

Fong-Chien Construction Co.,LTD.
Consolidated Financial Statements for the years
ended December 31, 2022 and 2021 with
Independent Auditors' Report
(Stock Symbol 5523)

Company Address :25F.-1, No. 501, Sec. 2, Taiwan Blvd., West Dist.,
Taichung City 403 , Taiwan (R.O.C.)

Telephone Number:(04)2326-2593

Fong-Chien Construction Co.,LTD.
Consolidated Financial Statements for the years ended December 31, 2022 and 2021 Independent
Auditors' Report
Table of contents

Item	Page/No./Index
I. Cover page	1
II. Table of contents	2 ~ 3
III. Representation letter	4
IV. Independent auditors' report	5 ~ 8
V. Consolidated balance Sheets	9 ~ 10
VI. Consolidated statements of comprehensive income	11
VII. Consolidated statements of changes in equity	12
VIII. Consolidated statements of cash flow	13 ~ 14
IX. Notes to the consolidated financial statements	15 ~ 51
(1) Company history and business scope	15
(2) Approval date and procedures of the consolidated financial statements	15
(3) New standards, amendments and interpretations adopted	15 ~ 16
(4) Summary of significant accounting policies	16 ~ 23
(5) Major sources of uncertainty arising from significant accounting judgments, estimates, and assumptions	23
(6) Explanation of significant accounts	24 ~ 43
(7) Related party transactions	43 ~ 45
(8) Pledged assets	45
(9) Significant Contingencies and Unrecognized Contract Commitments	45
(10) Losses due to major disasters	45

Item	Page/No./Index
(11) Significant subsequent events	45
(12) Others	45 ~ 48
(13) Other disclosures	49
(14) Segment information	49 ~ 51

FONG CHIEN CONSTRUCTION COMPANY LIMITED
REPRESENTATION LETTER

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

Very truly yours,

COMPANY NAME:FONG CHIEN CONSTRUCTION COMPANY LIMITED

PRINCIPAL:YU QI YUAN

March 15, 2023

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
(2023) Ministry of Finance approved No. 22002310
Fong Chien Construction Company Limited

Opinion

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

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

Basis for opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and the Standards on Auditing of the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated 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 ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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

Valuation of Inventory

Matters description

Refer to Note IV(XXIX) to the consolidated financial statements for accounting policies regarding inventory; Refer to Note V for critical accounting estimates and assumptions regarding inventory valuation. Refer to Note VI(IV) for the explanation of allowance to reduce inventory to market. The inventory balance and allowance to reduce inventory to market of Fong Chien Construction Company Limited are the amount of NT 5,447,672 thousand and 5,892 thousand on December 31, 2022, respectively.

Inventories of Fong Chien Construction Company Limited are houses and lands, due to the effect of government policies and boom in real estate in recent years, the fluctuation of real estate prices is wider, The inventory valuation measurement of Fong Chien Construction Company Limited is in accordance with the lower of cost and net realizable value, its net realizable value is often affected by market prices fluctuation and involved with the subjective judgment of management, therefore, we list inventory valuation as one of the most significance in our audit this year.

Responsive audit procedures

Relating to the certain aspects of critical matters stated above, responsive procedures we exercise aggregates and lists as follows:

1. Comprehend business operation and industrial features, and interview with management, evaluate the rationality of method and procedure inventory net realizable value the method and procedure adopts.
2. Obtain the end day of during reporting period of inventory assessment net realizable value statements, review appropriateness of using determined base of the inventory net realizable value, include acquisition of the closing price of recent sale cases or recent dealing information of nearby areas with similar assets in market, in turn assess the rationality of the amount of inventory net realizable value.

Other Matter – the Parent Company Only Financial Statements

We have also audited the parent company only financial statements of Fong Chien Construction Company Limited as of and for the year ended December 31, 2022 on which we have issued an unmodified opinion; We have also audited the parent company only financial statements of Fong Chien Construction Company Limited as of and for the year ended December 31, 2021 on which we have issued unmodified opinions and emphasis matter of paragraphs.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management

either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance (including members of the Audit Committee) are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

We also:

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

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

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

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

The engagement partners on the audits resulting in this independent auditors' report are Mei Lan Liu and Shu Hua Hong.

Financial Supervisory Commission
Approved-certified No.:Jin-Guan-Certificate
No.1070323061
Former Securities Commission, Ministry of Finance
Approved-certified No.: (85)Tai-Cai-Certificate(6)
No.68701

PwC
Taipei, Taiwan
Republic of China
March 15, 2023

Fong Chien Construction Company Limited and Subsidiaries
CONSOLIDATED BALANCE SHEETS
December 31, 2022 and 2021

(In Thousands of New Taiwan Dollars)

	ASSET	NOTE	December 31, 2022		December 31, 2021	
			Amount	%	Amount	%
	Current assets					
1100	Cash and cash equivalents	6(1)	\$ 285,665	5	\$ 1,280,673	23
1136	Financial assets at amortized cost— current	6(2)	52,000	1	177,000	3
1150	Notes receivable, net	6(3)	225	-	1,426	-
1170	Accounts receivable, net	6(3)	9,126	-	19,055	-
1200	Other receivables	6(4)and 9(1)	45,646	1	23,794	1
1220	Current tax assets		590	-	570	-
130X	Inventories	6(4)and 8	5,441,780	88	3,431,346	62
1470	Other current assets	6(5)	202,518	3	162,675	3
11XX	Total current assets		<u>6,037,550</u>	<u>98</u>	<u>5,096,539</u>	<u>92</u>
	Noncurrent assets					
1600	Property, plant and equipment	6(6)	43,266	-	36,277	-
1760	Investment property, net	6(8)and 8	109,499	2	110,032	2
1780	Intangible assets	6(9)	-	-	314,277	6
1900	Other noncurrent assets		389	-	389	-
15XX	Total noncurrent assets		<u>153,154</u>	<u>2</u>	<u>460,975</u>	<u>8</u>
1XXX	Total assets		<u>\$ 6,190,704</u>	<u>100</u>	<u>\$ 5,557,514</u>	<u>100</u>

(Continued on next page)

Fong Chien Construction Company Limited and Subsidiaries
CONSOLIDATED BALANCE SHEETS
December 31, 2022 and 2021

(In Thousands of New Taiwan Dollars)

LIABILITIES AND EQUITY	NOTE	December 31, 2022		December 31, 2021		
		Amount	%	Amount	%	
Current liabilities						
2100	Short-term loans	6(11) and 8	\$ 1,240,550	20	\$ 945,700	17
2130	Contract liabilities- current	6(19)	724,201	12	427,036	8
2150	Notes payable		590	-	495	-
2170	Accounts payable		320,510	5	93,055	2
2200	Other accounts payable		34,539	1	85,398	1
2230	Current tax liabilities		26,039	-	-	-
2310	Receipts in advance	6(12)	86	-	721,709	13
2320	Long-term liabilities-current portion	6(14)	4,076	-	270,941	5
2399	Other current liabilities- others		29,949	-	8,054	-
21XX	Total current liabilities		<u>2,380,540</u>	<u>38</u>	<u>2,552,388</u>	<u>46</u>
Noncurrent liabilities						
2540	Long-term debt payable	6(14) and 8	978,885	16	364,358	6
2600	Other noncurrent liabilities		1,312	-	1,204	-
25XX	Total noncurrent liabilities		<u>980,197</u>	<u>16</u>	<u>365,562</u>	<u>6</u>
2XXX	Total liabilities		<u>3,360,737</u>	<u>54</u>	<u>2,917,950</u>	<u>52</u>
Equity attributable to shareholders of the parent						
Share capital						
3110	Capital stock	6(16)	1,550,015	25	1,550,015	28
	Capital surplus	6(17)				
3200	Capital surplus		5,226	-	5,226	-
	Retained earnings	6(18)				
3310	Appropriated as legal capital reserve		200,649	4	109,005	2
3350	Unappropriated earnings		1,063,647	17	964,658	18
31XX	Equity attributable to shareholders of the parent		<u>2,819,537</u>	<u>46</u>	<u>2,628,904</u>	<u>48</u>
36XX	Non-controlling interests		<u>10,430</u>	<u>-</u>	<u>10,660</u>	<u>-</u>
3XXX	Total equity		<u>2,829,967</u>	<u>46</u>	<u>2,639,564</u>	<u>48</u>
Significant contingent liabilities and not recognized contract commitment						
3X2X	Total liabilities and equity		<u>\$ 6,190,704</u>	<u>100</u>	<u>\$ 5,557,514</u>	<u>100</u>

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

Chairman: Yu Qi Yuan

Manager: Rui Lin Liu

Accounting supervisor: Qiong Pei Zhen

Fong Chien Construction Company Limited and Subsidiaries
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
December 31, 2022 and 2021

(In Thousands of New Taiwan Dollars)
(Expect earnings per share)

ITEM	NOTE	2022		2021	
		Amount	%	Amount	%
4000 Operating revenue	6(19)	\$ 217,444	100	\$ 3,063,768	100
5000 Operating cost	6(4)(23)	(151,710)	(70)	(2,186,975)	(72)
5900 Gross profit		<u>65,734</u>	<u>30</u>	<u>876,793</u>	<u>28</u>
Operating expenses	6(23) and 7 (2)				
6100 Selling expenses		(17,225)	(8)	(135,397)	(4)
6200 General and administrative		(31,109)	(13)	(49,687)	(2)
6000 Total operating expenses		<u>(48,334)</u>	<u>(21)</u>	<u>(185,084)</u>	<u>(6)</u>
6900 Operating income		<u>17,400</u>	<u>9</u>	<u>691,709</u>	<u>22</u>
Non-operating income and expenses					
7100 Interest income		6,919	3	1,067	-
7010 Other income	6(4)(20)	19,501	9	18,803	1
7020 Other gains and losses	6(21)	452,652	207	341,098	11
7050 Finance costs	6(22)	(18)	-	(5,663)	-
7000 Total non-operating income and expense		<u>479,054</u>	<u>219</u>	<u>355,305</u>	<u>12</u>
7900 Income before income tax		<u>496,454</u>	<u>228</u>	<u>1,047,014</u>	<u>34</u>
7950 Income tax expenses	6(24)	(26,318)	(12)	(42,540)	(1)
8000 Profit from continuing operations		<u>470,136</u>	<u>216</u>	<u>1,004,474</u>	<u>33</u>
8500 Total comprehensive income		<u>\$ 470,136</u>	<u>216</u>	<u>\$ 1,004,474</u>	<u>33</u>
Net income attributed to:					
8610 Stockholders of the company		<u>\$ 469,636</u>	<u>216</u>	<u>\$ 916,440</u>	<u>30</u>
8620 Non-controlling interest		<u>500</u>	<u>-</u>	<u>88,034</u>	<u>3</u>
		<u>\$ 470,136</u>	<u>216</u>	<u>\$ 1,004,474</u>	<u>33</u>
Comprehensive income attributed to:					
8710 Stockholders of the company		<u>\$ 469,636</u>	<u>216</u>	<u>\$ 916,440</u>	<u>30</u>
8720 Non-controlling interest		<u>500</u>	<u>-</u>	<u>88,034</u>	<u>3</u>
		<u>\$ 470,136</u>	<u>216</u>	<u>\$ 1,004,474</u>	<u>33</u>
Earnings per share	6(25)				
9750 Basis earnings per share		<u>\$</u>	<u>3.03</u>	<u>\$</u>	<u>5.91</u>
Diluted earnings per share	6(25)				
9850 Diluted earnings per share		<u>\$</u>	<u>3.03</u>	<u>\$</u>	<u>5.91</u>

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

Chairman: Yu Qi Yuan

Manager: Rui Lin Liu

Accounting supervisor: Qiong Pei Zhen

Fong Chien Construction Company Limited and Subsidiaries
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
December 31, 2022 and 2021

(In Thousands of New Taiwan Dollars)

	NOTE	Equity Attributable to Shareholders of the Parent						Non-controlling Interests	Total Equity
		Capital- Common Stock	Capital Surplus	Retained earnings			Total		
				Legal Capital Reserve	Special Capital Reserve	Unappropriated earnings			
<u>2021</u>									
Balance, January 1, 2021		\$ 1,550,015	\$ 3,954	\$ 103,949	\$ 3,723	\$ 144,668	\$ 1,806,309	(\$ 98,761)	\$ 1,707,548
Net Income		-	-	-	-	916,440	916,440	88,034	1,004,474
Total comprehensive income		-	-	-	-	916,440	916,440	88,034	1,004,474
Restricted and appropriated earnings, 2020	6(18)								
Legal capital reserve		-	-	5,056	-	(5,056)	-	-	-
Cash dividends		-	-	-	-	(77,501)	(77,501)	-	(77,501)
Reversal special capital reserve	6(18)	-	-	-	(3,723)	3,723	-	-	-
From difference between the consideration received and the carrying amount of the subsidiaries' net assets during actual disposal	6(18)(26)	-	-	-	-	(17,616)	(17,616)	21,387	3,771
From share of changes in equities of subsidiaries	6(17)	-	1,272	-	-	-	1,272	-	1,272
Balance, December 31, 2021		\$ 1,550,015	\$ 5,226	\$ 109,005	\$ -	\$ 964,658	\$ 2,628,904	\$ 10,660	\$ 2,639,564
<u>2022</u>									
Balance, January 1, 2022		\$ 1,550,015	\$ 5,226	\$ 109,005	\$ -	\$ 964,658	\$ 2,628,904	\$ 10,660	\$ 2,639,564
Net income		-	-	-	-	469,636	469,636	500	470,136
Total comprehensive income		-	-	-	-	469,636	469,636	500	470,136
From share of changes in equities of subsidiaries	6(26)	-	-	-	-	-	-	(270)	(270)
Cash dividends received by its subsidiaries		-	-	-	-	-	-	(460)	(460)
Restricted and appropriated earnings, 2021	6(18)								
Legal capital reserve		-	-	91,644	-	(91,644)	-	-	-
Cash dividends		-	-	-	-	(279,003)	(279,003)	-	(279,003)
Balance, December 31, 2022		\$ 1,550,015	\$ 5,226	\$ 200,649	\$ -	\$ 1,063,647	\$ 2,819,537	\$ 10,430	\$ 2,829,967

