<u>\$ 99</u>	<u>\$ 217</u>

G. Loans to / from related parties

Loans to related parties:

Limit on and ending balance on loans to others

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Limit on loans to others		
Subsidiaries		
VIETNAM KUEN LING (Note)	<u>\$ 18,396</u>	<u>\$ 27,630</u>

Note: Foreign currency transactions are translated into New Taiwan dollars using the exchange rates as of the report date.

As of December 31, 2022 and 2021, the actual amount used were both \$0.

## H. Property transactions

Disposal of property, plant and equipment :

	Year ended December 31, 2022		Year ended December 31, 2021	
	Disposal proceeds	Gain (loss) on disposal	Disposal proceeds	Gain (loss) on disposal
COZY AIR-CONDITIONING	\$ 5,025	\$ 986	\$ -	\$ -

The above-mentioned unrealised gain on disposal of \$986 has been fully written off.

### (3) Key management compensation

	Year ended December 31	
	2022	2021
Salaries and other short-term employee benefits	\$ 25,027	\$ 22,262
Post-employment benefits	223	237
	<u>\$ 25,250</u>	<u>\$ 22,499</u>

## 8. Pledged Assets

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

Pledged asset	Book value		Purpose
	December 31, 2022	December 31, 2021	
Pledged time deposits (Note)	\$ 1,304	\$ -	Advance payment bonds issued by banks
Land	79,128	79,128	Line of credit for long-term and short-term borrowings
Buildings and structures, net	111,826	127,735	Line of credit for long-term and short-term borrowings
Guarantee deposits paid	17,812	18,223	Construction performance bond or maintenance bond
	<u>\$ 210,070</u>	<u>\$ 225,086</u>	

Note: It was the financial assets at amortised cost, which was listed under 'other current assets, others'.

## 9. Significant Contingent Liabilities and Unrecognised Contract Commitments

(1) The amount of the performance promissory note issued by the Company for the sale of equipment units and undertaking projects is as follows:

	December 31, 2022	December 31, 2021
Performance guarantee	<u>\$ 48,079</u>	<u>\$ 44,960</u>

(2) Refer to Note 6 (18), operating revenue, for the amount of unfulfilled performance obligations for the system integration construction contract undertaken by the Company.

(3) The Company undertakes contracts such as equipment unit and system integration constructions, and financial institutions provide the Company with contract guarantees and other guarantees. The amount of guarantee is as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Guaranteed amount provided by the bank	\$ 41,940	\$ 4,116

(4) The amount to be paid in the future for the capital expenditure contracts and outsourcing construction contracts signed by the Company is as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Outsourcing construction	\$ 47,753	\$ 26,765
Property, plant and equipment	5,101	-
	<u>\$ 52,854</u>	<u>\$ 26,765</u>

(5) As of December 31, 2022 and 2021, the Company's unused letters of credit for the import of raw materials were USD 27 thousand and USD 160 thousand, respectively.

#### 10. Significant Disaster Loss

None.

#### 11. Significant Events after the Balance Sheet Date

The appropriation of earnings for the year ended December 31, 2022 as resolved by the Board of Directors on March 22, 2023 is provided in Note 6(16).

#### 12. Others

##### (1) Capital management

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

In order to maintain the capital needed for expanding and upgrading plants and equipment, the Company's management shall ensure that there are necessary financial resources and operating plans to support operations, capital expenditures, debt repayment and dividend payment in the next 12 months.

The Company controls its capital using the debt to assets ratio, which is calculated as total liabilities divided by assets. The Company's strategy in 2022 is to continuously adjust the ratio of liabilities to assets and strive to balance the overall capital structure.

The total debt-to-asset ratios at December 31, 2022 and 2021 were as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Debt to assets ratio	<u>49</u>	<u>47</u>

(2) Financial instruments

A. Financial instruments by category

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
<u>Financial assets</u>		
Financial assets at fair value through other comprehensive income		
Designation of equity instrument	<u>\$ 9,759</u>	<u>\$ 9,759</u>
Financial assets at amortised cost		
Cash and cash equivalents	\$ 97,477	\$ 165,544
Notes receivable (including related parties)	64,622	51,988
Accounts receivable (including related parties)	338,691	293,190
Other receivables (including related parties)	11,846	3,983
Financial assets at amortised cost (Note)	1,304	-
Guarantee deposits paid	17,812	18,223
Long-term accounts receivables	<u>1,256</u>	<u>1,733</u>
	<u>\$ 533,008</u>	<u>\$ 534,661</u>
<u>Financial liabilities</u>		
Financial liabilities at amortised cost		
Short-term borrowings	\$ 152,096	\$ 163,991
Notes payable	14,824	11,942
Accounts payable	177,361	182,919
Other payables	117,030	95,221
Long-term borrowings	35,000	55,000
(including current portion)	<u>\$ 496,311</u>	<u>\$ 509,073</u>
Lease liability (including non-current)	<u>\$ 10,897</u>	<u>\$ 20,010</u>

Note : Listed under 'other current assets, other'.

B. Financial risk management policies

In order to effectively control and decrease financial risks, the management of the Company focuses on identifying, evaluating and hedging market uncertainties to minimise potential adverse effects from markets on the Company's financial performance. The risk includes market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk).

Risk management is carried out by related segments under approved policies.

