

Stock Code : 8473

**FOREST WATER
ENVIRONMENTAL ENGINEERING
CO., LTD. and Subsidiaries
Consolidated Financial Statements with
Independent Auditors' Report
For the Years Ended December 31, 2022 and 2021**

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(English Translation of Financial Statements Originally Issued in Chinese)

Table of Contents

Item	Page
I.Cover page	1
II.Table of contents	2
III.Declaration	3
IV.Independent auditors' report	4
V.Consolidated balance sheets	5
VI.Consolidated statements of comprehensive income	6
VII.Consolidated statements of changes in equity	7
VIII.Consolidated statements of cash flow	8
IX.Notes to the consolidated financial statements	
(1) Company history	9
(2) Approval date and procedures of the consolidated financial statements	9
(3) New standards, amendments and interpretations adopted	9~10
(4) Summary of significant accounting policies	11~26
(5) Major sources of uncertainty arising from significant accounting judgments, estimates, and assumptions	26~27
(6) Explanation of significant accounts	28~56
(7) Related party transactions	56~59
(8) Pledged assets	60
(9) Significant contingencies and unrecognized contract commitments	60~63
(10) Losses due to major disasters	63
(11) Significant subsequent events	63
(12) Others	64
(13) Other disclosures	
1. Information on significant transactions	64~66
2. Information on investees	66
3. Information on investees in Mainland China	67
4. Information on major shareholders	67
(14) Segment information	67~68

Declaration

The companies required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the years ended December 31, 2022 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard 10 “Consolidated Financial Statements.” Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we did not prepare a separate set of consolidated financial statements of affiliates.

Company Name:FOREST WATER

ENVIRONMENTAL ENGINEERING CO., LTD.

Chairman:Kuo, Shu-Cheng

Date:March 15, 2023

Independent Auditors' Report

To: Board of directors of FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD.:

Opinion

We have audited the accompanying financial statements of FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and subsidiaries (the "Group"), 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 financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in 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 Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained 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 Group's consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Key audit matters for the Group's consolidated financial statements for the year ended December 31, 2022 are stated as follows:

I. Recognition of profit or loss of construction contracts and the losses arising from onerous contracts

Please refer to Note 4.15 Revenue recognition to the consolidated financial statements for the accounting policies for the recognition of construction revenue. Please refer to Note 5 for the uncertainty arising from assumptions and estimates that the recognition of revenue from construction contracts involve. Please refer to Note 6.16 for the relevant disclosure about revenue from contracts.

Explanations of the key audit matter:

The Group is primarily engaged in construction contracts with customers. These kinds of construction contracts account for a significant portion of operating revenue. As the recognition of these kinds of construction contracts involves significant estimates and judgment, e.g. the total costs of construction contracts, percentage of completion, consideration of the increase in costs less construction revenue, and the recognition of losses arising from onerous contracts, etc. Management's subject judgments may result in changes in various estimates, and affect the profit or loss and revenue recognized in the Group's financial statements. Therefore, recognition of profit or loss of construction contracts and the losses arising from onerous contracts is identified

as one of the key audit matters in auditing the consolidated financial statements.

Audit procedures in response:

The primary audit procedures to the aforementioned key audit matter include testing the effectiveness of internal control's operation to time point and correctness of recognition of construction revenue and costs, sampling from and check significant contracts, and interviewing the management, to obtain an understanding about the specific terms and risks of each contract; testing the rationality of management's estimates to the total contract costs, percentage of completion of contracts, and the profit margin of contracts; testing the procedures of construction estimation and valuation, and verifying and reconciling with the general ledger, to evaluation whether the recognition of construction revenue and costs is in accordance with the regulation of accounting standards; in addition, acquiring relevant documents about management's evaluation about onerous contracts, to verify whether the records recognized reflect the expected losses from contracts.

II. Evaluation of impairment of assets

Please refer to Note 4.13 Impairment of non-financial assets to the consolidated financial statements for the accounting policies for the recognition. Please refer to Note 5.2 for the uncertainty arising from assumptions and estimates of the evaluation of impairment of property, plant and equipment and intangible assets. Please refer to Note 6.6 Property, plant and equipment and Note 6.7 Intangible assets for details.

Explanations of the key audit matter:

The carrying amounts of property, plant and equipment and intangible assets account for about 18% of total assets as of December 31, 2022, and the significant components of them are the primary operating assets and the public-to-private service concession arrangement signed with the government agency. As part of the operation of subsidiaries is affected by the industrial environment in 2022, it is not as profitable as expected, there is doubt about whether the carrying amounts of operating assets and concession exceed the recoverable amounts. The management of the Group shall estimate the recoverable amounts of the aforementioned assets in accordance with IAS 36 "Impairment of Assets." As the estimates of recoverable amount involve management's subject judgment and is with high uncertainty, there is risk of overestimation of the carrying amount of property, plant and equipment and concession. Therefore, the impairment of aforementioned assets is identified as one of the key audit matters in auditing the consolidated financial statements.