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

Chairman: Yu Qi Yuan

Manager: Rui Lin Liu

Accounting supervisor: Qiong Pei Zhen

Fong Chien Construction Company Limited and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
December 31, 2022 and 2021

(In Thousands of New Taiwan Dollars)

	NOTE	January 1to December 31, 2022	January 1to December 31, 2021
<u>Cash flows from operating activities</u>			
Income before income tax		\$ 496,454	\$ 1,047,014
Adjustments for			
Adjustments for reconcile profit (loss)			
Depreciation expense	6(6)(8)		
	(23)	1,752	1,802
Amortization expense	6(9)(23)	-	3,244
Interest expense	6(22)	18	5,663
Interest income		(6,919)	(1,067)
Profit on disposal of intangible assets	6(21)	(452,652)	-
Reversal of impairment loss on financial assets	6(21)	-	(26,987)
Reversal of impairment loss on non-financial assets	6(21)	-	(315,911)
Accrued expenses transfer other income	6(20)	(595)	(2,573)
Other loss	6(21)	-	1,800
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		1,201	574
Accounts Receivable		9,929	(13,412)
Others receivables		(17,896)	(13)
Inventories		(1,972,444)	1,338,132
Other current assets		(66,768)	77,525
Other non-current assets		-	3,396
Changes in operating liabilities			
Contract liabilities- current		297,165	(210,038)
Notes payable		95	(497)
Accounts payable		227,455	(298,578)
Other accounts payable		(51,509)	60,175
Amounts received in advance		59	(14)
Other current liabilities		21,895	(1,457)
Cash generated from (used in) operations		(1,512,760)	1,668,778
Interest received		2,963	985
Interest paid		(36,763)	(34,021)
Income taxes paid		(299)	(43,110)
Net cash generated by (used in) operating activities		(1,546,859)	1,592,632

(Continued on next page)

Fong Chien Construction Company Limited and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
December 31, 2022 and 2021

(In Thousands of New Taiwan Dollars)

	NOTE	January 1to December 31, 2022	January 1to December 31, 2021
<u>Cash flows from investing activities</u>			
Financial assets from amortized cost decrease (increase)		\$ 125,000	(\$ 177,000)
Property, plant and equipment	6(6)	(8,208)	(35,625)
Refundable deposits paid		(35,062)	-
Refundable deposits refunded		61,987	4,224
Intangible assets	6(9)(10)		
	(27)	<u>45,247</u>	<u>721,682</u>
Net cash generated by investing activities		<u>188,964</u>	<u>513,281</u>
<u>Cash flows from financing activities</u>			
Increase in short-term loans	6(28)	294,850	193,750
Decrease in short-term loans	6(28)	-	(1,042,000)
Proceeds from long-term loans	6(28)	635,300	305,000
Repayment in long-term loans	6(28)	(287,638)	(401,405)
Guarantee deposits increase	6(28)	108	-
Repayment of the principal portion of lease liabilities	6(28)	-	(234)
Expense cash dividends	6(18)		
	(28)	(279,003)	(77,501)
Change in non-controlling interests	6(26)	(270)	-
Subsidiaries expense cash dividends to non-controlling interests		(460)	-
Net cash generated by(used in) financing activities		<u>362,887</u>	<u>(1,022,390)</u>
Increase (decrease) in cash and cash equivalents		(995,008)	1,083,523
Cash and cash equivalents, beginning of year		<u>1,280,673</u>	<u>197,150</u>
Cash and cash equivalents, end of year		<u>\$ 285,665</u>	<u>\$ 1,280,673</u>

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

Chairman: Yu Qi Yuan

Manager: Rui Lin Liu

Accounting supervisor: Qiong Pei Zhen

Fong-Chien Construction Co.,LTD. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED
DECEMBER 31, 2022 AND 2021

(Expressed in Thousands of New Taiwan Dollars, Unless Specified otherwise)

(1) Company history and business scope

Fong-Chien Construction Co.,LTD. (the “Company”) was named Hong Dou Construction Company Limited originally. The company was changed to Fong-Chien Construction Co.,LTD. by the resolution of shareholders meeting in June 2014. The Company is primarily engaged in mandating construction enterprises to build public housing, leases and sales of commercial buildings, trading, import and export of building materials. The stocks of Company were traded in Taipei Exchange since December 27, 1999. Additionally, the subsidiary, Hung Yeu Construction Co., Ltd., is primarily engage in comprehensive construction, trading of properties, developments and leases of residences and buildings etc. The subsidiary, Hungtu Alishan International Development Co., Ltd., is primarily engaging in operation of hotel and restaurant business.

(2) Approval date and procedures of the consolidated financial statements.

The consolidated financial statements for the years ended December 31, 2022 and 2021 of the Company and subsidiaries (the “Group) were authorized for issue by the Board of Directors on March 15, 2023.

(3) New standards, amendments and interpretations adopted

1) The standards or interpretations issued by International Accounting Standards Board and endorsed by the Financial Supervisory Commission (the “FSC”) which have been adopted by the Group as of the date of authorization for issue

The following summarizes new, revised, and amended standards and interpretations, which have been endorsed by the FSC, effective for annual period beginning on January 1, 2022:

<u>New, Revised, or Amended Standards or Interpretations</u>	<u>Effective date per IASB</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 Group assessed that the aforementioned standards and interpretations would not have a significant impact on its financial position and financial performance.

- 2) The standards or interpretations issued by International Accounting Standards Board and endorsed by the FSC which have not yet been adopted by the Group as of the date of authorization for issue

The following summarizes new, revised, and amended standards and interpretations, which have been endorsed by the FSC, effective for annual period beginning on January 1, 2023:

<u>New, Revised, or Amended Standards or Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IAS 1 “Disclosure of Accounting Policies”	January 1, 2023
Amendments to IAS 8 “Definition of Accounting Estimates”	January 1, 2023
Amendments to IAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction”	January 1, 2023

The Group assessed that the aforementioned standards and interpretations would not have a significant impact on its financial position and financial performance.

- 3) The impact of IFRSs issued by IASB but not yet endorsed by the FSC

The following summarizes the IFRSs issued by IASB but not yet endorsed by the FSC:

<u>New, Revised, or Amended Standards or Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
Amendments to IFRS 16 “Lease Liability in Sale and Leaseback”	January 1, 2024
IFRS 17 “Insurance Contracts”	January 1, 2023
Amendments to IFRS 17 “Insurance Contracts”	January 1, 2023
Amendments 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 Group assessed that the aforementioned standards and interpretations would not have a significant impact on its financial position and financial performance.

- (4) Summary of significant accounting policies

The primary accounting policies adopted by the consolidated financial statements are explained below. Except as otherwise explained, the policies are consistently applicable in all reporting periods.

- 1) Statement of compliance

The accompanying consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations (the “IFRSs) endorsed and issued into effect by the FSC.

- 2) Basis of preparation

1. The accompanying consolidated financial statements have been prepared on the historical cost basis.
2. Preparing the consolidated financial statements in accordance with IFRSs endorsed by the FSC takes some significant accounting estimates. And in the process of applying the Group’s

accounting policies involves the managements' judgments. Please refer to Note 5 for the items involving high judgment or complexity or items involving significant assumptions and estimates in the consolidated financial statements.

3) Basis of consolidation

1. Basis of preparation of consolidated financial statements

- (a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group 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. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
- (b) All intra-group balances, transactions, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full. Appropriate adjustments of accounting policies of the subsidiaries have been made to be uniform with the accounting policies of the Group.
- (c) Components of profit or loss and other comprehensive income of subsidiaries are attributed to the shareholders of the parent company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the shareholders of the parent company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.
- (d) Changes in parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (ig. transactions with non-controlling interests) are equity transactions, which are transactions with owners in their capacity as owners. The differences between the adjustment amount of non-controlling interests and the fair value of consideration paid or received are recognized in equity.
- (e) If the Group losses control of a subsidiary, the retained investments in the former subsidiary shall be remeasured at fair value and recognized as the fair value of financial assets at initial recognition, or the cost of investments in associates or joint ventures at initial recognition. The differences between the fair value and the carrying amount shall be recognized in profit or loss. The Group shall account for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Group had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group shall reclassify the gain or loss from equity to profit or loss when it loses control of the subsidiary.

2. Subsidiaries included in the consolidated financial statements are as follows:

<u>Investor</u>	<u>Subsidiary</u>	<u>Main business</u>	<u>Percentage of ownership</u>		<u>Note</u>
			<u>December 31, 2022</u>	<u>December 31, 2021</u>	
Fong-Chien Construction Co.,LTD.	Hung Yeu Construction Co., Ltd. (Hung Yeu Company)	Comprehensive construction, trading of properties, developments and leases of residences and buildings	92.83	92.83	
Fong-Chien Construction Co.,LTD.	Hungtu Alishan International Development Co., Ltd. (Hungtu Alishan)	Operation of hotel and restaurant business	99.87	99.87	Note 1. Note 2
Hung Yeu Construction Co., Ltd.	Hungtu Alishan International Development Co., Ltd. (Hungtu Alishan)	Operation of hotel and restaurant business	0.01	0.01	Note 1. Note 2

Note 1: The Company has converted all the preferred shares of Hungtu Alishan held into 22,500 thousands of ordinary shares on December 1, 2021. After the conversion, the percentages of ownership of the Company and Hung Yeu Company to Hungtu Alishan are 99.87% and 0.01%, respectively.

Note 2: As Hungtu Alishan has no longer substantively operated, dissolution has been resolved by the board of directors on April 6, 2022 and by the shareholders meeting on April 27, 2022. April 27, 2022 is the dissolution date, and December 29, 2022 is the date of completion of liquidation. Statements and records of accounts have been approved by the resolution of special meeting of shareholders on January 11, 2023, and a report of completion of liquidation has filed to the court. As of the date the financial statements are issued, the court is implementing the procedures of completion of liquidation.

3. Subsidiaries excluded from the consolidated financial statements: None.

4. Adjustments and treatments for subsidiaries with different balance sheet dates: None.

5. Significant restrictions: None.

6. Details of subsidiaries that have material non-controlling interests: None.

4) Translation of foreign currencies

The items included in the entities of the Group's financial statements are measured by the currency used in the primary economic environment where the entities operate (functional currency). The consolidated financial statements are expressed in the Company's functional currency, "New Taiwan Dollar."

5) Classification of non-current and current assets and liabilities

1. An asset is classified as current under one of the conditions below:

- The Group expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
- The Group holds the asset primarily for the purpose of trading;
- The Group expects to realize the asset within twelve months after reporting period;
- The asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Except the circumstances of 5)3., for those assets that are not current are classified as non-current.

2. A liability is classified as current under one of the conditions below:
 - (a) The Group expects to settle the liability in normal operating cycle;
 - (b) The Group holds the liability primarily for the purpose of trading;
 - (c) The liability is due to be settled within twelve months after the reporting period;
 - (d) The Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting 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.

Except the circumstances of 5)3., for those liabilities that are not current are classified as non-current.

3. As the operating cycles of construction and sales of housing are usually longer than 1 year, the assets and liabilities related to construction and long-term construction contracts shall be classified as current or non-current based on operating cycles (usually 3 years). Other assets and liabilities shall be classified by the criteria of 1 year.

6) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and with maturity dates that do not present significant risks of changes in value. If time deposits and bonds with repurchase agreement conform to the conditions as mentioned above, and the Group holds them for the purpose of short-term cash commitment in operation, they are classified as cash equivalents.

7) Financial assets at amortized cost

1. A financial asset is measured at amortized cost if both of the following conditions are met:

- (a) The objective of the business model for managing the asset is to hold assets in order to collect contractual cash flows.
- (b) The asset's contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

2. A regular way purchase or sale of financial assets at amortized cost is recognized using trade date accounting.

3. The amount at which the financial assets is measured at initial recognition is the fair value plus transaction costs, and shall be subsequently measured by effective interest method to amortize any difference between that initial amount and the maturity amount as interest revenue, and impairment losses shall be recognized. At derecognition, the profit or loss is recognized in profit or loss.

4. As the holding periods of the time deposits held by the Group that do not conform to the conditions of cash equivalents are short, the effect of discounting is immaterial. They shall be measured by the investment amounts

8) Accounts and notes receivables

1. Accounts and notes receivables are the accounts and notes with the unconditional right to receive the consideration for the goods transferred or services rendered according to the contracts.

2. As the effect of discounting of short-term accounts and notes receivables without bearing interests is immaterial, they shall be measured by the original invoice amount.

9) Impairment of financial assets

At each balance sheet date, the Group shall assess whether the credit risk on financial assets at amortized cost has increased significantly since initial recognition. The Group shall consider all the reasonable and provable information, including foreseeing information. If the credit risk on a financial instrument has not increased significantly since initial recognition, the Group shall measure the loss allowance for that instrument at an

amount equal to 12-month expected credit losses. If the credit risk on a financial instrument has increased significantly since initial recognition, the Group shall measure the loss allowance for that instrument at an amount equal to lifetime expected credit losses. For those accounts receivables or contract assets not containing significant financing component, the Group shall measure the loss allowance at an amount equal to lifetime expected credit losses.