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

### (a) Market risk

#### Exchange rate risk

- i The Company operates internationally and is exposed to exchange rate risk arising from the transactions of the Company used in various functional currency, primarily with respect to the USD. Foreign exchange rate risk arises from future commercial transactions and recognised assets and liabilities.
- ii As the objective of the investments in certain foreign operations held by the Company is for strategic purposes, the Company does not hedge the investments.
- iii The Company's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: NTD; other certain subsidiaries' functional currency: RMB and VND). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

December 31, 2022			
	Foreign currency		Book value
	amount	Exchange rate	
	(In thousands)		(NTD)
<b>(Foreign currency: functional currency)</b>			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 696	30.71	\$ 21,374
Non-monetary items (Note)			
USD:NTD	19,788	30.71	599,395
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	901	30.71	27,670



	December 31, 2021		
(Foreign currency: functional currency)	Foreign currency		Book value (NTD)
	amount		
	(In thousands)	Exchange rate	
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 472	27.68	\$ 13,065
Non-monetary items (Note)			
USD:NTD	20,542	27.68	568,156
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	1,366	27.68	37,811

Note: The items are financial assets at fair value through other comprehensive income and investments accounted for using the equity method.

- iv The total exchange loss, including realised and unrealised, arising from significant foreign exchange variation on the monetary items held by the Company for the years ended December 31, 2022 and 2021, amounted to \$2,127 and \$(789), respectively.
- v Analysis of foreign currency market risk arising from significant foreign exchange variation:

	Year ended December 31, 2022		
	Sensitivity analysis		
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 214	\$ -
<u>Non-monetary items</u>			
USD:NTD	1%	-	5,994
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	1%	277	-

	Year ended December 31, 2021		
	Sensitivity analysis		
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
<b>(Foreign currency: functional currency)</b>			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 131	\$ -
<u>Non-monetary items</u>			
USD:NTD	1%	-	5,682
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	1%	378	-

#### Price risk

Equity instruments that the Company is exposed to price risk are financial assets at fair value through other comprehensive income. The price of those equity instruments will be affected by the uncertainty of the future value of the investment.

#### Cash flow and fair value interest rate risk

- i The Company's main interest rate risk arises from long-term borrowings (including current portion) with variable rates, which expose the Company to cash flow interest rate risk. During 2022 and 2021, the Company's borrowings at variable rate were mainly denominated in US Dollars.
- ii If the borrowing interest rate had increased/decreased by 1% with all other variables held constant, pre-tax profit for the years ended December 31, 2022 and 2021 would have decreased/increased by \$350 and \$550, respectively. The main factor is that changes in interest expense result in floating-rate borrowings.

#### **(b) Credit risk**

- i Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the contract cash flows stated at amortised cost.
- ii In order to maintain quality of accounts receivable, the Company has set a credit risk management process or its operations.

Risk assessment of individual customers takes into account factors that may influence customers' ability to pay, such as their financial position, historical record and current economic condition. When appropriate, the Company applies certain credit enhancement tools, such as collecting sales revenue in advance, to reduce credit risk of specific customers.

The Company's treasury measures and controls credit risk of deposits with banks and other financial instruments. Because the counterparties of the Company and performing parties are banks with good credit and financial institutions or company organisations with investment grade or above and thus there was no significant possibility of default nor significant credit risk.

- iii The Company adopts the assumptions under IFRS 9, if the contract payments were past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition, to assess whether there has been a significant increase in credit risk on that instrument since initial recognition.
- iv In line with credit risk management procedure, when the counterparty fails to perform the agreement between the two parties and fails to negotiate, the default has occurred.
- v The Company classifies customer's accounts receivable, contract assets and rents receivable in accordance with customer types. The Company applies the modified approach using a provision matrix to estimate the expected credit loss.
- vi The following indicators are used to determine whether the credit impairment of debt instruments has occurred:
  - (i) Significant financial difficulty of the issuer;
  - (ii) A breach of contract, such as a default or delinquency in interest or principal payments;
  - (iii) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
  - (iv) The disappearance of an active market for that financial asset because of financial difficulties;
- vii The expected credit loss rate established by the Company on the accounts receivable of customers on December 31, 2022 and 2021 is as follows:

	Not past due	Past due					
		Up to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	1 to 2 year(s)	Over 2 years
December 31, 2022	0.15% ~ 0.65%	0.35% ~ 1.30%	0.50% ~ 5.89%	2.78% ~ 11.78%	6.78% ~ 31.78%	11.78% ~ 51.78%	100%
December 31, 2021	0.23% ~ 0.73%	0.51% ~ 1.46%	0.75% ~ 6.39%	3.79% ~ 12.79%	7.80% ~ 32.80%	12.8% ~ 52.80%	100%

- viii Movements in relation to the Company applying the modified approach to provide loss allowance for accounts receivable, notes receivable and contract assets are as follows:

	2022		
	Accounts receivable	Effect on profit Notes receivable	Contract assets
At January 1	\$ 7,729	\$ 24	\$ -
Reversal of impairment loss	( 1,977)	-	-
At December 31	\$ 5,752	\$ 24	\$ -

	2021		
	Accounts receivable	Effect on profit Notes receivable	Contract assets
At January 1	\$ 11,120	\$ 24	\$ -
Reversal of impairment loss	( 2,443)	-	-
Write-offs	( 948)	-	-
At December 31	<u>\$ 7,729</u>	<u>\$ 24</u>	<u>\$ -</u>

For provisioned loss in 2022 and 2021, the impairment losses arising from customers' contract are \$1,977 and \$2,443, respectively.