Audit procedures in response:

Acquiring the module and relevant assumptions for the management to evaluate impairment, evaluating whether the management fully identified individual cash-generating unit that may impaired, considering whether all the assets required to implementing impairment test have been included in the evaluation procedures. Reviewing the relevant documents of individual financial assumptions and recoverable amounts used by the management, and verifying the rationality of management's assumptions and correctness of calculations based on the relevant data available. And checking whether the disclosures about the impairment of aforementioned assets are appropriate.

Other Matter

We have also audited the parent company only financial statements of FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. as of and for the years ended December 31, 2022 and 2021 on which we have issued an unqualified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by

Securities Issuers, and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, 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 fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group 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 Group'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 auditing standards generally accepted in 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 auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than from 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 Group'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 Group'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 financial statements or, if such disclosures are inadequate, we are required 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 Group 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 appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the 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.

KPMG Taiwan

CPA: Chang, Shu-Ying and Pan, Chun-Ming

Reference Number of the FSC Approval letter:

No. Financial Supervisory Commission VI 0940100754

No. Financial Supervisory Commission Auditing 1110333933

March 15, 2023

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries

Consolidated Balance Sheets

December 31, 2022 and 2021

Unit: thousand NTD

Aassets		December 31, 2022		December 31, 2021	
		Amount	%	Amount	%
Current Assets:					
1100	Cash and cash equivalents (Note 6.1)	\$ 1,362,598	9	2,134,803	14
1110	Current financial assets at fair value through profit or loss (Note 6.2)	312,725	2	218,389	1
1141	Current contract assets (Note 6.16)	1,021,274	7	608,754	4
1151	Notes receivables (Note 6.4 and 6.16)	4,888	-	11,936	-
1172	Accounts receivables (Note 6.4, 6.8, 6.16, 8 and 9)	1,468,080	10	1,086,504	8
1220	Current tax assets	12,564	-	45	-
1410	Prepayments(Note 7)	168,036	1	306,082	2
1476	Other current financial assets(Note 6.19 and 8)	623,262	4	541,333	3
1479	Other current assets — others	76,366	-	62,558	-
1482	Current costs of fulfilling contracts	<u>2,306</u>	<u>-</u>	<u>677</u>	<u>-</u>
		<u>5,052,099</u>	<u>33</u>	<u>4,971,081</u>	<u>32</u>
Non-current Assets:					
1517	Non-current financial assets at fair value through other comprehensive income (Note 6.3)	99,465	1	129,990	1
1551	Investments accounted for using equity method	116,775	1	120,102	1
1600	Property, plant, and equipment (Note 6.6 and 8)	627,325	4	617,637	4
1755	Right-of-use assets	29,203	-	30,986	-
1780	Intangible assets (Note 6.7 and 8)	2,293,769	14	2,435,618	15
1840	Deferred tax assets (Note 6.13)	98,883	1	26,055	-
1932	Long-term receivables(Note 6.8 and 8)	6,979,704	45	7,170,412	46
1980	Other non-current financial assets(Note 8)	<u>83,365</u>	<u>1</u>	<u>111,483</u>	<u>1</u>
		<u>10,328,489</u>	<u>67</u>	<u>10,642,283</u>	<u>68</u>
Total assets		<u>\$ 15,380,588</u>	<u>100</u>	<u>15,613,364</u>	<u>100</u>

(English Translation of Financial Statements Originally Issued in Chinese)

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries

Consolidated Balance Sheets (Cont.)