10) Derecognition of financial assets

The Group shall derecognize the financial assets when the contractual rights to the cash flows from the financial assets expire

11) Lease of lessor – operating lease

The Group shall recognize the lease income associated with those leases less any incentives offered to the lessees as profit or loss on a straight-line basis over the lease term.

12) Inventories

Inventories are initially recognized by acquisition cost. Costs are carried over by construction site, and allocated by the ratio of floor space if the inventory is a building, by land ownership portion if the inventory is a land for construction. Inventories in the end of the period are measured at the lower of cost and net realizable value item by item. Net realizable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale.

13) Property, plant and equipment

1. Property, plant and equipment are initially recognized by acquisition cost. The relevant borrowing cost during the period of construction shall be capitalized.

2. Subsequent costs shall be recognized in the carrying value of the assets or as an individual asset, only if it's probable that future economic benefits associated with the item are expected to flow to the Group, and the costs can be measured reliably. The carrying value of the replaced items shall be derecognized. Other fix and maintenance cost are recognized in profit or loss.

3. Property, plant and equipment are subsequently measured by cost model. Aside from land, which shall not be depreciated, straight-line method is used to allocate the depreciable amount of an asset over its useful life. 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 shall be depreciated separately.

4. The residual value and the useful life of an asset shall be reviewed at each financial year-end, and if expectations differ from previous estimate, or there's significant change in the consuming way of future economic benefits associated with the asset, the changes shall be accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" since the date of the changes. The useful lives of each asset are listed below: Buildings and structures 20 ~55 years, auxiliary equipment 10 years, and other equipment 3~5 years.

14) Investment properties

An investment property is measured initially at cost, and subsequently measured by cost model. Except for land, other investment properties shall be depreciated by straight-line method over their useful life of 50~55 years.

15) Intangible assets

A separately acquired chartered right shall be measured initially at cost. Chartered rights are assets with finite useful life, shall be amortized by straight-line method over their useful lives of 3~27 years.

- 16) Impairment of non-financial assets
The Group shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any indication is present, the Group shall assess the recoverable amount of the asset. If the recoverable amount of the asset is less than its carrying amount, impairment loss shall be recognized. Recoverable amount is the higher of the cash-generating unit's net fair value and its value in use. If the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss shall be reversed. The increased carrying amount of an asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.
- 17) Borrowings
Borrowings comprise long-term and short-term bank borrowings. Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowing using the effective interest method.
- 18) Accounts and notes payables
1. Accounts and notes payables are liabilities to pay for goods or services that have been received from the supplier in operations or not in operations.
2. As the effect of discounting of short-term accounts and notes payables without bearing interests is immaterial, they shall be measured by the original invoice amount.
- 19) Derecognition of financial liabilities
The Group shall derecognize a financial liability from its statement of financial position when the obligation specified in the contract is discharged or cancelled or expires.
- 20) Employee benefits
1. Short-term employee benefits
Short-term employee benefits are measured by the undiscounted amount expected to be paid, and recognized as an expense when the employees have rendered service entitling them to the contribution.
2. Pension
For defined contribution plans, the contributions shall be recognized as pension expenses when they are due on the accrual basis. Prepaid contributions shall be recognized that excess as an asset to the extent that the prepayment will lead to a cash refund or a reduction in the future payments.
3. Employees' and directors' remuneration
Employees' and supervisors' remuneration are recognized as expenses and liabilities 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 the employee's remuneration is paid by stock, the basis for calculating the number of shares is the closing price before the date of board of directors' resolution.
- 21) Income tax
1. The income tax expense for the period comprises current and deferred income tax. Tax is recognized in profit or loss, except to the extent that it relates to the items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.

2. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the entities operate and generate taxable income. Management shall periodically evaluate the tax declaration condition, and estimate the income tax liabilities based on the tax expected to be paid to the taxation authority when applicable. An additional tax on unappropriated earnings is recognized as income tax expenses on unappropriated earnings in the year the shareholders' meeting approves the distribution of earnings based on the actual distribution.
 3. Deferred income tax shall be recognized for the temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, except to the extent that the deferred tax liabilities arise from the initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). The Group shall not recognize the deferred tax liabilities for temporary differences associated with investments in subsidiaries, if the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred income tax is measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.
 4. Deferred tax assets shall be reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.
- 22) Share capital
Ordinary shares are classified in equity. The incremental costs directly attributable to issuance of new stock or stock options are recognized as the debit elements of the capital in equity.
- 23) Dividend distribution
The cash dividends to be paid to shareholders shall be recognized as liabilities in the financial statements when the board of directors makes the resolution. The stock dividends shall be recognized as stock dividends to be distributed in the financial statements when the shareholders' meeting makes the resolution, and shall be transferred to ordinary shares at the base date of the new shares.
- 24) Revenue recognition
1. Sales of properties
- (a) The Group is primarily engaged in the construction and sales of properties. The Group shall recognize revenue when the customer obtains control of that asset. For the contracts of selling houses signed, based on the restriction of the terms of the contracts, the properties cannot be used for other purposes to the Group. And the Group does not have the enforceable rights, until the legal ownership of the properties has transferred to customers. Therefore, revenue is recognized when the legal ownership has transferred to the customers and the Group has acquired the housing confirmation letter at the time the properties are conveyed.
 - (b) The contracts of pre-sale houses include the terms of down payments, and the periods from receiving the down payments and the transfers of the control of goods are longer than 1 year. If the Group assesses that individual pre-sale house contract contains significant financial component, the committed consideration shall be adjusted and interest expenses shall be recognized. In addition, the Group shall consider the materiality of the financial component by the contract level, not consider whether the financing is material by the portfolio level. The contract liabilities shall be recognized as revenue when the properties are completed and the control has transferred to customers.

2. Development and resale of land

Revenue is measured by the amount agreed by contracts. The customers shall pay for the contract consideration when the legal ownership of the properties transferred. Under rare circumstances, the Group negotiates with customers to delay the payment, but the delays do not exceed 12 month. As the Group determines that the contracts are without significant financial components, the amounts of considerations are not adjusted.

3. Costs of obtaining contracts with customers

The incremental costs of obtaining a contract (primarily sales commission) shall be recognized as an asset (recognized as other current assets) when incurred if the Group expects to recover those costs, and shall be amortized systematically by the same basis as the goods or services provided related to the assets. If the consideration expected to be received less the costs not recognized as expenses is lower than the carrying amount of the asset subsequently, the difference shall be recognized as impairment loss.

4. Rental income

Rentals are recognized as revenue and amortized by straight-line method over the lease period.

25) Segment information

The segment information shall be reported by the same way as the internal management report provided to the chief operating decision maker. The operations results of operating segment are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. And the discrete financial information of operating segments is available.

(5) Major sources of uncertainty arising from significant accounting judgments, estimates, and assumptions

When preparing the Group's consolidated financial statements, the management has made judgments to determine the account policies adopted, and make accounting estimates and assumptions based on the reasonable exceptions for future events based on the condition at the balance sheets date. However, these estimates and assumptions could differ from the actual result; thus they could be assessed and adjusted by taking into account historical experiences and other factors. The estimates and assumptions could result in risks that require a material adjustment to the carrying amount of assets and liabilities in the next fiscal year. The uncertainty of significant accounting judgments, estimates and assumptions is as follows:

Significant accounting estimates and assumptions

Inventory valuation

As inventories are measured by the lower of cost and net realizable value, the Group has to utilize judgment and estimates to determine the net realizable value of inventories at the balance sheet date.

As of December 31, 2022, the carrying amount of inventories amounted to NT\$5,441,780 thousand.

(6) Explanation of significant accounts

1) Cash and cash equivalents

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Cash on hand and revolving funds	\$ 33	\$ 26
Checking and demand deposits	235,632	954,847
Time deposits	50,000	275,800
Bonds with repurchase agreements	-	50,000
Total	<u>\$ 285,665</u>	<u>\$ 1,280,673</u>

1. As the correspondent banks are credible and the Group has several correspondent banks to diversify the credit risk, the probability of default is expected to be very low.
2. The Group classified the time deposits with original maturity over 3 months and not for the purpose of short-term cash commitment, and cash and cash equivalents with restricted purposes as “financial assets at amortized cost.” As of December 31, 2022 and 2021, the item amounted to NT\$52,000 thousand and NT\$177,000 thousand, respectively.
3. The cash and cash equivalents were not pledged as collateral.

2) Financial assets at amortized cost

<u>Item</u>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Current items:		
Time deposits with original maturity over 3 months	<u>\$ 52,000</u>	<u>\$ 177,000</u>

1. The profit or loss arising from financial assets at amortized cost recognized is as follows:

<u>Item</u>	<u>2022</u>	<u>2021</u>
Interest revenue	<u>\$ 1,760</u>	<u>\$ 364</u>

2. Without consider the collaterals held and other credit enhancement, as of December 31, 2022 and 2021, the most representative credit risk exposure amounts of financial assets at amortized cost are the disclosed amount of financial assets at amortized cost at each period.
3. Please refer to Note 12.2 for the credit risk related to financial assets at amortized cost. As the counterparties of the investments in demand deposits are credible financial institutions, the probability of default is expected to be very low.

3) Notes and accounts receivables

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Notes receivables	<u>\$ 225</u>	<u>\$ 1,426</u>
Accounts receivables	<u>\$ 9,126</u>	<u>\$ 19,055</u>

1. The aging analysis of notes and accounts receivables is as follows:

	<u>December 31, 2022</u>		<u>December 31, 2021</u>	
	<u>Accounts receivables</u>	<u>Notes receivables</u>	<u>Accounts receivables</u>	<u>Notes receivables</u>
Undue	<u>\$ 9,126</u>	<u>\$ 225</u>	<u>\$ 19,055</u>	<u>\$ 1,426</u>

The aging analysis is based on the days of overdue.

2. As of December 31, 2022 and 2021 the balances of accounts receivables are arising from contracts with customers. And as of January 1, 2021, the balance of accounts receivables amounted to NT\$7,643 thousand.
 3. The notes and accounts receivables were not pledged as collateral.
 4. Without consider the collaterals held and other credit enhancement, as of December 31, 2022 and 2021, the most representative credit risk exposure amounts of financial assets at amortized cost are the disclosed amount of notes and accounts receivables at each period.
 5. Please refer to Note 12.2 for the credit risk related to notes and accounts receivables.
- 4) Inventories

	<u>December 31, 2022</u>		
	<u>Cost</u>	<u>Allowance for price decline</u>	<u>Carrying amount</u>
Buildings and land for trading	\$ 117,855	(\$ 1,559)	\$ 116,296
Land under construction	3,260,560	-	3,260,560
Construction work in process	1,486,211	-	1,486,211
Land for building	583,046	(4,333)	578,713
Total	<u>\$ 5,447,672</u>	<u>(\$ 5,892)</u>	<u>\$ 5,441,780</u>

	<u>December 31, 2021</u>		
	<u>Cost</u>	<u>Allowance for price decline</u>	<u>Carrying amount</u>
Buildings and land for trading	\$ 265,489	(\$ 1,559)	\$ 263,930
Land under construction	1,925,550	-	1,925,550
Construction work in process	663,766	-	663,766
Land for building	582,433	(4,333)	578,100
Total	<u>\$ 3,437,238</u>	<u>(\$ 5,892)</u>	<u>\$ 3,431,346</u>

1. The inventory costs recognized as expenses or losses in current period:

	<u>2022</u>	<u>2021</u>
Costs of buildings and land sold	<u>\$ 151,177</u>	<u>\$ 2,186,442</u>

2. Land under construction is as follows:

<u>Name of construction site</u>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Aixing section , Zhubei City (VITA)	\$ 720,914	\$ 720,914
Pingtian section, Taichung City (Senlifang)	494,729	494,965
Zhenfu section, Taichung City	709,671	709,671
Dingqiaozitou section, Taichung City	718,442	-
Renping section, Taichung City	616,804	-
	<u>\$ 3,260,560</u>	<u>\$ 1,925,550</u>

3. Construction work in process is as follows:

<u>Name of construction site</u>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Aixing section , Zhubei City (VITA)	\$ 943,254	\$ 467,827
Pingtian section, Taichung City (Senlifang)	511,013	189,545
Zhenfu section, Taichung City	20,195	6,394
Dingqiaozitou section, Taichung City	8,697	-
Renping section, Taichung City	3,052	-
	<u>\$ 1,486,211</u>	<u>\$ 663,766</u>

4. Please refer to Note 6.22 for the capitalized amount of the interests of inventories for the years ended December 31, 2022 and 2021. The interest rate intervals used for calculating the capitalization of interests are 1.76%~2.28% and 1.22%~1.91%.

5. Please refer to Note 8 for the inventories pledged as collaterals.

6. The Company has signed of the sale and purchase of land with the seller of the land of No. 46 on Zhenfu section, Taichung City on July 31, 2020. As the seller applied seal change with the land office on September 10, 2020, the Company was unable to proceed with the registration process of transferring the ownership. In addition, as the seller's second son applied a ruling that orders an injunction to Taiwan Taichung District Court and the registration of restriction was issued, the Company was unable to implement the transfer of ownership. Therefore, the Company filed a complaint based on the contract to request the seller to repay the first installment of down payment, and the second installment of official seal payment, with total amount NT\$23,540 thousand (recognized as other receivables) and liquidated damages, etc. Taiwan Taichung District Court has completed the civil judgment on June 30, 2022, the result is that the seller has to repay the Company NT\$23,540 thousand (recognized as other receivables) of considerations, NT\$17,662 thousand of liquidated damages (recognized as other revenue and other receivables), NT\$370 thousand of court costs (recognized as other receivables), and 5% of legal interest from January 27, 2021 to the date of repayment (as of December 31, 2022, the amount is NT\$3,971 thousand, recognized as interest revenue). The judgment is final.