(c) Liquidity risk

The Company's objectives for managing liquidity risk are to maintain cash and deposits needed for operations and adequate borrowing credits to ensure the Company is financially flexible.

The table below analyses the Company's non-derivative financial liabilities into relevant maturity groupings and summarises the maturity of the Company's financial liabilities based on contractual undiscounted repayments:

	December 31, 2022				
	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
<b>Non-derivative financial liabilities:</b>					
Short-term borrowings	\$ 130,668	\$ 22,288	\$ -	\$ -	\$ -
Notes payable (including related parties)	14,506	318	-	-	-
Accounts payable (including related parties)	177,361	-	-	-	-
Other payables	27,794	89,236	-	-	-
Lease liability	814	2,442	2,529	4,570	867
Long-term borrowings (including current portion)	5,107	15,219	15,068	-	-
	<u>\$ 356,250</u>	<u>\$ 129,503</u>	<u>\$ 17,597</u>	<u>\$ 4,570</u>	<u>\$ 867</u>

Derivative financial liabilities: None.

	December 31, 2021				
	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
<b>Non-derivative financial liabilities:</b>					
Short-term borrowings	\$ 134,805	\$ 29,450	\$ -	\$ -	\$ -
Notes payable (including related parties)	11,711	231	-	-	-
Accounts payable (including related parties)	182,469	450	-	-	-
Other payables	61,252	33,969	-	-	-
Lease liability	1,171	3,514	8,644	7,225	-
Long-term borrowings (including current portion)	5,174	15,422	20,326	15,068	-
	<u>\$ 396,582</u>	<u>\$ 83,036</u>	<u>\$ 28,970</u>	<u>\$ 22,293</u>	<u>\$ -</u>

Derivative financial liabilities: None.

(3) Fair value information

A. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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. The fair value of the Company's investment in equity investment without active market is included in Level 3.

B. The carrying amounts of the Company's cash and cash equivalents, financial assets at amortised cost, note receivables (including receivables from related parties), accounts receivable (including receivables from related parties), other receivables (including receivables from related parties), guarantee deposits paid, long-term notes and accounts receivables, short-term borrowings, notes payable, accounts payable, other payables, current portion of long-term liabilities, long-term borrowings and lease liabilities approximate to their fair values.

C. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities at December 31, 2022 and 2021 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Assets</b>				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through other comprehensive income				
Equity securities	\$ -	\$ -	\$ 9,759	\$ 9,759
<b>Liabilities: None.</b>				

D. For the years ended December 31, 2022 and 2021, there was no transfer into or out from Level 3.

E. For the equity securities whose fair value is classified as Level 3, which are mainly investments in foreign listed companies, the Company adopts the comparable company approach to calculate the fair value of the investment target. The comparable company approach refers to the transaction price of the shares of companies engaged in the same or similar business in the active market and the value multipliers implied by these prices, and considers the liquidity discount to determine the value of the target company.

(4) Other matter

The impact of the COVID-19 pandemic has gradually eased. The COVID-19 pandemic has no material impact on the Company's overall operations and financial conditions.

### 13. Supplementary Disclosures

#### (1) Significant transactions information

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

#### (2) Information on investees

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

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

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

#### (4) Major shareholders information

Names, number of shares and ownership of shareholders whose equity interest is greater than 5%: Please refer to table 9.

### 14. Segment Information

Not applicable.

KUEN LING MACHINERY REFRIGERATING CO., LTD. and Subsidiaries

Loans to others

Year ended December 31, 2022

Table 1

Expressed in thousands of NTD

(Except as otherwise indicated)

No.	Creditor	Borrower	General ledger account	Is a related party	Maximum outstanding balance during the year ended	Balance at	Actual amount drawn	Interest rate	Nature of loan	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Collateral		Limit on loans granted to a single party	Ceiling on total loans granted	Footnote
					December 31, 2022	December 31, 2022	down						Item	Value			
0	KUEN LING MACHINERY REFRIGERATING CO., LTD.	KUEN LING MACHINERY REFRIGERATING (VIETNAM) CO., LTD,	Other receivables due from related parties	Y	\$ 27,975	\$ 18,396	\$ -	-	Note 1(2)	\$ -	Working capital	\$ -	None	\$ -	\$ 153,631	\$ 614,524	

Note 1: The code represents the nature of loans as follows:

- (1) Business relationship.
- (2) Short-term financing.

Note 2: The Company's policy for granting loans is described as follows:

- (1) For business relationship or short-term financing, the total amount shall not exceed 40% of the Company's net asset based on the latest financial statements.
- (2) For short-term financing, limit on loans granted for a single party shall not exceed 10% of the Company's net asset based on the latest financial statements.

Note 3: The abovementioned foreign currencies transaction is translated into New Taiwan Dollars at the spot exchange rates at the balance sheet date.

KUEN LING MACHINERY REFRIGERATING CO., LTD. and Subsidiaries  
Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)  
December 31, 2022

Table 2

Expressed in thousands of NTD  
(Except as otherwise indicated)

Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	As of December 31, 2022				Footnote
				Number of shares	Book value	Ownership (%)	Fair value	
KUEN LING MACHINERY REFRIGERATING CO., LTD.	Capital contribution-Feng-Hou Corporation	-	Financial assets at fair value through other comprehensive income	Note	\$ 5,720	18	\$ 5,720	
	Stock-KA LING INDUSTRIAL CORP.	-	Financial assets at fair value through other comprehensive income	157,500	4,039	15	4,039	
	Stock-FULL OCEAN TRADING LIMITED	-	Financial assets at fair value through other comprehensive income	1,000,000	-	9	-	

Note: Not applicable since it is a limited company.