December 31, 2022 and 2021

Unit: thousand NTD

		December 31, 2022		December 31, 2021	
		Amount	%	Amount	%
Liabilities and Equity					
Current Liabilities:					
2102	Bank loans (Note 6.10)	\$ 1,610,000	11	1,490,721	10
2111	Short-term notes payables (Note 6.9)	1,146,000	7	695,000	5
2130	Current contract liabilities (Note 6.16)	120,877	1	214,846	1
2150	Notes payables (Note 7)	327,576	2	160,736	1
2170	Accounts payables (Note 7)	880,561	6	763,809	6
2200	Other payables (Note 6.6, 6.17 and 7)	197,740	1	214,936	1
2230	Current tax liabilities (Note 6.13)	24,239	-	77,296	-
2250	Current provisions	277,628	2	74,006	-
2280	Current lease liabilities (Note 7)	7,865	-	6,215	-
2322	Current portion of long-term borrowings(Note 6.11)	310,721	2	265,951	2
2321	Current portion of corporate bonds payables with put options (Note 6.12)	-	-	500,000	3
2399	Other current liabilities — others	14,845	-	6,664	-
		<u>4,918,052</u>	<u>32</u>	<u>4,470,180</u>	<u>29</u>
Non-current Liabilities:					
2500	Non-current financial liabilities at fair value through profit or loss (Note 6.2 and 6.12)	16,200	-	3,800	-
2530	Corporate bonds payables (Note 6.12)	948,919	6	935,744	6
2540	Long-term borrowings (Note 6.11)	1,799,221	12	2,098,051	14
2550	Non-current provisions	66,005	-	63,354	-
2573	Deferred tax liabilities — others(Note 6.13)	523,881	4	491,623	3
2580	Non-current lease liabilities(Note 7)	23,063	-	25,999	-
2612	Long-term payables	61,220	-	68,207	-
2645	Guaranteed deposits received	81,007	1	95,750	1
		<u>3,519,516</u>	<u>23</u>	<u>3,782,528</u>	<u>24</u>
	Total liabilities	<u>8,437,568</u>	<u>55</u>	<u>8,252,708</u>	<u>53</u>
Equity attributable to the owners of the parent (Note 6.12 and 6.14):					
3110	Ordinary shares	1,442,492	9	1,442,492	9
3200	Capital surplus	3,819,082	25	3,819,082	24
3310	Legal reserve	278,699	2	259,111	2
3320	Special reserve	59,185	-	-	-
3350	Retained earnings	(210,086)	(1)	264,302	2
3400	Other equity	(88,453)	(1)	(59,185)	-
	Subtotal of equity attributable to the owner of the parent	5,300,919	34	5,725,802	37
36xx	Non-controlling interests (Note 6.5)	<u>1,642,101</u>	<u>11</u>	<u>1,634,854</u>	<u>10</u>
	Total equity	<u>6,943,020</u>	<u>45</u>	<u>7,360,656</u>	<u>47</u>
	Total liabilities and equity	<u>\$ 15,380,588</u>	<u>100</u>	<u>15,613,364</u>	<u>100</u>

Chairman:Kuo,Su-Jen CEO:Wu,Jen-Chieh Accounting Officer:Yang, Hsin-Wen
(English Translation of Financial Statements Originally Issued in Chinese)

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Consolidated Statements of Comprehensive Income
For the Years Ended December 31, 2022 and 2021

Unit: thousand NTD

		2022		2021	
		Amount	%	Amount	%
4000	Operating revenue (Note 6.16 and 9)	\$ 3,922,895	100	3,962,413	100
5000	Operating costs (Note 6.7 and 7)	3,656,365	93	3,066,749	77
	Gross operating profit	266,530	7	895,664	23
6100	Operating expenses (Note 6.7, 6.17 and 7):				
6200	Administrative expenses	226,849	6	207,858	5
6300	Research and development expenses	483	-	979	-
	Total operating expenses	227,332	6	208,837	5
	Net operating income	39,198	1	686,827	18
	Non-operating income and expenses (Note 6.6, 6.7, 6.8, 6.12, 6.18 and 7):				
7100	Interest revenue	3,984	-	110,399	3
7020	Other gains and losses	(25,618)	(1)	(155,420)	(4)
7050	Financial costs	(144,093)	(3)	(142,203)	(4)
7370	Share of profit or loss of associates and joint ventures accounted for using equity method	(4,781)	-	13,761	-
	Total non-operating income and expenses	(170,508)	(4)	(173,463)	(5)
	Profit (loss) from continuing operations	(131,310)	(3)	513,364	13
7950	Less: income tax expenses (Note 6.13)	37,571	1	175,780	4
	Profit (loss)	(168,881)	(4)	337,584	9
8300	Other comprehensive income:				
8310	Items not to be reclassified into profit or loss				
8316	Unrealized valuation gains (losses) from investments in equity instruments at fair value through other comprehensive income	(30,525)	(1)	(79,146)	(2)
	Total items not to be reclassified into profit or loss	(30,525)	(1)	(79,146)	(2)
8360	Items that may be subsequently reclassified into profit or loss				
8361	Exchange differences on translation of foreign financial statements	64	-	(55)	-
8370	Share of other comprehensive income of associates and joint ventures accounted for using equity method — items that may be subsequently reclassified into profit or loss	1,454	-	7,608	-
	Total items that may be subsequently reclassified into profit or loss	1,518	-	7,553	-
8300	Other comprehensive income (net of tax)	(29,007)	(1)	(71,593)	(2)
	Total comprehensive income	\$ (197,888)	(5)	265,991	7
	Profit (loss) attributable to:				
8610	Owners of the parent	\$ (273,003)	(7)	195,873	5
8620	Non-controlling interests (Note 6.5)	104,122	3	141,711	4
	Total comprehensive income attributable to:	\$ (168,881)	(4)	337,584	9
8710	Owners of the parent	\$ (302,271)	(8)	123,911	3
8720	Non-controlling interests (Note 6.5)	104,383	3	142,080	4
	Total comprehensive income attributable to:	\$ (197,888)	(5)	265,991	7
9750	Basic earnings (losses) per share (NT\$)(Note 6.15)	\$ (1.89)		1.36	
9850	Diluted earnings (losses) per share (NT\$) (Note 6.15)	\$ (1.89)		1.30	