The Company has applied to the court to distraint the land of No. 46 on Zhenfu section, Taichung City on July 11, 2022. The court has implemented the second public auction on March 2, 2023, and the payment will be distributed from the court. As of the date the consolidated financial statements are issued, the debts amounting to NT\$45,543 thousand have not been recovered.

5) Other current assets

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Current incremental costs of obtaining contracts	\$ 150,550	\$ 105,039
Taxes overpaid retained for offsetting the future tax payables	47,354	25,338
Performance bonds	62	26,987
Other current assets-others	<u>4,552</u>	<u>5,311</u>
	<u>\$ 202,518</u>	<u>\$ 162,675</u>

The Group has settled the litigation on July 29, 2021. As the recoverable amount of performance bonds is higher than its carrying amount, and the circumstances for recognizing impairment loss for the asset in prior years no longer exist, NT\$26,987 thousand of reversals of impairment losses on financial assets was recognized in 2021. Please refer to Note 6.10 for explanations.

6) Property, plant and equipment

	<u>January 1, 2022</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>December 31, 2022</u>
<u>Cost</u>					
Land	\$ 18,078	\$ -	\$ -	\$ -	\$ 18,078
Buildings and structures	17,872	-	(845)	-	17,027
Auxiliary equipment	29,900	8,208	(30,138)	147	8,117
Other equipment	5,294	-	(2,174)	-	3,120
Unfinished construction and equipment under acceptance	<u>147</u>	<u>-</u>	<u>-</u>	<u>(147)</u>	<u>-</u>
	<u>\$ 71,291</u>	<u>\$ 8,208</u>	<u>(\$ 33,157)</u>	<u>\$ -</u>	<u>\$ 46,342</u>

Accumulated depreciation

Buildings and structures	(\$ 340)	(\$ 603)	\$ 845	\$ -	(\$ 98)
Auxiliary equipment	(29,900)	(244)	30,138	-	(6)
Other equipment	<u>(4,774)</u>	<u>(372)</u>	<u>2,174</u>	<u>-</u>	<u>(2,972)</u>
	<u>(\$ 35,014)</u>	<u>(\$ 1,219)</u>	<u>\$ 33,157</u>	<u>\$ -</u>	<u>(\$ 3,076)</u>
	<u>\$ 36,277</u>				<u>\$ 43,266</u>

	<u>January 1, 2021</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>December 31, 2021</u>
<u>Cost</u>					
Land	\$ 339	\$ 17,739	\$ -	\$ -	\$ 18,078
Buildings and structures	133	17,739	-	-	17,872
Auxiliary equipment	29,900	-	-	-	29,900
Other equipment	5,294	-	-	-	5,294
Unfinished construction and equipment under acceptance	<u>-</u>	<u>147</u>	<u>-</u>	<u>-</u>	<u>147</u>
	<u>\$ 35,666</u>	<u>\$ 35,625</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 71,291</u>
<u>Accumulated depreciation</u>					
Buildings and structures	(\$ 85)	(\$ 255)	\$ -	\$ -	(\$ 340)
Auxiliary equipment	(11,927)	(383)	-	(17,590)	(29,900)
Other equipment	<u>(4,345)</u>	<u>(402)</u>	<u>-</u>	<u>(27)</u>	<u>(4,774)</u>
	<u>(\$ 16,357)</u>	<u>(\$ 1,040)</u>	<u>\$ -</u>	<u>(\$ 17,617)</u>	<u>(\$ 35,014)</u>
Accumulated impairment	<u>(17,617)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,617</u>	<u>-</u>
	<u>\$ 1,692</u>				<u>\$ 36,277</u>

Please refer to Note 6.10 for the impairment of property, plant and equipment.

7) Lease transactions—lessor

1. The underlying assets of the lease transactions that the Group involves are land. The duration of lease term is usually 1 to 6 years. The lease contracts are negotiated individually and applicable to different terms and conditions. In order to guarantee the condition of the leased assets, the Group usually requests the lessees not to use the lease assets as collaterals, or to provide guarantees for residual values.
2. The operating revenue-rental income of buildings from operating leases for the years ended December 31, 2022 and 2021 amounted to NT\$4,275 thousand and NT\$4,085 thousand, respectively, and other revenue-rental income amounted to NT\$0 thousand and NT\$634 thousand, respectively. There is no variable lease payment.
3. The maturity analysis of the lease payments of operating lease is as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
1 year	\$ 4,767	\$ 4,360
1~5 years	<u>3,291</u>	<u>7,608</u>
Total	<u>\$ 8,058</u>	<u>\$ 11,968</u>

8) Investment properties

	<u>January 1, 2022</u>	<u>Additions</u>	<u>Deductions</u>	<u>December 31, 2022</u>
<u>Cost</u>				
Land	\$ 92,700	\$ -	\$ -	\$ 92,700
Buildings and structures	<u>27,713</u>	<u>-</u>	<u>-</u>	<u>27,713</u>
	<u>\$ 120,413</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 120,413</u>
<u>Accumulated depreciation</u>				
Buildings and structures	<u>(\$ 10,381)</u>	<u>(\$ 533)</u>	<u>\$ -</u>	<u>(\$ 10,914)</u>
	<u>\$ 110,032</u>			<u>\$ 109,499</u>
	<u>January 1, 2021</u>	<u>Additions</u>	<u>Deductions</u>	<u>December 31, 2021</u>
<u>Cost</u>				
Land	\$ 92,700	\$ -	\$ -	\$ 92,700
Buildings and structures	<u>27,713</u>	<u>-</u>	<u>-</u>	<u>27,713</u>
	<u>\$ 120,413</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 120,413</u>
<u>Accumulated depreciation</u>				
Buildings and structures	<u>(\$ 9,848)</u>	<u>(\$ 533)</u>	<u>\$ -</u>	<u>(\$ 10,381)</u>
	<u>\$ 110,565</u>			<u>\$ 110,032</u>

1. The rental income and direct operating expenses of investment properties are as follows:

	<u>2022</u>	<u>2021</u>
Rental income from investment properties	<u>\$ 4,121</u>	<u>\$ 4,002</u>
Direct operating expenses incurred by the investment properties with current rental income	<u>\$ 766</u>	<u>\$ 723</u>

2. The fair value of the investment properties amounted to NT\$124,652 thousand and NT\$125,529 thousand for the years ended December 31, 2022 and 2021, respectively. The fair value is in the scope of level 3 of fair value hierarchy, which is the not valuated by an independent appraiser. The fair value is evaluated by the management using the valuation model often used by market participants, by discounting future cash flows of rental income. The significant unobservable inputs include the discount rate.
3. Please refer to Note 8 for the information on investment properties pledged as collaterals.

9) Intangible assets

	<u>January 1, 2022</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>December 31, 2022</u>
<u>Cost</u>					
Franchise-BOT	<u>\$ 764,710</u>	<u>\$ -</u>	<u>(\$764,710)</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Accumulated amortization</u>					
Franchise -BOT	<u>(\$ 450,433)</u>	<u>\$ -</u>	<u>\$450,433</u>	<u>\$ -</u>	<u>\$ -</u>
	<u>\$ 314,277</u>				<u>\$ -</u>
	<u>January 1, 2021</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>December 31, 2021</u>
<u>Cost</u>					
Franchise-BOT	<u>\$ 714,710</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ 764,710</u>
<u>Accumulated amortization</u>					
Franchise -BOT	<u>(\$ 133,598)</u>	<u>(\$ 3,244)</u>	<u>\$ -</u>	<u>(\$313,591)</u>	<u>(\$ 450,433)</u>
Accumulated impairment	<u>(\$ 579,502)</u>	<u>\$ -</u>	<u>\$288,821</u>	<u>\$290,681</u>	<u>-</u>
	<u>\$ 1,610</u>				<u>\$ 314,277</u>

1. Intangible assets are amortized as follows:

	<u>2022</u>	<u>2021</u>
Administrative expenses	<u>\$ -</u>	<u>\$ 3,244</u>

2. Please refer to Note 6.10 for the impairment and reversal of intangible assets.

3. The litigation has been settled on July 29, 2021. As the recoverable amount of intangible assets is higher than the carrying amount, and the circumstances for recognizing impairment loss for the assets in prior years no longer exist, the assets shall be recognized as the carrying amount without impairment losses less the accumulated amortization. NT\$288,821 thousand of gains on reversal of impairment losses have been recognized and NT\$290,681 thousand of accumulated impairment has been transferred to accumulated amortization. The balance of development royalty was 0 for recognizing the entire amount as impairment. The gains on reversal for litigation settlement amounted to NT\$27,090 thousand. Therefore, the book costs of NT\$50,000 thousand and the accumulated amortization of NT\$22,910 thousand have been adjusted.

As of December 31, 2021, the Group has applied the registration of cancellation of the superficies of Beimen Railway Station Hotel and transfer the ownership to the Forestry Bureau. And the Forestry Bureau has paid for the considerations of the paid transfer and maintenance expenses with the amount of NT\$757,766 thousand (with VAT). As the properties of Beimen Railway Station Hotel have been delivered and confirmed, the control of intangible assets has been transferred, and gain on disposal of intangible assets recognized amounted to NT\$452,652 thousand. The Group has received the refund of development royalty of NT\$45,247 thousand and the performance bonds of NT\$26,987 thousand. The total amount is NT\$72,234 thousand.

10) Impairment of non-financial assets

1. The Group has recognized reversal of impairment losses by the amount of NT\$315,911 thousand in 2021. There is no recognitions relevant to impairment in 2022. The details are as follows:

	<u>2022</u>	<u>2021</u>
	<u>Recognized in profit or loss</u>	<u>Recognized in profit or loss</u>
Reversal of impairment losses—franchise BOT	\$ -	\$ 288,821
Reversal of impairment losses—franchise BOT-development royalty	-	27,090
	<u>\$ -</u>	<u>\$ 315,911</u>

2. The gains on reversal of impairment losses disclosed by segment are as follows:

	<u>2022</u>	<u>2021</u>
	<u>Recognized in profit or loss</u>	<u>Recognized in profit or loss</u>
Hotel and restaurant segment	<u>\$ -</u>	<u>\$ 315,911</u>

3. The subsidiary of the Group, Hungtu Alishan International Development Co., Ltd. (“Hungtu Alishan”) has signed the “Building and Operating Contract of Private Investment in Operation of the Alishan Forest Railroad and Alishan Forest Recreation Area Plan” (the “dispute”) with the Forestry Bureau, COA, Executive Yuan. Due to the impact of Typhoon Morakot on August 8, 2009, there was dispute regarding the performance of the contract between both parties. Impairment of intangible assets with the amount of NT\$579,502 thousand and impairment of property, plant and equipment with the amount of NT\$17,617 thousand (excluding the losses with the amount of NT\$6,416 thousand reversed by selling business equipment) have been recognized for the dispute. The performance bonds of Alishan tourists hotel and Alishan forest railroad, development royalty, and related assets have been transferred to losses with the amount

of NT\$174,576 thousand. The accumulated impairment of related assets amounted to NT\$771,695 thousand.

After several years of litigation, Hungtu Alishan and the Forestry Bureau have settled the litigation and signed the settlement record on July 29, 2021. The Forestry Bureau shall notice Hungtu Alishan to apply the registration of cancellation of the superficies of Beimen Railway Station Hotel and transfer the ownership to the Forestry Bureau based on the agreement of the settlement record, and shall pay Hungtu Alishan for the considerations of the paid transfer and maintenance expenses with the amount of NT\$757,766 thousand (with VAT). After Hungtu Alishan has delivered all the relevant documents of all the properties of Beimen Railway Station Hotel and the delivery has been confirmed, the Forestry Bureau shall repay the development royalty and performance bonds with the amount of NT\$72,234 thousand, and the “Building and Operating Contract of Private Investment in Operation of the Alishan Forest Railroad and Alishan Forest Recreation Area Plan” and the contract of establishment of superficies are finalized. Based on the agreements in the aforementioned settlement record, the gain on reversal of impairment loss amounted to NT\$342,898 thousand (including the gain on reversal of impairment loss of intangible assets amounting to NT\$315,911 thousand, and gain on reversal of performance bonds losses amounting to NT\$26,987 thousand).

11) Short-term borrowings

<u>Types of borrowing</u>	<u>Loan period and repayment</u>	<u>Interest rate</u>	<u>Collateral</u>	<u>December 31, 2022</u>
Bank loan				
Secured loans	May 31, 2019~ May 31, 2024 Interests shall be paid monthly, and the principal shall be repaid at maturity.	2.350%	Inventories – land under construction	\$ 576,700
Secured loans	May 22, 2019~ May 22, 2024 Interests shall be paid monthly, and the principal shall be repaid at maturity.	2.350%	Inventories – land under construction	369,000
Secured loans	August 21, 2020~ August 21, 2025 Interests shall be paid monthly, and the principal shall be repaid at maturity.	2.500%	Inventories – construction work in process	160,650
Secured loans	February 9, 2021~ February 9, 2026 Interests shall be paid monthly, and the principal shall be repaid at maturity.	2.400%	Inventories – construction work in process	134,200
				\$ 1,240,550

<u>Types of borrowing</u>	<u>Loan period and repayment</u>	<u>Interest rate</u>	<u>Collateral</u>	<u>December 31, 2021</u>
Bank loan				
Secured loans	May 31, 2019~ May 31, 2024 Interests shall be paid monthly, and the principal shall be repaid at maturity.	1.850%	Inventories – land under construction	\$ 576,700
Secured loans	May 22, 2019~ May 22, 2024 Interests shall be paid monthly, and the principal shall be repaid at maturity.	1.850%	Inventories – land under construction	369,000
				<u>\$ 945,700</u>

1. Inventories were pledged as collaterals for the aforementioned borrowings as of December 31, 2022 and 2021, and key management also provided guarantees. Please refer to Note 7.