KUEN LING MACHINERY REFRIGERATING CO., LTD. and Subsidiaries  
Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more  
Year ended December 31, 2022

Table 3

Expressed in thousands of NTD  
(Except as otherwise indicated)

Purchaser/seller	Counterparty	Relationship with the counterparty	Transaction				Differences in transaction terms compared to third party transactions		Notes/accounts receivable (payable)		Footnote
			Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	
KUEN LING MACHINERY REFRIGERATING CO., LTD.	COZY AIR- CONDITIONING CO., LTD.	Subsidiary	Sale	\$ 861,303	60%	In accordance with mutual agreements	Note	Note	\$ 164,399	39%	
KUEN LING MACHINERY REFRIGERATING (SUZHOU) CO., LTD,	KUEN LING MACHINERY REFRIGERATING (SHANGHAI) CO., LTD,	Fellow subsidiary	Sale	316,531	79%	In accordance with mutual agreements	Note	Note	89,649	78%	

Note: Credit term is in accordance with mutual agreements, so there is no significant difference comparing with general transaction.

KUEN LING MACHINERY REFRIGERATING CO., LTD. and Subsidiaries  
Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more  
December 31, 2022

Table 4

Expressed in thousands of NTD  
(Except as otherwise indicated)

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2022	Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts	Footnote
					Amount	Action taken			
KUEN LING MACHINERY REFRIGERATING CO., LTD.	COZY AIR-CONDITIONING CO., LTD.	Subsidiary	\$ 164,399	4.66	\$ -	-	\$ 164,399	\$ -	None

KUEN LING MACHINERY REFRIGERATING CO., LTD. and Subsidiaries

Significant inter-company transactions during the reporting periods

Year ended December 31, 2022

Table 5

Expressed in thousands of NTD

Transactions amount between the parent company and subsidiaries or between subsidiaries reaching \$10 million are as follows:

(Except as otherwise indicated)

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	General ledger account	Transaction			Percentage of consolidated total operating revenues or total assets (Note 3)
					Amount	Transaction terms		
0	KUEN LING MACHINERY REFRIGERATING CO., LTD.	COZY AIR-CONDITIONING CO., LTD.	1	Sales	\$ 861,303	In accordance with mutual agreements		28%
0	KUEN LING MACHINERY REFRIGERATING CO., LTD.	COZY AIR-CONDITIONING CO., LTD.	1	Accounts receivable due from related parties	164,399	In accordance with mutual agreements		5%
0	KUEN LING MACHINERY REFRIGERATING CO., LTD.	COZY AIR-CONDITIONING CO., LTD.	1	Income from managerial services	24,773	In accordance with mutual agreements		1%
0	KUEN LING MACHINERY REFRIGERATING CO., LTD.	COZY AIR-CONDITIONING CO., LTD.	1	Other receivable due from related parties	11,846	In accordance with mutual agreements		-
0	KUEN LING MACHINERY REFRIGERATING CO., LTD.	KUEN LING MACHINERY REFRIGERATING (VIETNAM) CO., LTD.	1	Sales	30,861	In accordance with mutual agreements		1%
1	KUEN LING MACHINERY REFRIGERATING (SUZHOU) CO., LTD.	KUEN LING MACHINERY REFRIGERATING CO., LTD.	2	Sales	24,186	In accordance with mutual agreements		1%
1	KUEN LING MACHINERY REFRIGERATING (SUZHOU) CO., LTD.	KUEN LING MACHINERY REFRIGERATING (VIETNAM) CO., LTD.	3	Sales	10,328	In accordance with mutual agreements		-
1	KUEN LING MACHINERY REFRIGERATING (SUZHOU) CO., LTD.	KUEN LING MACHINERY REFRIGERATING (SHANGHAI) CO., LTD.	3	Sales	316,531	In accordance with mutual agreements		10%
1	KUEN LING MACHINERY REFRIGERATING (SUZHOU) CO., LTD.	KUEN LING MACHINERY REFRIGERATING (SHANGHAI) CO., LTD.	3	Accounts receivable due from related parties	89,649	In accordance with mutual agreements		3%

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

(1) Parent company is '0'.

(2) The subsidiaries are numbered in order starting from '1'.

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

(1) Parent company to subsidiary.

(2) Subsidiary to parent company.

(3) Subsidiary to subsidiary.