Chairman: Kuo, Su-Jen CEO: Wu, Jen-Chieh Accounting Officer: Yang, Hsin-Wen
(English Translation of Financial Statements Originally Issued in Chinese)

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries

**Consolidated Statemets of Changes in Equity
For the Years Ended December 31, 2022 and 2021**

Unit: thousand NTD

	Total equity attributable to owners of the parent					Other equity		Total equity attributable to owners of the parent	Non-controlling interests	Total equity
	Retained earnings					Exchange differences on translation of foreign financial statements	Unrealized gains (losses) from investments in equity instruments at fair value through other comprehensive income			
	Ordinary shares	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings					
Balance as of January 1, 2021	\$ 1,348,123	3,746,106	243,614	87,712	225,395	(10,330)	23,107	5,663,727	1,553,282	7,217,009
Profit for the period	-	-	-	-	195,873	-	-	195,873	141,711	337,584
Other comprehensive income for the period	-	-	-	-	-	7,581	(79,543)	(71,962)	369	(71,593)
Total comprehensive income for the period	-	-	-	-	195,873	7,581	(79,543)	123,911	142,080	265,991
Appropriation and distribution of earnings:										
Appropriation of legal reserve	-	-	15,497	-	(15,497)	-	-	-	-	-
Reversal of special reserve	-	-	-	(87,712)	87,712	-	-	-	-	-
Cash dividends of ordinary shares	-	-	-	-	(134,812)	-	-	(134,812)	(83,008)	(217,820)
Stock dividends of ordinary shares	94,369	-	-	-	(94,369)	-	-	-	-	-
Equity component recognized for issuance of convertible bonds -incurred by stock options	-	72,976	-	-	-	-	-	72,976	-	72,976
Increase or decrease in non-controlling interests	-	-	-	-	-	-	-	-	22,500	22,500
Balance as of December 31, 2021	1,442,492	3,819,082	259,111	-	264,302	(2,749)	(56,436)	5,725,802	1,634,854	7,360,656
Losses for the period	-	-	-	-	(273,003)	-	-	(273,003)	104,122	(168,881)
Other comprehensive income for the period	-	-	-	-	-	1,485	(30,753)	(29,268)	261	(29,007)
Total comprehensive income for the period	-	-	-	-	(273,003)	1,485	(30,753)	(302,271)	104,383	(197,888)
Appropriation and distribution of earnings:										
Appropriation of legal reserve	-	-	19,588	-	(19,588)	-	-	-	-	-
Appropriation of special reserve	-	-	-	59,185	(59,185)	-	-	-	-	-
Cash dividends of ordinary shares	-	-	-	-	(122,612)	-	-	(122,612)	(112,136)	(234,748)
Increase or decrease in non-controlling interests	-	-	-	-	-	-	-	-	15,000	15,000
Balance as of December 31, 2022	\$ 1,442,492	3,819,082	278,699	59,185	(210,086)	(1,264)	(87,189)	5,300,919	1,642,101	6,943,020

**Chairman:Kuo,Su-Jen CEO:Wu,Jen-Chieh Accounting Officer:Yang, Hsin-Wen
(English Translation of Financial Statements Originally Issued in Chinese)**