2. Please refer to Note 8 for the assets pledge as collaterals for the short-term borrowings.

12) Receipts in advance

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Receipts in advance	<u>\$ 86</u>	<u>\$ 721,709</u>

The litigation has been settled on July 29, 2021. The Forestry Bureau has noticed Hungtu Alishan to apply the registration of cancellation of the superficies of Beimen Railway Station Hotel and transfer the ownership to the Forestry Bureau, and has paid Hungtu Alishan for the considerations of the paid transfer and maintenance expenses with the amount of NT\$757,766 thousand (with VAT). As the delivery of properties of Beimen Railway Station Hotel has not been confirmed, the aforementioned payment was recognized as receipts in advance. As of December 31, 2022, the aforementioned receipts in advance has used to write of the intangible assets and gains on disposal of intangible assets. Please refer to Note 6.9 and 6.21.

13) Preferred shares liabilities

The subsidiary, Hungtu Alishan International Development Co., Ltd., has issued preferred shares in registered form on August 26, 2013, and the terms of the issuance are as follows:

1. Total amount issued and par value per share:

Total amount issued is NT\$225 million, and par value per share is NT\$10.

2. Issuance period:

The issued period is 10 years, from August 26, 2013 to August 26, 2023.

3. Issuance interest rate:

The annual dividend rate is 5%, calculated by the par value of shares. The dividends and earnings distribution of preferred shares shall be not lower than 6% of annual interest rate, calculated by the par value. If there is no earning or the earnings are not enough to distribute the aforementioned 6%, the amount shall be accumulated and compensated preferentially in the years with enough earnings.

4. Issuance terms:

The shares are mature after 10 years from the date of issuance. Holders of the preferred shares may apply for conversion into ordinary shares after holding for 1 month, and may request the issuer to redeem by par value after holding for 5 years.

5. Conversion rights: The shares may be converted at any time after holding 1 month, and one preferred share can be converted into one ordinary share.

6. Rights of redemption: None.

7. Put option:After 5 years, investors may sell back to the issuer by the par value every year.

8. Reset rights:None.

The entire aforementioned preferred shares were subscribed by the Company, and the Company has transferred the entire preferred shares of the subsidiary into ordinary shares on December 1, 2021, and the registration of changes has been completed. The accounting treatments relevant to the preferred shares liabilities have been eliminated in the consolidated financial statements.

14) Long-term borrowings

<u>Types of borrowing</u>	<u>Loan period and repayment</u>	<u>Interest rate</u>	<u>Collateral</u>	<u>December 31, 2022</u>
Long-term bank loans				
Secured loans	April 19, 2017~ April 19, 2032 Interests shall be paid monthly, and the principal shall be repaid in installments since the third year.	2.130%	Inventories-buildings and land for trading, investment properties	\$ 28,890
Secured loans	August 11, 2017~ August 11, 2032 Interests shall be paid monthly, and the principal shall be repaid in installments since the third year.	2.130%	Investment properties	13,771
Secured loans	July 13, 2021~January 13, 2025 Interests shall be paid monthly, and the principal shall be repaid at maturity.	2.325%	Inventories-land under construction	305,000
Secured loans	April 27, 2022~January 13, 2025 Interests shall be paid monthly, and the principal shall be repaid at maturity.	2.425%	Inventories-land under construction	172,300
Secured loans	June 9, 2022~ June 9, 2027 Interests shall be paid monthly, and the principal shall be repaid at maturity.	2.175%	Inventories-land under construction	435,000
Unsecured loans	November 14, 2022~June 9, 2027 Interests shall be paid monthly, and the principal shall be repaid at maturity.	2.425%	None	28,000
Subtotal				982,961
Less:current portion of long-term borrowings				(4,076)
Total				\$ 978,885

(The remainder is intentionally left blank.)

<u>Types of borrowing</u>	<u>Loan period and repayment</u>	<u>Interest rate</u>	<u>Collateral</u>	<u>December 31, 2021</u>
Long-term bank loans				
Secured loans	April 13, 2017~ April 13, 2022 Interests shall be paid monthly, and the principal shall be repaid in installments.	1.720%	Inventories- land for building	\$ 77,000
Secured loans	April 24, 2017~ April 24, 2022 Interests shall be paid monthly, and the principal shall be repaid in installments since the third year.	1.720%	Inventories- land for building	188,000
Secured loans	May 24, 2018~ May 24, 2025 Interests shall be paid monthly, and the principal shall be repaid in installments.	1.720%	Inventories- land for building	18,550
Secured loans	April 19, 2017~ April 19, 2032 Interests shall be paid monthly, and the principal shall be repaid in installments since the third year.	1.630%	Inventories-buildings and land for trading, investment properties	31,694
Secured loans	August 11, 2017~ August 11, 2032 Interests shall be paid monthly, and the principal shall be repaid in installments since the third year.	1.630%	Investment properties	15,055
Secured loans	July 13, 2021~January 13, 2025 Interests shall be paid monthly, and the principal shall be repaid at maturity.	1.700%	Inventories-land under construction	305,000
Subtotal				635,299
Less:current portion of long-term borrowings				(270,941)
Total				<u>\$ 364,358</u>

1. Inventories and investment properties were pledged as collaterals for the aforementioned borrowings as of December 31, 2022 and 2021, and key management also provided guarantees. Please refer to Note 7.

2. Please refer to Note 8 for the assets pledge as collaterals for the long-term borrowings.

15) Pension

1. The employee pension plan under the Labor Pension Act of the R.O.C. is a defined contribution plan. Since July 1, 2005, pursuant to the plan, the Company and domestic subsidiaries make monthly contributions of 6% based on each individual employee's salary or wage to employees' pension accounts for employees who chose to continue to be subject to the pension mechanism under the Labor Standards Act. The labor pension shall be paid for monthly pension payments or lump-sum payment, based on the principal and accrued dividends from an employee's individual labor pension account.

2. The pension costs recognized based on the aforementioned pension plan amounted to NT\$599 thousand and NT\$598 thousand for the years ended December 31, 2022 and 2021, respectively.

16) Share capital

The Company had authorized capital of NT\$2,000,000 thousand as of December 31, 2022, of which 155,001 thousand shares with par value of NT\$10 were issued. The paid-in capital is NT\$1,550,015 thousand.

The numbers of outstanding ordinary shares in the beginning and in the end of the period are reconciled as follows (unit:thousands of shares):

	2022	2021
Number of shares as of January 1 and December 31	<u>155,001</u>	<u>155,001</u>

17) Capital surplus

1. According to the regulation of the Company Act, where a company incurs no loss, it may distribute the income derived from the issuance of new shares at a premium, and the income from endowments received by the company, by issuing new shares which shall be distributable as dividend shares to its original shareholders in proportion to the number of shares being held by each of them or by cash. Based on the relevant regulations of Securities and Exchange Act, where a company intends to capitalize the aforementioned capital surplus, the total amount per year shall not exceed 10% of paid-in capital. A company shall not use the capital surplus to make good its capital loss, unless the surplus reserve is insufficient to make good such loss.
2. The changes in capital surplus of NT\$1,272 thousand for the year ended December 31, 2021 arose from the equity transactions of changes in equity of subsidiaries and the subsidiaries' adjustments to capital surplus recognized by equity method, when the Company did not actually acquire or disposal equity of subsidiaries. The investments accounted for using equity method have been eliminated in the consolidated financial statements.

18) Retained earnings

1. According to the Articles of Incorporation, if there is any net profits after closing of a fiscal year, the profits shall be distributed in the following order:
 - (a) payment of all taxes and dues;
 - (b) offsetting losses in prior years;
 - (c) setting aside a legal capital reserve at 10% of the profits left over, provided that no allocation of legal reserve is required if the accumulated legal reserve is equivalent to the total capital amount of the Company;
 - (d) setting aside or rotating special reserve according to the rule set out by the government authority in charge;
 - (e) If there is still remaining balance, the Company shall set aside with accumulated unappropriated retained earnings for shareholders' dividends. The Board of Directors shall draw up a meeting regarding the issue of profit distribution and report to the shareholders' meeting for the resolution of the distribution of the dividend.

The dividend policies of the Company take consideration of the operation of the Company, funding requirements, the changes in internal and external environments and shareholders' interests. Earnings may be distributed entirely or partially. The dividends may be distributed in cash or in stock, and the ratio of cash dividend shall be no less than 10% of total distribution.

According to Article 240-5 of the Company Act, the Company authorizes the distributable dividends and bonuses may be paid in cash after a resolution has been adopted at a meeting of the board of directors; and in addition thereto a report of such distribution shall be reported to the shareholders' meeting, but shall not be submitted to the shareholders' meeting for approval.

2. The legal reserve shall not be used except for making good the deficit of the company and being distributed by issuing new shares which shall be distributable as dividend shares to its original shareholders in proportion to the number of shares being held by each of them or by cash, for the portion in excess of 25% of the paid-in capital.
3. When distributing distributable earnings, the Company shall set aside special reserve for

the debit balance under other equity in the balance sheets according to regulations. If any of the debit balance under other equity is reversed, the special reserve in the amount equal to the reversal may be reversed for earnings distribution.

4. The earnings distribution proposal of 2020 has been resolved by the physical shareholder's meeting held on July 14, 2021. The earnings distribution proposal of 2021 has been resolved by the shareholder's meeting held on June 8, 2022. The distribution proposals are as follows:

	2021		2020	
	Amount	Dividend per share	Amount	Dividend per share
Legal reserve	\$ 91,644		\$ 5,056	
Cash dividend	279,003	\$ 1.8	77,501	\$ 0.5
Total	<u>\$ 370,647</u>		<u>\$ 82,557</u>	

The earnings distribution proposals are the same as the board of directors' proposals proposed on March 16, 2022 and March 17, 2021.

5. The earnings distribution has been resolved by the board of directors to be NT\$1.5 of dividend per ordinary share, with total amount NT\$232,502 thousand on March 15, 2023.
6. The Company acquired the land located in No. 245-1 on Huilaituo section, Xitun Dist., No. 19-1, 22-5, 25-1 on Mayuantou section, West Dist., No. 586 on Guangshun section, West Dist., in Taichung City from related parties, based on the board of directors' resolution made on December 26, 2017. As the transaction prices are NT\$3,723 thousand higher than the calculated transaction prices of the deals with non-related parties within 1 year, the Company set aside special reserve for the difference, and reported to the shareholders' meeting in 2019. The usage of aforementioned special reserve has been approved by the competent authorities on March 5, 2021, and the special reserve has been reversed.
7. The changes in unappropriated earnings of NT\$17,616 thousand for the year ended December 31, 2021 are the differences between consideration and carrying amount of subsidiaries acquired, when the Company converted preferred shares into ordinary shares.
- 19) Operating revenue

	2022	2021
Revenue from contracts with customers	\$ 213,169	\$ 3,059,683
Others-Rental income of buildings	4,275	4,085
Total	<u>\$ 217,444</u>	<u>\$ 3,063,768</u>

1. Classification of revenue from contracts with customers

The revenue of the Group can be classified geographically as follows:

2022	Construction division			Total
	South area	Central area	North area	
Segment revenue	\$ -	\$ 1,266	\$ 211,903	\$ 213,169
Time of revenue recognition				
Revenue recognized at a point in time				<u>\$ 213,169</u>
2021	Construction division			Total
	South area	Central area	North area	
Segment revenue	\$ 500,000	\$ 2,039,607	\$ 520,076	\$ 3,059,683
Time of revenue recognition				
Revenue recognized at a point in time				<u>\$ 3,059,683</u>

2. As of December 31, 2022 and 2021, the total amount of the allocated transaction prices for not fulfilling contractual obligations and the expected years of revenue recognition of the signed contracts of sales of buildings and land are as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Contract amount of signed contracts	\$ 3,914,720	\$ 3,911,110
Expected years of revenue recognition	2023~2024	2022~2024

3. Contract liabilities

The receipts in advance are contract liabilities relevant to recognition of revenue from contracts with customers as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>	<u>January 1, 2021</u>
Contract liabilities	<u>\$ 724,201</u>	<u>\$ 427,036</u>	<u>\$ 637,074</u>

Revenue arising from contract liabilities in the beginning of the period recognized in the current period:

	<u>2022</u>	<u>2021</u>
Revenue arising from contract liabilities in the beginning of the period recognized in the current period	<u>\$ 2,058</u>	<u>\$ 412,584</u>
20) <u>Other revenue</u>	<u>2022</u>	<u>2021</u>
Rental income	\$ -	\$ 634
Other commission income	69	144
Unpaid payables transferred to other revenue	595	2,573
Income from liquidated damages (Note)	17,662	-
Other revenue—others	<u>1,175</u>	<u>15,452</u>
	<u>\$ 19,501</u>	<u>\$ 18,803</u>

Note: Please refer to Note 9.1.2 for the explanation of the recognition based on the judgment of litigation.