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

KUEN LING MACHINERY REFRIGERATING CO., LTD. and Subsidiaries

Information on investees

Year ended December 31, 2022

Table 6

Expressed in thousands of NTD

(Except as otherwise indicated)

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2022			Net profit (loss) of the investee for the year ended December 31, 2022	Investment income (loss) recognised by the Company for the year ended December 31, 2022	Footnote
				Balance as at December 31, 2022	Balance as at December 31, 2021	Number of shares	Ownership (%)	Book value			
KUEN LING MACHINERY REFRIGERATING CO., LTD.	CHING CHI INTERNATIONAL LIMITED	British Virgin IS.	Investments in other areas	\$ 201,467	\$ 201,467	6,200,000	83	\$ 461,238	\$ 6,926	\$ 5,709	Subsidiary, Note 4
KUEN LING MACHINERY REFRIGERATING CO., LTD.	COZY AIR-CONDITIONING CO., LTD.	Taiwan	Sales of goods and trading business	30,000	30,000	3,000,000	100	217,296	138,258	138,258	Subsidiary
KUEN LING MACHINERY REFRIGERATING CO., LTD.	KLEAN AIR ENTERPRISE LTD.	Samoa	Investments in other areas	138,046	138,046	4,401,000	100	134,118	6,422	6,422	Subsidiary
KUEN LING MACHINERY REFRIGERATING CO., LTD.	I CHI INDUSTRIAL CO., LTD.	Taiwan	General manufacturing industry	7,073	7,073	-	70	11,865	3,136	2,195	Subsidiary, Note 1
KUEN LING MACHINERY REFRIGERATING CO., LTD.	STAR ROYAL CO., LTD.	Taiwan	General manufacturing industry	47,000	47,000	2,350,000	23.5	-	-	-	
KLEAN AIR ENTERPRISE LTD.	KUEN LING MACHINERY REFRIGERATING (VIETNAM) CO., LTD.	Vietnam	General manufacturing industry	89,325	89,325	-	100	130,258	8,220	-	Subsidiary and second-tier subsidiary, Notes 1, 2 and 3
KLEAN AIR ENTERPRISE LTD.	PT KUEN LING INDONESIA	Indonesia	Sales of goods and trading business	17,279	17,279	-	99	3,902 (	1,797)	-	Subsidiary and second-tier subsidiary, Notes 1, 2 and 3
KUEN LING MACHINERY REFRIGERATING (VIETNAM) CO., LTD.	PT KUEN LING INDONESIA	Indonesia	Sales of goods and trading business	175	175	-	1	39 (	1,797)	-	Subsidiary and second-tier subsidiary, Notes 1, 2 and 3

Note 1: It is a limited company.

Note 2: It was translated into New Taiwan Dollars at the spot exchange rates at the balance sheet date.

Note3: Those amounts have been included in the investment income (loss) of the Company on the investees accounted for using the equity method.

Note 4: The difference of the investee company's gain and loss in the current year and the Company's investment gain and loss recognised was the unrealised gain and loss arising from intercompany transactions.

KUEN LING MACHINERY REFRIGERATING CO., LTD. and Subsidiaries

Information on investments in Mainland China

Year ended December 31, 2022

Table 7

Expressed in thousands of NTD

(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method ( Note 1 )	Accumulated amount of remittance from China as of January 1, 2022	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2022		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2022	Net income of investee as of December 31, 2022	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2022	Book value of investments in Mainland China as of December 31, 2022	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2022	Footnote
					Remitted to Mainland China	Remitted back to Taiwan							
KUEN LING MACHINERY REFRIGERATING (SHANGHAI) CO., LTD.	Engaging in manufacturing and sales of chillers	\$ 181,713	2	\$ 116,068	\$ -	\$ -	\$ 116,068	\$ 12,111	83	\$ 10,052	\$ 242,662	\$ 43,219	Notes 2 and 3
KUEN LING MACHINERY REFRIGERATING (SUZHOU) CO., LTD.	General manufacturing industry	272,443	2	58,649	-	-	58,649	( 4,191)	83	( 3,479)	209,599	-	Notes 2 and 3
SUZHOU FIRM PRECISION INDUSTRIAL CO.,LTD	Engaging in manufacturing and sales business of precision molding	255,459	2	21,173	-	-	21,173	( 30,321)	9	-	-	-	-
FIRM PRECISION INDUSTRIAL(SHANG HAI) CO.,LTD	Engaging in manufacturing and sales business of sheet metal outer box	-	2	11,157	-	-	11,157	-	-	-	-	-	Note 7

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2022	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA	Footnote
KUEN LING MACHINERY REFRIGERATING CO., I.TD.	\$ 207,047	\$ 392,435	\$ 921,786	Notes 4, 5 and 6

Note 1: Investment methods are classified into the following three categories; fill in the number of category each case belongs to:

- (1) Directly invest in a company in Mainland China.
- (2) Through investing in an existing company in the third area, which then invested in the investee in Mainland China: Investing in Mainland China through CHING CHI INTERNATIONAL LIMITED and FULL OCEAN TRADING LIMITED.
- (3) Others

Note 2: The amount difference from the investee’s paid in capital is because CHING CHI INTERNATIONAL LIMITED reinvested the dividends distributed by KUEN LING MACHINERY REFRIGERATING (SHANGHAI) CO., LTD. as the capital contribution in the investee’s capital increase, and the KUEN LING MACHINERY REFRIGERATING (SUXHOU) CO., LTD. increased its capital through capitalisation of earnings. The Company did not actually make the remittance.

Note 3: The financial statements are audited and attested by R.O.C. parent company’s CPA.

Note 4: The investment amount included the amounts arising from capitalisation of earnings carried by the Company’s investee in Mainland China and the reinvestment in another investee in Mainland China using the dividends distributed by the investee in Mainland China as approved by the Investment Commission of MOEA.

Note 5: Translated into New Taiwan Dollars at the spot exchange rates at the balance sheet date.

Note 6: Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA is 60% of the Group’s net assets.

Note 7: The investee company has completed the liquidation in 2018.