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2022 and 2021

Unit: thousand NTD

	2022	2021
Cash flows from operating activities:		
Profit (loss) before tax	\$ (131,310)	513,364
Adjustments:		
Items of income and expenses		
Depreciation expenses	40,222	47,276
Amortization expenses	153,299	145,399
Net losses from financial assets and liabilities at fair value through profit or loss	9,373	1,228
Interest expenses	125,078	122,727
Interest revenue	(3,984)	(110,399)
Share of losses (profits) of associates and joint ventures accounted for using equity method	4,781	(13,761)
Losses from disposals and scraps of property, plant and equipment	1,309	151
Impairment losses	22,000	157,498
Replacement cost	9,585	10,277
Losses from termination of leases	323	-
Appropriation of provisions	200,175	42,090
Total items of income and expense	562,161	402,486
Changes in operating assets/liabilities:		
Financial assets mandatorily measured at fair value through profit or loss	(91,309)	(188,565)
Contract assets	(444,510)	376,764
Notes receivables	7,048	(7,470)
Accounts receivables	(333,903)	247,028
Inventories	-	210
Prepayments	138,046	(255,421)
Other current assets	(13,808)	7,789
Other financial assets	(70,075)	(35,553)
Costs of fulfilling contracts	(1,629)	10,637
Long-term receivables	143,035	111,540
Contract liabilities	(93,969)	(425,022)
Notes payables	166,840	(156,599)
Accounts payables	116,744	(239,442)
Other payables	(16,689)	(48,695)
Provisions	(5,323)	(1,603)
Other current liabilities	8,181	4,259
Long-term payables	(6,987)	(7,221)
Total adjustments	63,853	(204,878)
Cash inflow (outflow) generated from operations	(67,457)	308,486
Interests received	3,793	15,903
Interest paid	(111,010)	(106,502)
Income taxes paid	(143,717)	(121,531)
Net cash inflow (outflow) provided by operating activities	(318,391)	96,356

(English Translation of Financial Statements Originally Issued in Chinese)

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries**Consolidated Statements of Cash Flows (Cont.)****For the Years Ended December 31, 2022 and 2021****Expressed in thousands of New Taiwan Dollars**

	<u>2022</u>	<u>2021</u>
Cash flows from investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	\$ -	(11,240)
Acquisition of property, plant and equipment	(44,126)	(22,106)
Disposal of property, plant and equipment	425	383
Acquisition of intangible assets	(1,022)	(2,207)
Other financial assets	(11,760)	237,091
Other non-current financial assets	28,216	(34,917)
Net cash inflow (outflow) provided by investing activities	<u>(28,267)</u>	<u>167,004</u>
Cash flows from financing activities:		
Increase (decrease) in short-term borrowings	119,279	(129,847)
Increase (decrease) in short-term notes payables	451,000	(111,000)
Issuance of corporate bonds	-	1,013,576
Repayment of corporate bonds	(500,000)	-
Increase in long-term borrowings	59,236	56,700
Repayment of long-term borrowings	(313,296)	(492,152)
Decrease in guaranteed deposits received	(14,743)	(2,104)
Repayment of lease principal	(7,344)	(6,088)
Cash dividends distribution	(234,748)	(217,820)
Changes in non-controlling interests	15,000	22,500
Net cash inflow (outflow) provided by financing activities	<u>(425,616)</u>	<u>133,765</u>
Effect of movements in exchange on cash and cash equivalents	69	(59)
Net increase (decrease) in cash and cash equivalents	(772,205)	397,066
Cash and cash equivalents at the beginning of period	2,134,803	1,737,737
Cash and cash equivalents at the end of period	<u><u>\$ 1,362,598</u></u>	<u><u>2,134,803</u></u>

Chairman:Kuo,Su-Jen CEO:Wu,Jen-Chieh Accounting Officer:Yang, Hsin-Wen
(English Translation of Financial Statements Originally Issued in Chinese)

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2022 and 2021
(Except as indicated, expressed in thousands of New Taiwan Dollars)

(1) Company history

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. (the “Company”) was established on June 10, 2004. The registered address is 3F., No. 99, Jilin Rd., Zhongshan Dist., Taipei City. The Company and subsidiaries (the “Group”) are primarily engaged in environmental protection project building, sewage disposal, waste disposal and recycling, and composting for kitchen waste recycling and decomposition.

(2) Approval date and procedures of the parent company only financial statements

The consolidated financial statements of 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 Group adopted the amendments to the following IFRSs since January 1, 2022, and the standards and interpretations would not have a significant impact on its financial position and financial performance.

- Amendments to IAS 16 “Property, Plant and Equipment: Proceeds before Intended Use”
- Amendments to IAS 37 “Onerous Contracts – Cost of Fulfilling a Contract”
- Annual Improvements to IFRS Standards 2018-2020
- Amendments to IFRS 3 “Reference to the Conceptual Framework”

- 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 Group assesses that adopting the amendments to the following IFRSs effective since January 1, 2023 will not have a significant impact on its financial position and financial performance.