21) Other gains and losses

	<u>2022</u>	<u>2021</u>
Gains on disposal of intangible assets	\$ 452,652	\$ -
Gains on reversal of impairment		
Gains on reversal of impairment of financial assets	-	26,987
Gains on reversal of impairment of intangible assets	-	315,911
Other losses	<u>-</u>	<u>(1,800)</u>
	<u>\$ 452,652</u>	<u>\$ 341,098</u>

Please refer to Note 6.9 for the gains on disposal of intangible assets in 2022, Note 6.10 for the gains on reversal of impairment in 2021.

22) Financial costs

	<u>2022</u>	<u>2021</u>
Interest expenses:		
Bank loans	\$ 37,990	\$ 31,479
Others	18	2,730
Less:interests eligible for capitalization	(37,990)	(28,546)
Interest expenses	<u>\$ 18</u>	<u>\$ 5,663</u>

23) Additional information on nature of expenses

	<u>2022</u>		
	<u>Operating costs</u>	<u>Operating expenses</u>	<u>Total</u>
Employee benefits expenses			
Payroll expenses	\$ -	\$ 15,445	\$ 15,445
Labor and health insurance expenses	-	1,450	1,450
Pension expenses	-	599	599
Directors' remuneration	-	7,055	7,055
Other employee benefits expenses	-	773	773
Total	<u>\$ -</u>	<u>\$ 25,322</u>	<u>\$ 25,322</u>
Depreciation expenses of property, plant and equipment	<u>\$ -</u>	<u>\$ 1,219</u>	<u>\$ 1,219</u>
Depreciation expenses of investment properties	<u>\$ 533</u>	<u>\$ -</u>	<u>\$ 533</u>
	<u>2021</u>		
	<u>Operating costs</u>	<u>Operating expenses</u>	<u>Total</u>
Employee benefits expenses			
Payroll expenses	\$ -	\$ 21,206	\$ 21,206
Labor and health insurance expenses	-	1,321	1,321
Pension expenses	-	598	598
Directors' remuneration	-	11,736	11,736
Other employee benefits expenses	-	2,451	2,451
Total	<u>\$ -</u>	<u>\$ 37,312</u>	<u>\$ 37,312</u>
Depreciation expenses of property, plant and equipment	<u>\$ -</u>	<u>\$ 1,040</u>	<u>\$ 1,040</u>
Depreciation expenses of right-of-use assets	<u>\$ -</u>	<u>\$ 229</u>	<u>\$ 229</u>
Depreciation expenses of investment properties	<u>\$ 553</u>	<u>\$ -</u>	<u>\$ 533</u>
Amortization expenses	<u>\$ -</u>	<u>\$ 3,244</u>	<u>\$ 3,244</u>

1. According to the Company's Articles of Incorporation, in order to motivate employees and the operating team, the Company shall allocate remuneration to employees at the rate no lower than 1% of annual profits, and to directors at the rate of no higher than 3% of annual profits during the period; provided, however, that when the Company has accumulated losses, the profits shall be preserved to make up for losses, before distributing to employees and directors. The employees' remuneration shall be distributed in stock or cash, which may include eligible employees of affiliated companies.. The resolution shall be made by a majority vote at a meeting of the board of directors attended by two-thirds of the total number of directors, and reported to the shareholders' meeting. The directors' remuneration shall be only distributed in cash.

2. The employees' and directors' remunerations are estimated as follows:

	<u>2022</u>	<u>2021</u>
Employees' remuneration	\$ 501	\$ 970

Directors' remuneration	<u>5,015</u>	<u>9,696</u>
	<u>\$ 5,516</u>	<u>\$ 10,666</u>

The aforementioned amounts are recognized as payroll expenses, which are accrued based on the profitability of the year. The employees' and directors' remunerations for the years ended December 31, 2022 and 2021 were accrued by 1% and 1%, respectively.

The amounts resolved by the board of directors are the same as the employees' and directors' remunerations amounts recognized in the financial statements of 2021. The employees' and directors' remunerations will be paid in cash. The actual distribution amounts of employees' and directors' remunerations are the same as the accrued amounts.

3. The information about the employees' and directors' compensation resolved by the board of directors is available at the Market Observation Post System website.

24) Income tax

1. Income tax expenses

(a) Composition of income tax expenses:

	<u>2022</u>	<u>2021</u>
Current income tax charge	\$ 279	\$ 40,805
Additional tax on unappropriated earnings	26,039	-
Underestimation of income tax of prior periods	-	<u>1,735</u>
Income tax expenses	<u>\$ 26,318</u>	<u>\$ 42,540</u>

(b) The relationship between income tax expenses and accounting profit

	<u>2022</u>	<u>2021</u>
Tax payables calculated by profit before tax multiplying the enacted tax rates	99,069	\$ 257,408
Expenses that shall be excluded based on tax laws	-	3,787
Tax exempt income based on tax laws	(93,715)	(215,482)
Additional tax on unappropriated earnings	26,039	-
Effect of Land Value Increment Tax	279	40,805
Unrecognized deferred tax assets arising from temporary differences	(1,021)	(6,000)
Unrecognized deferred tax assets arising from tax losses	123	97
Evaluation changes in the realizability of deferred tax assets	(4,456)	(39,810)
Underestimation of income tax of prior periods	-	<u>1,735</u>
Income tax expenses	<u>\$ 26,318</u>	<u>\$ 42,540</u>

2. The deductible deadline of unused tax loss and amount of the unrecognized deferred tax assets are as follows:

December 31, 2022						
<u>Year of occurrence</u>	<u>Company name</u>	<u>Declared/verified amount</u>	<u>Undeducted amount</u>	<u>Amount of unrecognized deferred tax assets</u>	<u>Last deductible year</u>	
2013	Fong-Chien	Verified amount	\$ 514,995	\$ 514,995	2023	
2015	Fong-Chien	Verified amount	43,964	43,964	2025	
2016	Fong-Chien	Verified amount	26,666	26,666	2026	
2017	Fong-Chien	Verified amount	7,458	7,458	2027	
2018	Fong-Chien	Verified amount	53,155	53,155	2028	
Total			<u>\$ 646,238</u>	<u>\$ 646,238</u>		

December 31, 2022						
<u>Year of occurrence</u>	<u>Company name</u>	<u>Declared/verified amount</u>	<u>Undeducted amount</u>	<u>Amount of unrecognized deferred tax assets</u>	<u>Last deductible year</u>	
2018	Hung Yeu	Verified amount	\$ 2,098	\$ 2,098	2028	
2019	Hung Yeu	Verified amount	129	129	2029	
2021	Hung Yeu	Declared amount	488	488	2031	
2022	Hung Yeu	Expected declared amount	615	615	2032	
Total			<u>\$ 3,330</u>	<u>\$ 3,330</u>		

December 29, 2022 is the date of completion of liquidation of Hungtu Alishan. The court is implementing the procedures of completion of liquidation. Please refer to the explanation in Note 4.3.2.

December 31, 2022						
<u>Year of occurrence</u>	<u>Company name</u>	<u>Declared/verified amount</u>	<u>Undeducted amount</u>	<u>Amount of unrecognized deferred tax assets</u>	<u>Last deductible year</u>	
2013	Alishan	Verified amount	\$ 29,899	\$ 29,899	2023	
2014	Alishan	Verified amount	23,861	23,861	2024	
2015	Alishan	Verified amount	21,997	21,997	2025	
2016	Alishan	Verified amount	22,073	22,073	2026	
2017	Alishan	Verified amount	8,387	8,387	2027	
2018	Alishan	Verified amount	7,820	7,820	2028	
2019	Alishan	Verified amount	7,824	7,824	2029	
2020	Alishan	Verified amount	6,537	6,537	2030	
2022	Alishan	Verified amount	4,854	4,854	2032	
Total			<u>\$ 133,252</u>	<u>\$ 133,252</u>		
Total			<u>\$ 782,820</u>	<u>\$ 782,820</u>		

December 31, 2021						
<u>Year of occurrence</u>	<u>Company name</u>	<u>Declared/verified amount</u>	<u>Undeducted amount</u>	<u>Amount of unrecognized deferred tax assets</u>	<u>Last deductible year</u>	
2012	Fong-Chien	Verified amount	\$ 14,381	\$ 14,381	2022	
2013	Fong-Chien	Verified amount	522,893	522,893	2023	
2015	Fong-Chien	Verified amount	43,964	43,964	2025	
2016	Fong-Chien	Verified amount	26,666	26,666	2026	
2017	Fong-Chien	Verified amount	7,458	7,458	2027	
2018	Fong-Chien	Verified amount	53,155	53,155	2028	
Total			<u>\$ 668,517</u>	<u>\$ 668,517</u>		

December 31, 2021						
<u>Year of occurrence</u>	<u>Company name</u>	<u>Declared/verified amount</u>	<u>Undeducted amount</u>	<u>Amount of unrecognized deferred tax assets</u>	<u>Last deductible year</u>	
2018	Hung Yeu	Verified amount	\$ 2,098	\$ 2,098	2028	
2019	Hung Yeu	Verified amount	129	129	2029	
2021	Hung Yeu	Expected declared amount	488	488	2031	
Total			<u>\$ 2,715</u>	<u>\$ 2,715</u>		

December 31, 2021						
<u>Year of occurrence</u>	<u>Company name</u>	<u>Declared/verified amount</u>	<u>Undeducted amount</u>	<u>Amount of unrecognized deferred tax assets</u>	<u>Last deductible year</u>	
2012	Alishan	Verified amount	\$ 63,502	\$ 63,502	2022	
2013	Alishan	Verified amount	29,899	29,899	2023	
2014	Alishan	Verified amount	23,861	23,861	2024	
2015	Alishan	Verified amount	21,997	21,997	2025	
2016	Alishan	Verified amount	22,073	22,073	2026	
2017	Alishan	Verified amount	8,387	8,387	2027	
2018	Alishan	Verified amount	7,820	7,820	2028	
2019	Alishan	Verified amount	7,824	7,824	2029	
2020	Alishan	Declared amount	6,537	6,537	2030	
		Total	<u>\$ 191,900</u>	<u>\$ 191,900</u>		
		Total	<u>\$ 863,132</u>	<u>\$ 863,132</u>		

3. Deductible temporary differences of unrecognized deferred tax assets:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Deductible temporary differences	<u>\$ 79,231</u>	<u>\$ 82,656</u>

4. Profit-seeking Enterprise Income Taxes of the Group have been verified by the tax collection authority until the years as follows:

	<u>Fong-Chien</u>	<u>Hung Yeu</u>	<u>Hungtu Alishan</u>
Verified year	<u>2020</u>	<u>2020</u>	<u>Final accounting of dissolution on April 27, 2022</u>

25) Earnings per share

	2022		
	<u>After-tax amount</u>	<u>Weighted –average outstanding shares (thousand)</u>	<u>Earnings per share (NT\$)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 469,636	155,001	\$ 3.03
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	469,636	155,001	
Effect of diluted potential ordinary shares			
Employees' remuneration	-	27	
Profit attributable to ordinary shareholders of the parent plus the effect of potential ordinary shares	\$ 469,636	155,028	\$ 3.03
		2021	
	<u>After-tax amount</u>	<u>Weighted –average outstanding shares (thousand)</u>	<u>Earnings per share (NT\$)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 916,440	155,001	\$ 5.91
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	916,440	155,001	
Effect of diluted potential ordinary shares			
Employees' remuneration	-	33	
Profit attributable to ordinary shareholders of the parent plus the effect of potential ordinary shares	\$ 916,440	155,034	\$ 5.91

When calculating the diluted earnings per share, assume the employees' remunerations to be paid in stock, and add the diluted potential ordinary shares into the calculation of diluted weighted average number of ordinary shares outstanding to calculate the diluted earnings per share.

26) Transactions with non-controlling interests

1. The refund of the payment for shares for capital reduction of the subsidiary of the Group, Hungtu Alishan, on February 23, 2022, amounted to NT\$225,000 thousand, which decreased the amount of non-controlling interests by NT\$270 thousand.
2. The subsidiary of the Group, Hungtu Alishan, implemented the conversion of the liabilities of convertible preferred shares on December 1, 2021. As the Group did not subscribe to additional shares at a percentage of its existing ownership percentage, the ownership percentage increased from 72.86% to 99.88%. As the aforementioned transaction does not involve the change in control to the subsidiary, it shall be treated as an equity transaction. The transaction increased the amount of non-controlling interests by NT\$21,387 thousand, and decreased the amount of the equity attributable to owners of the parent by NT\$16,344 thousand.