KUEN LING MACHINERY REFRIGERATING CO., LTD. and Subsidiaries

Significant transactions conducted with investees in Mainland China directly or indirectly through other companies in the third areas

Year ended December 31, 2022

Table 8

Expressed in thousands of NTD

(Except as otherwise indicated)

Investee in Mainland China	Sale (purchase)		Property transaction		Accounts receivable (payable)		Provision of endorsements/guarantees or collaterals		Financing				
	Amount	%	Amount	%	Balance at December 31, 2022	%	Balance at December 31, 2022	Purpose	Maximum balance during the year ended December 31, 2022	Balance at December 31, 2022	Interest rate	Interest during the year ended December 31, 2022	Others
KUEN LING MACHINERY REFRIGERATING (SUZHOU) CO., LTD.	(\$ 24,186)	-	\$ -	-	(\$ 1,831)	-	\$ -	-	\$ -	\$ -	-	\$ -	-

KUEN LING MACHINERY REFRIGERATING CO., LTD. and Subsidiaries

Major shareholders information

December 31, 2022

Table 9

Name of major shareholders	Shares	
	Number of shares held	Ownership (%)
Teco Electric & Machinery Co., Ltd.	11,131,642	14.61%
Wen-Chi Ko	4,414,075	5.79%

Note: ( 1 ) The major shareholders' information was derived from the data using the Company issued common shares (including treasury shares) and preference shares in dematerialised form which were registered and held by the shareholders above 5% on the last operating date of each quarter and was calculated by Taiwan Depository & Clearing Corporation.

The share capital which was recorded on the financial statements may be different from the actual number of shares in dematerialised form due to the difference of calculation basis.

( 2 ) If the aforementioned data contains shares which were kept in the trust by the shareholders, the data was disclosed as a separate account of the client which was set by the trustee.

As for the shareholder who reports share equity as an insider whose shareholding ratio was greater than 10% in accordance with Securities and Exchange Act, the shareholding ratio included the self-owned shares and trusted shares, at the same time, persons who have power to decide how to allocate the trust assets. For the information on reported share equity of insiders, please refer to the Market Observation Post System.

( 3 ) The preparation principle of this table uses the shareholders' register as of the book closure date for the shareholders' special meeting (no need buy-to-cover short sales) to calculate the distribution of the balance of each unsecured transaction.

( 4 ) Ownership (%) = total shares held by the shareholder/total shares transferred in dematerialised form.

( 5 ) Total shares transferred in dematerialised form (including treasury shares) amounted to 76,152,370 shares=76,152,370 common shares + 0 preference shares.

KUEN LING MACHINERY REFRIGERATING CO., LTD.  
STATEMENT OF CASH AND CASH EQUIVALENTS  
DECEMBER 31, 2022  
(Expressed in thousands of New Taiwan dollars)

Statement 1

Item	Description	Amounts
Cash on hand		\$ 717
Cash in banks	Checking accounts	87,603
	USD demand deposits	
	USD 298 thousand; exchange rate 30.71	9,129
	RMB demand deposits	
	RMB 6 thousand; exchange rate 4.38	28
		96,760
		\$ 97,477



KUEN LING MACHINERY REFRIGERATING CO., LTD.  
STATEMENT OF ACCOUNTS RECEIVABLE, NET  
DECEMBER 31, 2022

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Statement 2

<u>Client Name</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Client code K1000380	Operating revenue	\$ 38,370	
Client code K1000147	Operating revenue	22,083	
Client code K1000269	Operating revenue	11,000	
Others	Operating revenue	98,842	Balance of each client has not exceeded 5% of total account balance.
		<u>170,295</u>	
Less: Allowance for uncollectible		( 5,752)	
		<u>\$ 164,543</u>	

In addition, refer to Note 7 for the details of accounts receivable due from related parties, net.

KUEN LING MACHINERY REFRIGERATING CO., LTD.  
STATEMENT OF INVENTORIES  
DECEMBER 31, 2022  
(Expressed in thousands of New Taiwan dollars)

Statement 3

Item	Cost	Market Price	Notes
Raw materials	\$ 263,513	\$ 253,774	The lower of cost and net realisable value
Work in progress	89,045	90,424	
Finished goods	116,797	141,603	
Merchandise	3,160	313	
Inventory in transit	6,975	6,975	
	479,490	<u>\$ 493,089</u>	
Less: Allowance for inventory valuation and obsolete and slow-moving inventories	( <u>23,240</u> )		
	<u>\$ 456,250</u>		

KUEN LING MACHINERY REFRIGERATING CO., LTD.  
STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD  
YEAR ENDED DECEMBER 31, 2022  
(Expressed in thousands of New Taiwan dollars)

Statement 4

Name	Beginning Balance		Additions		Decrease (Note 2)		Ending Balance			Market Value or Net Assets Value		
	Shares In		Shares In		Shares In		Shares In	Percentage of		Unit Price	Total	Collateral
	Thousands	Amount	Thousands	Amount	Thousands	Amount	Thousands	Ownership	Amount	(In Dollars)	Amount	
CHING CHI INTERNATIONAL LIMITED	6,200	\$ 447,352	-	\$ 13,886	-	\$ -	6,200	83%	\$ 461,238	\$ 74.42	\$ 461,431	None
KLEAN AIR ENTERPRISE LTD.	4,401	116,765	-	17,353	-	-	4,401	100%	134,118	31.05	136,661	None
COZY AIR-CONDITIONING CO., LTD.	3,000	200,024	-	137,272	-	120,000	3,000	100%	217,296	72.76	218,282	None
I-CHI INDUSTRIAL CO., LTD.	Note 1	11,684	-	2,195	-	2,014	Note 1	70%	11,865	Note 1	11,865	None
STAR ROYAL CO., LTD.	2,350	-	-	-	-	-	2,350	23.5%	-	-	-	None
		<u>\$ 775,825</u>		<u>\$ 170,706</u>		<u>\$ 122,014</u>			<u>\$ 824,517</u>		<u>\$ 828,239</u>	

Note 1: Not applicable since it is a limited company.