- Amendments to IAS 1 “Disclosure of Accounting Policies”
- Amendments to IAS 8 “Definition of Accounting Estimates”
- Amendments to IAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction”

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements (Cont.)

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 which may be relevant to the Group :

New, Revised, or Amended Standards or Interpretations				Main amendments	Effective date per IASB
Amendments to IAS 1				In according to current IAS 1, an entity shall classify a liability as non-current, if the entity does not have the unconditional right to defer settlement of the liability for at least 12 months after the reporting period. The amendments delete the regulations about the right shall be unconditional. The right shall exist at the end of the reporting period and have substance.	January 1, 2024
“Classification of Liabilities as Current or Non-current”				The amendments indicate how to classify the liabilities settled by the entity’s own equity instruments (e.g., convertible bonds)	
Amendments to IAS 1				After reconsidering the amendments to IAS 1 in 2020, the new amendments indicate only the covenants that an entity is required to comply with on or before the end of the reporting period affect the classification of a liability as current or non-current.	January 1, 2024
“Non-current Liabilities with Covenants”				Covenants that an entity shall comply with after the reporting period (future covenants) do not affect the classification of a liability at the reporting date. However, if a non-current liability is restricted by future covenants, the entity shall disclose the information to make the users of financial statements obtain an understanding of the risk of the liability that may be settled within 12 months after the reporting date.	

The Group is continuously assessing the possible impact that the application of aforementioned standards and interpretations will have on the Group’s financial position and financial performance and will disclose the relevant impact when the assessment is completed.

The Group expected that the following new and revised standards that have not yet been endorsed will not have a significant impact on its financial position and financial performance.

- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”
- IFRS 17 “Insurance Contracts” and Amendments to IFRS 17 “Insurance Contracts”
- Amendments to IFRS 17 “Initial Application of IFRS 17 and IFRS 9—Comparative Information”
- Amendments to IFRS 16 “Lease Liability in Sale and Leaseback”

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements (Cont.)

(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 (hereinafter the “Regulation Governing the Preparation”) , and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed and issued into effect by the FSC (hereinafter the “IFRSs endorsed by the FSC”).

2) Basis of preparation

1. Basis of measurement

The accompanying consolidated financial statements have been prepared on the historical cost basis except for the significant items as follows :

- (a) Financial instruments at fair value through profit or loss ;
- (b) Financial assets at fair value through other comprehensive income

2. Functional currency and presentation currency

The functional currencies of the consolidated entities of the Group’s financial statements are the currencies used in the primary economic environment where the entities operate. The consolidated financial statements are expressed in the Company’s functional currency, “New Taiwan Dollar.” All the financial information expressed in NTD is expressed in thousands of NTD.

3) Basis of consolidation

1. Basis of preparation of consolidated financial statements

All the Company and the entities controlled by the Company (subsidiaries) are included in the Group’s consolidated financial statements. 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. All intra-group transactions, balances, and unrealized income and losses resulting from intra-group transactions are eliminated in full. 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.

Appropriate adjustments of accounting policies of the subsidiaries have been made to be uniform with the accounting policies of the Group.

Changes in parent’s ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary 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 directly recognized in equity and attributable to owners of the Company.

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements (Cont.)

2. Subsidiaries included in the consolidated financial statements

Subsidiaries included in the consolidated financial statements include :