27) Supplementary information of cash flows

Investing activities involve only partial cash receipts:

	2022	2021
Disposal of intangible assets	\$ 314,277	\$ -
Gains on disposal of intangible assets	452,652	-
Proceeds from disposal of intangible assets	766,929	-
Less: receipts in advance in the beginning of the period (721,682)	-
Add: receipts in advance in the end of the period	-	721,682
Cash receipts in the current period	<u>\$ 45,247</u>	<u>\$ 721,682</u>

28) Changes in the liabilities arising from financing activities

	<u>Changes in cash</u>				December 31, 2022
	January 1, 2022	<u>flows from</u>	<u>Non-cash</u>	<u>Non-cash</u>	
		<u>financing activities</u>	<u>flow increase</u>	<u>flow transfers</u>	
Short-term borrowings	\$ 945,700	\$ 294,850	\$ -	\$ -	\$ 1,240,550
Long-term borrowings (including the current portion)	635,299	347,662	-	-	982,961
Dividends payables	-	(279,003)	279,003	-	-
Guaranteed deposits received	1,204	108	-	-	1,312
Total liabilities arising from financing activities	<u>\$1,582,203</u>	<u>\$ 363,617</u>	<u>\$279,003</u>	<u>\$ -</u>	<u>\$ 2,224,823</u>

	<u>Changes in cash</u>				December 31, 2021
	January 1, 2021	<u>flows from</u>	<u>Non-cash flow</u>	<u>Non-cash</u>	
		<u>financing activities</u>	<u>increase</u>	<u>flow transfers</u>	
Short-term borrowings	\$1,424,950	(\$ 848,250)	\$ -	\$ 369,000	\$ 945,700
Long-term borrowings (including the current portion)	1,100,704	(96,405)	-	(369,000)	635,299
Dividends payables	-	(77,501)	77,501	-	-
Guaranteed deposits received	1,204	-	-	-	1,204
Lease liabilities	234	(234)	-	-	-
Total liabilities arising from financing activities	<u>\$2,527,092</u>	<u>(\$ 1,022,390)</u>	<u>\$ 77,501</u>	<u>\$ -</u>	<u>\$ 1,582,203</u>

(7) Related party transactions

1) Related party names and relationships

<u>Related party name</u>	<u>Relationship with the Group</u>
Fong Yi Construction Co., Ltd. (Fong Yi Construction)	The chairman is the first degree relative of the general manager of the Company
Holy Grace Construction Corp. (Holy Grace Construction)	The chairman is the first degree relative of the general manager of the Company
Jing Chi Development Co., Ltd. (Jing Chi Development)	The chairman is the general manager of the Company
Grace Hospitality Management Co., Ltd. (Grace Hospitality)	The chairman is the second degree relative of the general manager of the Company
Liu, Jui-Lin	The director and general manager of the Company
Liu, Shu-Chu	The first degree relative of the general manager of the Company

2) Significant transactions with related parties

1. Operating revenue

	<u>2022</u>	<u>2021</u>
Sales revenue:		
Other related parties	\$ <u> -</u>	\$ <u> 39,439</u>

The transaction prices and payment terms of sales of buildings and land are not significantly different from the transactions with non-related parties.

2. Lease transactions – lessee

(a) The Group rents buildings from other related parties. The periods of the lease contracts are 1 month to 3 years. The calculation of rental is determined by the rental in the neighborhood and the area rent. The rents are paid in every half year.

(b) Rental expenses

	<u>2022</u>	<u>2021</u>
Holy Grace Construction	\$ <u> 165</u>	\$ <u> 235</u>

3. Jointly and severally liability of peer industries – commission expenses

	<u>2022</u>	<u>2021</u>
Jing Chi Development	\$ <u> 201</u>	\$ <u> -</u>

4. Commission income

	<u>2022</u>	<u>2021</u>
Other related parties	\$ <u> -</u>	\$ <u> 36</u>

5. Details of guarantees

(a) The Group provided endorsement and guarantee for other related parties' financing as follows:

As of December 31, 2022 and 2021, in order to provide companies in the same industry among themselves joint and several security for a performance guarantee of a sales contract for pre-construction homes pursuant to the Consumer Protection Act for each other, the Company provided jointly and severally liability of peer industries for related parties, Fong Yi Construction Co., Ltd. ,and Cornerstone Inverstment Co., Ltd. by the amount of NT\$425,690 thousand, which is the construction costs on the construction license. In addition, Hung Yeu Company provided jointly and severally liability of peer industries for related parties, Grace Hospitality Management Co., Ltd., by the amount of NT\$159,101 thousand, which is the construction costs on the construction license. The guarantee period is from the date of signing mutual guarantee contracts, which are audited and approved by the association, and the performance guarantee expires when the constructions receive the user license.

(b) Other related parties provided endorsement and guarantee for the Group' financing as follows:

As of December 31, 2022 and 2021, in order to provide companies in the same industry among themselves joint and several security for a performance guarantee of a sales contract for pre-construction homes pursuant to the Consumer Protection Act for each other, the related party, Jing Chi Development Co., Ltd., provided jointly and severally liability of peer industries for the Company by the amount of NT\$257,965 thousand, which is the construction costs on the construction license. The guarantee period is from the date of signing mutual guarantee contracts, which are audited and approved by the association, and the performance guarantee expires when the constructions receive the user license.

6. Others

The key management is the joint guarantor of the long-term and short-term loans. Please

refer to Note 6.11 and 6.14 for explanations.

3) Information on key management personnel compensation

	<u>2022</u>	<u>2021</u>
Short-term employee benefits	\$ 13,055	\$ 20,302

Short-term employee benefits include the accrued directors' remuneration. Please refer to Note 6.20 for explanation.

(8) Pledged assets

The assets pledge as collaterals are as follows:

<u>Assets</u>	<u>Carrying amount</u>		<u>Object</u>
	<u>December 31, 2022</u>	<u>December 31, 2021</u>	
Inventories	\$ 4,127,923	\$ 2,311,987	Long-term and short-term bank loans
Investment properties	109,499	110,032	Long-term bank loans
	<u>\$ 4,237,422</u>	<u>\$ 2,422,019</u>	

(9) Significant contingencies and unrecognized contract commitments

1) Contingencies

1. Please refer to Note 7.2 for guarantees for related parties.
2. Please refer to Note 6.4.6 for the litigations about the dispute regarding the performance of the contract of inventories.

2) Commitments

The capital expenditures that the Group has signed contracts for but have not yet occurred.

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Land for construction	\$ 47,200	\$ -
Construction work in process	450,362	1,026,846
Total	<u>\$ 497,562</u>	<u>\$ 1,026,846</u>

(10) Losses due to major disasters

None.

(11) Significant subsequent events

None.

(12) Others

1) Capital management

The primary objective of the Group's capital management is to ensure that it operates continuously and maintains optimal capital structure to decrease the cost of capital and maximized the shareholders' equity. The Group manages and adjusts the capital structure, probably by adjusting dividend payment, returning of capital, issuing new shares, or disposing assets. The Group utilized debt to capital ratio to monitor the Group's capital. The ratio is calculated by net debt divided by total capital. Net debt is calculated by the total borrowings (including "current and non-current borrowings" stated in the consolidated financial statements) less of cash and cash equivalents. And total capital is calculated by "equity" stated in the consolidated balance sheets plus net debt. As of December 31, 2022 and 2021, the debt to capital ratio of the Group's asset is as follows :

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Total borrowings	\$ 2,223,511	\$ 1,580,999
Less: cash and cash equivalents	(285,665)	(1,280,673)

Net debt	1,937,846	300,326
Total equity	<u>2,829,967</u>	<u>2,639,564</u>
Total capital	<u>\$ 4,767,813</u>	<u>\$ 2,939,890</u>
Debt to capital ratio	40.64%	10.22%

2) Financial instruments

1. Types of financial instruments

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
<u>Financial assets</u>		
Financial assets at amortized cost		
Cash and cash equivalents	\$ 285,665	\$ 1,280,673
Current financial assets at amortized cost	52,000	177,000
Notes receivables	225	1,426
Accounts receivables	9,126	19,055
Other receivables	45,646	23,794
Refundable deposits (Recognized as other current and non-current assets)	451	27,376
	<u>\$ 393,113</u>	<u>\$ 1,529,324</u>
	<u>December 31, 2022</u>	<u>December 31, 2021</u>
<u>Financial liabilities</u>		
Financial liabilities at amortized cost		
Short-term borrowings	\$ 1,240,550	\$ 945,700
Notes payables	590	495
Accounts payables	320,510	93,055
Other payables	34,539	85,398
Long-term borrowings (including current portion)	982,961	635,299
Guaranteed deposits received	1,312	1,204
	<u>\$ 2,580,462</u>	<u>\$ 1,761,151</u>

2. Risk management policies

- The Group's operation is influence by several financial risks, including market risk (including interest rate risk), credit risk, and liquidity risk.
- Risk management is implemented by the finance department's cooperating with each operating unit in the Group, to identify, assess, and avoid financial risks.

3. Nature and extent of significant financial risk

(a) Market risk

Cash flow and fair value interest rate risk

- A. The Group's interest rate risk arises from short-term and long-term borrowings at floating interest rate. Borrowings at floating interest rates expose the Group to cash flow interest rate risk. As of December 31, 2022 and 2021, the borrowings at floating interest rate are primarily denominated in New Taiwan Dollars.
- B. As of December 31, 2022 and 2021, if the interest rate of borrowings denominated in New Taiwan Dollars had increased or decreased by 1%, the Group's profit would have decreased or increased by NT\$17,788 thousand and NT\$12,648 thousand for the years ended December 31, 2022 and 2021, assuming all other variable factors remain constant. The changes in profit are resulted from the changes in interest expense due to borrowings at floating interest rate.

(b) Credit risk

- A. Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial losses to the Group. The Group is exposed to credit risks from accounts receivables that the counterparty is unable to pay off by the payment term, and the contractual cash flows from investments in debt instruments at amortized cost.
- B. The Group manages credit risk in terms of the Group. The Group only accepts banks or institutions assessed to be with good credit quality as correspondent bank or financial institutions. The notes receivables and accounts receivables are receivables from customers for selling buildings and land. Based on the internal credit policies, the Group shall manage and implement credit risk analysis before determine payment terms and delivery terms with new customers. Internal risk control evaluates customers' credit quality by considering the financial condition, past experiences, and other factors.
- C. The Group adopts the presumptions in the scope of IFRS9. When contractual payments are more than 90 days past due, the payments shall be deemed as that default has occurred.
- D. The Group adopts the following presumptions in the scope of IFRS9, to determine whether the credit risk of the financial instruments has increased significantly since initial recognition:
The credit risk on financial assets has increased significantly since initial recognition when contractual payments are more than 30 days past due.
- E. The Group is keep implementing the legal procedures of recourse, to preserve the creditor's right. As of December 31, 2022 and 2021, the debts that are still under recourse amounted to both NT\$0 thousand.
- F. The Group classifies the accounts receivables from customers by the characteristics of customer types, estimates expected credit losses by loss rate method under simplified approach, and adjust the loss rates built based on the historical and current information in specific periods by taking into consideration of foreseeing information, to estimate the loss allowances for accounts receivables. As of December 31, 2022 and 2021, the Group assessed that the impairment losses that may occur are little.

(c) Liquidity risk

- A. The cash flow forecast is summarized by the financial department of the Group. The financial department monitors the forecast of working capital requirement, ensures there's enough capital to support the operating requirements, and maintains

enough unused credit lines of borrowings at any time.

B. Unused credit lines of the Group are as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Due within 1 year	\$ 56,020	\$ 53,700
Due over 1 year	<u>246,000</u>	<u>517,660</u>
	<u>\$ 302,020</u>	<u>\$ 571,360</u>

C. The table below analyzed the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities. The contractual cash flows disclosed below are not discounted.

Non-derivative financial liabilities:

December 31, 2022	<u>Within 6 months</u>	<u>6 months-1 year</u>	<u>1-2 years</u>	<u>Over 2 years</u>	<u>Total</u>
Short-term borrowings	745,637	\$ 507,886	\$ -	\$ -	\$1,253,517
Notes payables	590	-	-	-	590
Accounts payables	292,290	15,760	12,460	-	320,510
Other payables	18,940	8,550	7,049	-	34,539
Long-term borrowings (including current portion)	13,202	13,202	26,403	1,002,611	1,055,418
Guaranteed deposits received	-	-	-	1,312	1,312

Non-derivative financial liabilities:

December 31, 2021	<u>Within 6 months</u>	<u>6 months-1 year</u>	<u>1-2 years</u>	<u>Over 2 years</u>	<u>Total</u>
Short-term borrowings	\$ 8,748	\$ 8,748	\$ 17,495	\$ 952,990	\$ 987,981
Notes payables	495	-	-	-	495
Accounts payables	87,884	1,400	3,771	-	93,055
Other payables	70,522	9,696	5,180	-	85,398
Long-term borrowings (including current portion)	272,590	6,078	12,132	367,027	657,827
Guaranteed deposits received	-	-	-	1,204	1,204

3) Fair value information

1. The definitions of each level in valuation techniques used to measure the fair value of financial and non-financial instruments are as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that entities can access at the measurement date. The inputs of the level are quoted prices (unadjusted) in active markets for identical assets or liabilities. An active market is the 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 assets or liabilities. The investment properties held by the Company are in the scope.

2. Please refer to Note 6.8 for the fair value information of investment properties measured at cost.

3. Financial instruments no measured at fair value

The carrying amount of cash and cash equivalents, financial assets at amortized cost, notes receivables, accounts receivables, other receivables, refundable deposits, short-term borrowings, notes payables, accounts payables, other payables, long-term borrowings (including current portion), and guaranteed deposits received is the reasonable approximation of fair value

4. Financial and non-financial instruments at fair value: None.

(13) Other disclosures

1) Information on significant transactions

1. Loans to others: Please refer to Table 1.
2. Provision of endorsements and guarantees to others: Please refer to Table 2.
3. Holding of marketable securities at the end of the period (excluding investment in subsidiaries, associates, and joint ventures): None.
4. Acquisition or sale of the same security with the accumulated cost exceeding NT\$300 million or 20% of the Company's paid-in capital or more: None.
5. Acquisition of real estate reaching NT\$300 million or 20% of the Company's paid-in capital or more: Please refer to Table 3.
6. Disposal of real estate reaching NT\$300 million or 20% of the Company's paid-in capital or more: None.
7. Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more: None.
8. Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more: Please refer to None.
9. Trading in derivative instruments: None.
10. Business relationships among the parent company and subsidiaries, and significant intercompany transactions: None.