Note 2: Cash dividends received from the investee.

KUEN LING MACHINERY REFRIGERATING CO., LTD.  
STATEMENT OF CHANGES IN COSTS OF RIGHT-OF-USE ASSETS  
YEAR ENDED DECEMBER 31, 2022  
 (Expressed in thousands of New Taiwan dollars)

Statement 5

<u>Item</u>	<u>Beginning Balance</u>	<u>Addition</u>	<u>Decrease</u>	<u>Ending Balance</u>
Land	\$ 12,597	\$ -	\$ -	\$ 12,597
Buildings and structures	20,265	1,674	(4,727)	17,212
	<u>\$ 32,862</u>	<u>\$ 1,674</u>	<u>(\$ 4,727)</u>	<u>\$ 29,809</u>

KUEN LING MACHINERY REFRIGERATING CO., LTD.  
STATEMENT OF CHANGES IN ACCUMULATED DEPRECIATION OF RIGHT-OF-USE ASSETS  
YEAR ENDED DECEMBER 31, 2022  
 (Expressed in thousands of New Taiwan dollars)

Statement 6

<u>Items</u>	<u>Beginning Balance</u>	<u>Addition</u>	<u>Decrease</u>	<u>Ending Balance</u>
Land	\$ 4,724	\$ 1,575	\$ -	\$ 6,299
Buildings and structures	8,437	2,092	-	10,529
	<u>\$ 13,161</u>	<u>\$ 3,667</u>	<u>\$ -</u>	<u>\$ 16,828</u>

KUEN LING MACHINERY REFRIGERATING CO., LTD.  
STATEMENT OF SHORT-TERM BORROWINGS  
DECEMBER 31, 2022  
(Expressed in thousands of New Taiwan dollars)

Statement 7

<u>Nature</u>	<u>Description</u>	<u>Ending Balance</u>	<u>Contract Period</u>	<u>Range of Interest Rate</u>	<u>Credit Line</u>	<u>Collateral</u>	<u>Note</u>
Unsecured borrowings	Borrowings from financial institutions	\$ <u>152,096</u>	2022/10/12~ 2023/6/17	1.43% ~ 6.29%	\$ <u>500,000</u>	None	

KUEN LING MACHINERY REFRIGERATING CO., LTD.

STATEMENT OF ACCOUNTS PAYABLE

FOR THE YEAR ENDED DECEMBER 31, 2022

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Statement 8

<u>Vendor name</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Vendor code K9150015	Purchase	\$ 18,631	
Vendor code K9100002	Purchase	15,317	
Others	Purchase	143,413	Balance of each vendor has not exceeded 5% of total account balance.
		<u>\$ 177,361</u>	

KUEN LING MACHINERY REFRIGERATING CO., LTD.  
STATEMENT OF LONG-TERM BORROWINGS  
DECEMBER 31, 2022  
(Expressed in thousands of New Taiwan dollars)

Statement 9

<u>Creditor</u>	<u>Description</u>	<u>Amount</u>	<u>Contract Period</u>	<u>Rate</u>	<u>Collateral</u>	<u>Note</u>
Unsecured borrowings	Repayment term is based on the contract signed by both parties	\$ 35,000	2019/7 ~ 2024/7	1.83%	Land, buildings and structures	
	Less : current portion	( 20,000)				
		<u>\$ 15,000</u>				



KUEN LING MACHINERY REFRIGERATING CO., LTD.  
STATEMENT OF OPERATING REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2022  
(Expressed in thousands of New Taiwan dollars)

Statement 10

Item	Volume	Amount	Note
Chiller unit	1,892 sets	\$ 1,076,858	
Engineering service revenue		94,701	
Repairs and maintenance revenue		131,114	
Condenser	246 sets	23,901	
Others		101,127	
		<u>\$ 1,427,701</u>	

KUEN LING MACHINERY REFRIGERATING CO., LTD.  
STATEMENT OF OPERATING COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2022  
(Expressed in thousands of New Taiwan dollars)

Statement 11

Item	Subtotal	Total	Note
Beginning merchandise	\$ 3,043		
Add: Net amount of goods purchased in the current year	9,202		
Less: Transferred to construction costs, etc	( 6,128)		
Ending merchandise	( 3,160)		
Cost of purchasing and selling		\$ 2,957	
Beginning raw materials	196,269		
Add: Net raw materials purchased	985,034		
Less: Transferred to maintenance costs, etc	( 51,822)		
Ending raw materials	( 263,513)		
Used during the year		865,968	
Direct labor		46,072	
Manufacturing expense		72,867	
Manufacturing cost		984,907	
Beginning work in progress		84,628	
Less: Transferred to research and development expenses		( 76)	
Ending work in progress		( 89,045)	
Cost of finished goods		980,414	
Beginning finished goods		91,286	
Less: Transferred to construction costs, etc		( 12,765)	
Ending finished goods		( 116,797)	
Cost of goods manufactured and sold		942,138	
Commodity tax		114,372	
Cost of goods manufactured and sold		1,056,510	
Cost of materials sold		2,960	
Maintenance costs		55,781	
Cost of engineering sales		79,769	
Loss on slow-moving inventories and valuation loss		1,800	
Cost of after-sale service		11,115	
Operating costs		\$ 1,210,892	