Name of investor	Name of subsidiary	Main business	Percentage of ownership		Explanation
			December 31, 2022	December 31, 2021	
The Company	Green Forest Development Enterprise Co., Ltd.	Water treatment engineering, plumbing engineering, and wastewater (sewage) treatment, etc.	70.00	70.00	Investee held by the Company with comprehensive shareholding over 50%
The Company	Orient Forest Development Enterprise Co., Ltd.	Water treatment engineering, plumbing engineering, and wastewater (sewage) treatment, etc.	100.00	100.00	Investee held by the Company with comprehensive shareholding over 50%
The Company	Perfection Forest Development Enterprise Co., Ltd.	Water treatment engineering, plumbing engineering, and wastewater (sewage) treatment, etc.	100.00	100.00	Investee held by the Company with comprehensive shareholding over 50%
The Company	Easy Development Co., Ltd.	Waste disposal, etc.	100.00	100.00	Investee held by the Company with comprehensive shareholding over 50%
The Company	Grain Forest Green Energy Co., Ltd.	Electricity generation by renewable energy, etc.	70.00	70.00	Investee held by the Company with comprehensive shareholding over 50%
The Company	Eastern Forest Environmental Technology Co., Ltd.	Environmental sanitation and pollution prevention	70.00	70.00	Investee held by the Company with comprehensive shareholding over 50%
The Company	Re-use Environmental Co., Ltd.	Waste disposal, etc.	50.41	50.41	Investee held by the Company with comprehensive shareholding over 50%
The Company	Rising Environmental Co., Ltd.	Waste disposal, etc.	100.00	100.00	Investee held by the Company with comprehensive shareholding over 50%
The Company	NEW RICH INTERNATIONAL INVESTMENT LIMITED	Investments in various production and finance business	-	100.00	(Note 1)
The Company	Modern Rich Investment Limited	Investments in various production and finance business	100.00	100.00	Investee held by the Company with comprehensive shareholding over 50%
The Company	Lea Lea Environmental Enterprise Co., Ltd.	Waste disposal, etc.	95.00	95.00	Investee held by the Company with comprehensive shareholding over 50%
Eastern Forest Environmental Technology Co., Ltd.	Rising Investment Ltd.	Investments in various production and finance business	100.00	100.00	Investee held by the Company with comprehensive shareholding over 50%
NEW RICH INTERNATIONAL INVESTMENT LIMITED	Sigma One International Holdings Limited	Investments in various production and finance business	-	100.00	(Note 1)
NEW RICH INTERNATIONAL INVESTMENT LIMITED	New Plam Investment Ltd.	Investments in various production and finance business	-	100.00	(Note 1)
NEW RICH INTERNATIONAL INVESTMENT LIMITED	Keetime Management Co., Ltd.	Investments in various production and finance business	-	100.00	(Note 1)
NEW RICH INTERNATIONAL INVESTMENT LIMITED	New View International Investment Ltd.	Investments in various production and finance business	-	100.00	(Note 1)
Modern Rich Investment Limited	Faith Honest International Investment Limited	Investments in various production and finance business	100.00	100.00	Investee held by the Company with comprehensive shareholding over 50%

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements (Cont.)

Modern Rich Investment Limited	Rich Fly Global Limited	Investments in various production and finance business	-	100.00	(Note 1)
Modern Rich Investment Limited	Lea An Development Holdings Limited	Investments in various production and finance business	-	100.00	(Note 1)
Rising Investment Ltd.	Forest Water Investment Ltd.	Investments in various production and finance business	100.00	100.00	Investee held by the Company with comprehensive shareholding over 50%
Forest Water Investment Ltd.	Beijing Forest Water Environmental Engineering Ltd.	Environmental sanitation and pollution prevention	70.00	70.00	Investee held by the Company with comprehensive shareholding over 50% (Note 2)

Note 1 : The registration of cancellation of the subsidiary has been completed in 2022, and the relevant cancellation process is completed.

Note 2 : The resolution and liquidation of the subsidiary has been resolved by the shareholders meeting in April, 2022. The registration of cancellation is implemented.

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

4) Foreign currencies

1. Foreign currency transactions.

Transactions in currencies are translated by the rate of exchange prevailing at the dates of the transactions into the functional currency. At the end of each reporting period, foreign currency monetary items shall be translated using the closing rate.

Non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rate at the date when the fair value was measure. Non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction.

The exchange differences arising from translations are usually recognized in profit or loss. However, the exchange differences shall be recognized in other comprehensive income for the conditions as follows. :

- (a) Equity instruments designated to be measured at fair value through other comprehensive income ;
- (b) The portion of financial liabilities designated as the hedged item of net investments in foreign operations that is determined to be an effective hedge ; or
- (c) The portion of qualifying cash flow hedge that is determined to be an effective hedge.

2. Foreign operations

Assets and liabilities of foreign operations for each balance sheet shall be translated at the closing rate at the reporting date, income, and expenses for each statement of comprehensive income shall be translated into New Taiwan Dollars at the average exchange rates of the period, and all resulting exchange differences shall be recognized in other comprehensive income.

On the disposal of a foreign operation that involves the loss of control, joint control or significant influence, the cumulative amount of the exchange differences relating to that foreign operation shall be reclassified in profit or loss. On the partial disposal of a subsidiary that includes a foreign operation, the entity shall re-attribute the proportionate share of the cumulative amount of the exchange differences to non-controlling interests. On the partial disposal of an associate or jointly controlled entity that includes a foreign operation, the entity shall reclassify the proportionate share of the cumulative amount of the exchange differences in profit or loss.

For a monetary item that is a receivable from or payable to a foreign operation, for which

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements (Cont.)

settlement is neither planned nor likely to occur in the foreseeable future, the resulting exchanges gains or losses is a part of the entity's net investment in that foreign operation and shall be recognized in other comprehensive income.