2) Information on investees

The information about company names, locations, etc. of investees: Please refer to Table 4.

3) Information on investees in Mainland China

None.

4) Information on major shareholders

Information on major shareholders: Please refer to Table 5.

(14) Segment information

1) General information

The management of the Group has identified the reportable segments by the reporting information used by the chief operating decision maker to make decisions.

The composition, basis of dividing segments, and the basis of measuring segment information of the Group do not significantly change in the current period.

2) Measurement of segment information

The Group evaluates the performance of operating segments by the adjusted profit or loss before tax.

3) Segment information

1. The reportable segment information provided to the chief operating decision maker is as follows:

2022	Construction division	Hotel and restaurant division	Adjustments and write-offs	Total
Revenue				
Revenue from external customers	\$ 217,455	\$ -	(\$ 11)	\$ 217,444
Segment profit or loss	\$ 43,199	\$ 453,255	\$ -	\$ 496,454
Segment profit or loss include:				
Other gains and losses	\$ -	\$ 452,652	\$ -	\$ 452,652
2021	Construction division	Hotel and restaurant division	Adjustments and write-offs	Total
Revenue				
Revenue from external customers	\$ 3,063,802	\$ -	(\$ 34)	\$ 3,063,768
Segment profit or loss	\$ 720,407	\$ 323,634	\$ 2,973	\$ 1,047,014

2. The reportable segments of the Group are classified by operating divisions from the business organization.
3. The revenue of the Group is primarily from operating of construction, hotels, and restaurants.
4. The Group does not allocate income tax expenses to reportable segments. The reported amounts are the same as those in the report used by the chief operating decision maker.
5. The accounting policies of operating segments are the same as the summary of significant accounting policies in Note 4 to the financial statements of the Company. The segment profit or loss of the Company is measured by profit or loss before tax, which is the basis to evaluate performance.

4) Information on reconciliation of segment profit or loss

1. The total revenue is the same as the revenue from continuous operating segments for the years ended December 31, 2022 and 2021. There is no item to be reconciled.

	2022	2021
Revenue of reportable operating segments before adjustments	\$ 217,455	\$ 3,063,802
Elimination of inter-segment revenue	(11)	(3)
Revenue of reportable operating segments	\$ 217,444	\$ 3,063,768

2. The profit or loss before tax is the same as the revenue from continuous operating segments for the years ended December 31, 2022 and 2021. There is no item to be reconciled.

	2022	2021
Profit or loss before tax of reportable operating segments before adjustments	\$ 496,454	\$ 1,044,041
Elimination of inter-segment profit or loss	-	2,973
Profit or loss before tax of reportable operating segments	\$ 496,454	\$ 1,047,014

5) Geographic information

The geographic information of the Group for the years ended December 31, 2022 and 2021 is as follows:

	<u>2022</u>		<u>2021</u>	
	<u>Revenue</u>	<u>Non-current assets</u>	<u>Revenue</u>	<u>Non-current assets</u>
Taiwan	<u>\$ 217,444</u>	<u>\$ 153,154</u>	<u>\$3,063,768</u>	<u>\$ 460,975</u>

(This Space Intentionally Left Blank)

Fong-Chien Construction Co.,LTD. and Subsidiaries
Loans to others
For the Year Ended December 31,2022

Expressed in thousands of New Taiwan Dollars
(Except as indicated)

Table 1

No.	Name of lender	Name of borrower	Account	Related party	Highest balance of financing to other parties during the period (Note 4)	Ending balance	Actual usage amount	Interest rate interval	Nature of financing (Note 3)	Transaction amount between two parties	Reasons for short-term financing	Collateral		Individual funding loan limits (Note 2)	Maximum limit of fund financing (Note 1)	Note	
												Item	Value				
0	Fong-Chien Construction Co.,LTD.	Hungtu Alishan International Development Co., Ltd.	Other receivables-related parties	Y	\$ 60,000	\$ -	\$ -	2.15%	2	\$ -	Operating turnover	\$ -	None	\$ -	\$1,127,815	\$ 1,127,815	
1	Hung Yeu Construction Co., Ltd.	Hungtu Alishan International Development Co., Ltd.	Other receivables-related parties	Y	55,000	-	-	2.15%	2	-	Operating turnover	-	None	-	57,349	57,349	

Note 1: The total amount loaned shall not exceed 40% of the Company's net worth.

Note 2: The amount loaned to single recipient shall not exceed 40% of the Company's net worth.

Note 3: 1.The Company has business relations with the company.

2. In need of short-term financing

Note 4: The highest balance of financing to other parties accumulated until the month of declaration of the year.

Fong-Chien Construction Co.,LTD. and Subsidiaries
Provision of endorsements and guarantees to others
For the Year Ended December 31,2022

Table 2

Expressed in thousands of New Taiwan Dollars
(Except as indicated)

No.	<u>Guarantee and endorsee</u>		Relationship	<u>Limitation on amount of guarantees and endorsements for a specific enterprise</u>	<u>Highest balance for guarantee and endorsements during the period</u>	<u>Balance of guarantees and endorsements, end of year</u>	<u>Actual usage amount</u>	<u>Amount of property pledged for guarantee and endorsement</u>	<u>Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements</u>	<u>Maximum amount for guarantees and endorsements</u>	<u>Parent company endorsements/guarantees to subsidiary</u>	<u>Subsidiary endorsements/guarantees to the parent company</u>	<u>Endorsements/guarantees to third parties on behalf of companies in Mainland China</u>	Note
	<u>Name of endorser and guarantor</u>	<u>Company name</u>												
0	Fong-Chien Construction Co.,LTD.	Fong Yi Construction CO., LTD. Cornerstone Inverstmant Co., Ltd.	7	\$ 5,639,074	\$ 425,690	\$ 425,690	\$ 425,690	\$ -	15.10%	\$ 5,639,074	N	N	N	Note 2, Note 6
1	Hung Yeu Construction Co., Ltd.	Hundredfold Development CO., LTD.	7	1,433,727	215,508	-	-	-	150.31%	1,433,727	N	N	N	Note 4, Note 5
2	Hung Yeu Construction Co., Ltd.	Grace Hospitality Management Co., Ltd.	7	1,433,727	159,101	159,101	159,101	-	110.97%	1,433,727	N	N	N	Note 4, Note 6

Note 1:According to the “Operational Procedures for Loaning of Company Funds,” the total amount available for endorsement provided to others shall not exceed 50% of the Company’s net worth in the current financial statements, and the total amount for endorsement provided to one entity shall not exceed 50% of the Company’s net worth in the current financial statements.

Note 2:Where the Company fulfills its contractual obligations by providing mutual endorsements/guarantees for another company in the same industry or for joint builders for purposes of undertaking a construction project, or where all capital contributing shareholders make endorsements/guarantees for their jointly invested company in proportion to their shareholding percentages, or where companies in the same industry provide among themselves joint and several security for a performance guarantee of a sales contract for pre-construction homes pursuant to the Consumer Protection Act for each other, such endorsements/guarantees may be made free of the restriction of Note 1. However, the total amount shall not exceed 200% of the Company’s net worth.

Note 3:There are 7 types of relationships between the endorser/guarantor and the endorsee/guarantee. Only numbers of types shall be indicated:

- (1)Entities have business relations with the Company
- (2) The Company directly or indirectly holds more than 50% of voting shares of the entity.
- (3) Entity directly or indirectly owns more than 50% of voting shares of the Company.
- (4) The Company directly or indirectly holds 90% of voting shares of the entity.
- (5) The Company fulfills its contractual obligations by providing mutual endorsements/guarantees for another company in the same industry or for joint builders for purposes of undertaking a construction project
- (6) All capital contributing shareholders make endorsements/ guarantees for their jointly invested company in proportion to their shareholding percentages.
- (7) Companies in the same industry provide among themselves joint and several security for a performance guarantee of a sales contract for pre-construction homes pursuant to the Consumer Protection Act for each other

Note 4:For companies in the same industry provide among themselves joint and several security for a performance guarantee of a sales contract for pre-construction homes pursuant to the Consumer Protection Act for each other,, the total amount available for endorsement provided to others shall not exceed 12 times of the Company’s net worth in the current financial statements, and the total amount for endorsement provided to one entity shall not exceed 10times of the Company’s net worth in the current financial statements

Note 5: The company’s cancellation has been approved by Taoyuan Real Estate Development Association on May 10, 2022.

Note 6:Actual usage amount is based on the construction costs on the construction license.

Fong-Chien Construction Co.,LTD. and Subsidiaries
Acquisition of real estate reaching NT\$300 million or 20% of the Company's paid-in capital or more
For the Year Ended December 31,2022

Table 3

Expressed in thousands of New Taiwan Dollars
(Except as indicated)

<u>Company acquired the real estate</u>	<u>Property name</u>	<u>Date of occurrence</u> (Note 2)	<u>Transactino amount</u>	<u>Payment condition</u>	<u>Counterparty</u>	<u>Relationshi p</u>	<u>Owner</u>	<u>For transactions with related parties, the information on prior transfers and the relationship</u>		<u>Reference of price determination</u>		<u>Usage</u>	<u>Acquisition purpose and other agreement</u>
								<u>Date of transfer</u>	<u>Amount</u>	<u>(Note 1)</u>	<u>Amount</u>		
Fong-Chien Construction Co.,LTD.	No. 10.10-18.10-19.10-34.10-35.10-50.10-51 on Dingqiaozitou section, East Dist., Taichung City	March 9, 2022	\$ 543,984	Paid in full	Natural person	None	N/A	N/A	N/A	N/A	Negotiation and acquisition of appraisal report from CHINA PROPERTY APPRAISING CENTER CO., LTD.\$543,986	Acquire the land for construction to build houses and sell	None
Fong-Chien Construction Co.,LTD.	No. 448.449.450.451.452 on Renping section, Beitun Dist., Taichung City	March 16, 2022	616,804	Paid in full	Natural person	None	N/A	N/A	N/A	N/A	Negotiation and acquisition of appraisal report from HWAN YU Real Estate Appraisement Co. Ltd. \$619,606	Acquire the land for construction to build houses and sell	None

Note 1: The appraisal result shall be indicated in the "reference of price determination" column for the assets acquired that shall be appraised in accordance with regulations.

Note 2: Date of occurrence refers to the date of contract signing, date of payment, date of consignment trade, date of transfer, dates of boards of directors resolutions, or other date that can confirm the counterpart and monetary amount of the transaction, whichever date is earlier

Fong-Chien Construction Co.,LTD. and Subsidiaries
The Information about company names, locations, etc. of Investees (excluding investees in Mainland China)
For the Year Ended December 31,2022

Table 4

Expressed in thousands of New Taiwan Dollars
(Except as indicated)

<u>Investor company</u>	<u>Investee company</u>		<u>Original investment amount</u>		<u>Ownership as of December 31, 2022</u>			<u>Profit (loss) of investees in the current period</u>	<u>Gain (loss) of investees recognized in the current period</u>	<u>Note</u>	
	<u>(Note 1, 2)</u>	<u>Location</u>	<u>Main business</u>	<u>December 31, 2022</u>	<u>December 31, 2021</u>	<u>Number of shares</u>	<u>Percentage</u>				<u>Carrying amount</u>
Fong-Chien Construction Co.,LTD.	Hung Yeu Construction Co., Ltd.	Taiwan	Comprehensive construction, trading of properties, developments and leases of residences and buildings etc.	\$ 220,000	\$ 220,000	22,000,000	92.83	\$ 133,094	(\$ 610)	(\$ 566)	
Fong-Chien Construction Co.,LTD.	Hungtu Alishan International Development Co., Ltd.	Taiwan	Operation of hotel and restaurant business	668,665	893,380	99,873	99.873	125,449	453,255	452,679	Note 1
Hung Yeu Construction Co., Ltd.	Hungtu Alishan International Development Co., Ltd.	Taiwan	Operation of hotel and restaurant business	14,985	15,000	7	0.007	9	453,255	32	Note 1

Note 1: December 29, 2022 is the date of completion of liquidation. The court is implementing the procedures of completion of liquidation.

Fong-Chien Construction Co.,LTD. and Subsidiaries

Information on major shareholders

December 31,2022

Table 5

	<u>Name of major shareholders</u>	<u>Number of shares held</u>	<u>Shares</u>	<u>Percentage of ownership</u>
	Morning Honor Investment Co., Ltd.	34,411,027		22.20%
	Blessing & Praise Construction Corp.	29,696,536		19.15%
	Wealth W&E Engineering Company	10,537,407		6.79%

Note:If the information on the chart is from the Taiwan Depository & Clearing Corporation, matters as follows may be explained:

- (1) The information of major shareholders presented in this table is provided by the Taiwan Depository & Clearing Corporation based on the number of ordinary shares and preferred shares held by shareholders with ownership of 5% or greater, that have been issued without physical registration (including treasury shares) by the Company as of the last business day for the current quarter. The share capital in the financial statements may differ from the actual number of shares that have been issued without physical registration because of different preparation basis.
- (2) If a shareholder delivers the shareholdings to the trust, the above information will be disclosed by the individual trustor who opened the trust account. For shareholders who declare insider shareholdings with ownership greater than 10% in accordance with the Security and Exchange Act, the shareholdings include shares held by shareholders and those delivered to the trust over which shareholders have rights to determine the use of trust property. For information relating to insider shareholding declaration, please refer to Market Observation Post System.