KUEN LING MACHINERY REFRIGERATING CO., LTD.  
STATEMENT OF MANUFACTURING EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2022  
(Expressed in thousands of New Taiwan dollars)

Statement 12

<u>General ledger account</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Processing fees		\$ 22,526	
Indirect labor		14,479	
Miscellaneous purchases		6,318	
Depreciation charge		6,168	
Insurance expense		5,353	
Sporadic materials		4,836	
Other manufacturing expense		13,187	Balance of individual accounts has not exceeded 5% of total account balance.
		<u>\$ 72,867</u>	

KUEN LING MACHINERY REFRIGERATING CO., LTD.  
STATEMENT OF SELLING EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2022  
(Expressed in thousands of New Taiwan dollars)

Statement 13

Item	Description	Amount	Note
Wages and salaries		\$ 29,034	
Depreciation charge		3,926	
Insurance expense		3,781	
Commission expense		2,879	
Others		14,640	Balance of individual accounts has not exceeded 5% of total account
		<u>\$ 54,260</u>	

KUEN LING MACHINERY REFRIGERATING CO., LTD.  
STATEMENT OF ADMINISTRATIVE EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2022  
(Expressed in thousands of New Taiwan dollars)

Statement 14

Item	Description	Amount	Note
Wages and salaries		\$ 40,283	
Depreciation charge		16,828	
Directors' remuneration		9,851	
Service fees		5,732	
Repair expense		4,923	
Others		18,967	Balance of individual accounts has not exceeded 5% of total account
		<u>\$ 96,584</u>	

KUEN LING MACHINERY REFRIGERATING CO., LTD.  
STATEMENT OF RESEARCH AND DEVELOPMENT EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2022  
(Expressed in thousands of New Taiwan dollars)

Statement 15

Item	Description	Amount	Note
Wages and salaries		\$ 25,682	
Research and development expenses		6,562	
Insurance expense		2,536	
Others		5,293	Balance of individual accounts has not exceeded 5% of total account
		<u>\$ 40,073</u>	

KUEN LING MACHINERY REFRIGERATING CO., LTD.  
STATEMENT OF FINANCE COST  
FOR THE YEAR ENDED DECEMBER 31, 2022  
(Expressed in thousands of New Taiwan dollars)

Statement 16

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Bank borrowings		\$ 2,858	
Lease liabilities		142	
		<u>\$ 3,000</u>	

KUEN LING MACHINERY REFRIGERATING CO., LTD.  
SUMMARY STATEMENT OF CURRENT PERIOD EMPLOYEE BENEFITS, DEPRECIATION AND AMORTISATION  
EXPENSES BY FUNCTION  
FOR THE YEAR ENDED DECEMBER 31, 2022  
(Expressed in thousands of New Taiwan dollars)

Statement 17

Function Nature	Year ended December 31, 2022			Year ended December 31, 2021		
	Classified as Operating Costs	Classified as Operating Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Total
Employee benefit expense	\$ 69,436	\$ 116,933	\$ 186,369	\$ 59,593	\$ 111,151	\$ 170,744
Wages and salaries	58,149	90,570	148,719	48,991	87,193	136,184
Labour and health insurance fees	5,202	7,629	12,831	5,068	7,759	12,827
Pension costs	2,402	4,429	6,831	2,123	4,060	6,183
Directors' remuneration	-	9,851	9,851	-	7,612	7,612
Other employee benefit expense	3,683	4,454	8,137	3,411	4,527	7,938
Depreciation Expense	6,168	22,115	28,283	5,750	21,684	27,434
Amortisation Expense	563	2,014	2,577	481	2,531	3,012

Note :

- A. As at December 31, 2022 and 2021, the Company had 198 and 191 employees, respectively, including 8 and 7 non-employee directors.  
B. Average employee benefit expense in current and previous year was \$929 and \$887, respectively.  
C. Average employee wages and salaries in current and previous year was \$783 and \$740, respectively.  
D. Adjustment of average employee wages and salaries was 5.81%.  
E. Supervisors' remuneration in current and previous year was \$0 and \$210. (Note)  
F. The Company's salary and compensation policy:

The directors' remuneration is determined in accordance with the Article 20-1 of Incorporation of the Company whereby no higher than 3% of the distributable profit of the current year shall be distributed as the director's remuneration, and the Company's operating results and directors' contribution to the Company's performance are also considered to give reasonable remuneration to directors. Managers are remunerated based on the services provided, risk assumption and the extent of contribution by reference to the general pay level in the same industry. Employees are compensated based on their education and work background, professional expertise, professional seniority and personal performance. The Company also provides flexible compensation movement according to the operational situation to timely motivate morale and retain outstanding employees. Annual salary adjustments are based on the employees' position and performance assessment to determine the items and amounts for salary adjustments.

Note: The Company re-elected its directors and independent directors in July 2021 and set up an audit committee.