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

An asset is classified as current under one of the conditions below. For those assets that are not current are classified as non-current. :

1. The Group expects to realize the asset, or intends to sell or consume it, in its normal operating cycle (the operating cycle of construction business is usually longer than 1 year) ;
2. The Group holds the asset primarily for the purpose of trading;
3. The Group expects to realize the asset within twelve months after reporting period;
4. The asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A liability is classified as current under one of the conditions below. For those liabilities that are not current are classified as non-current. :

1. The Group expects to settle the liability in normal operating cycle the operating cycle of construction business is usually longer than 1 year);
2. The Group holds the liability primarily for the purpose of trading;
3. The liability is due to be settled within twelve months after the reporting period;
4. The Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting 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.

6) Cash and cash equivalents

Cash includes cash on hand and demand deposits. Cash equivalents are highly liquid short-term time 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 meet the aforementioned definition, and the Group holds them for the purpose of short-term cash commitment, instead for investments or other purposes, they are presented as cash equivalents.

7) Financial instruments

Accounts receivables and debts securities are recognized at origination. All the other financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument. Financial assets or financial liabilities not measure at fair value through profit or loss (excluding accounts receivables without significant financial components) are measured at fair value plus transaction costs that are directly attributable to acquisition or issue of the financial assets or financial liabilities at initial recognition. Accounts receivables without significant financial components shall be measured at transaction price at initial recognition.

1. Financial assets

A regular way purchase or sale of financial assets is recognized using either trade date accounting or settlement date accounting. The Group shall apply the either same method consistently for all purchases and sales of financial assets that are classified in the same way.

Financial assets are classified at initial recognition as : Financial assets at amortized cost, investments in equity instruments at fair value through other comprehensive income, or financial assets at fair value through profit or loss. The Group shall reclassify the affected financial assets at the first day of the first reporting period following the change in business model.

(a) Financial assets at amortized cost

A financial asset is measured at amortized cost if both of the following conditions are

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements (Cont.)

met and not designated to be measured at fair value through profit or loss :

- i. The financial asset is held in a business model whose objective is achieved by collecting contractual cash flows ; and
- ii. The assets' contractual cash flow characteristics : the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost shall be measured subsequently at initial recognition amount plus or less the cumulative amortization calculated by effective interest rate method. Any resulting interest revenue, foreign exchange gains or losses and impairment losses shall be recognized in profit or loss. At derecognition, the gains or losses are recognized in profit or loss.

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

An investment in debt instruments is measured at fair value through other comprehensive income if both of the following conditions are met and not designated to be measured at fair value through profit or loss :

- i. The financial asset is held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets ; and
- ii. The asset's contractual cash flow characteristics : the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group may make an irrevocable election to present in other comprehensive income changes in the fair value of an investment in an equity instrument that is not held for trading. This election is made on an instrument-by-instrument basis.

Investments in equity instruments shall be measured subsequently at fair value. Dividends on such investments are recognized in profit or loss (unless the dividend clearly represents a recovery of part of the cost of the investment.). Other net gains or losses shall be recognized in other comprehensive income and shall not be subsequently transferred to profit or loss.

Dividend revenue from investments in equity instruments is recognized at the date when the Group's right to receive payment of dividend is established (usually the ex-dividend date).

(c) Financial assets at fair value through profit or loss

A financial asset, including derivative financial asset, shall be measured at fair value through profit or loss unless it is measured at amortized cost or at fair value through other comprehensive income. However, the Group may make an irrevocable election at initial recognition for financial assets that may be measured at amortized cost or at fair value through other comprehensive income to be measured at fair value through profit or loss, if it eliminates or significantly reduces an accounting mismatch.

Financial assets at fair value through profit or loss shall be measured subsequently at fair value, and the net gains or losses (including any dividend and interest income revenue) shall be recognized in profit or loss.

(d) Impairment of financial assets

The Group shall recognize the loss allowances for financial assets at amortized cost (including cash and cash equivalents, notes receivables, accounts receivables, refundable deposits, and other financial assets, etc.), and contract assets by expected credit loss.

The Group shall measure the loss allowance for the financial assets as follows at an amount equal to 12-month expected credit losses, and for the others at an amount equal to lifetime

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements (Cont.)

expected credit losses. :

- The credit risk on debt securities is determined to be low ; and
- The credit risk on other debt securities and bank deposits (the risk of default events over the expected life of a financial instrument) has not increased significantly since initial recognition,

The Group shall measure the loss allowances at an amount equal to lifetime expected credit losses for accounts receivables, and contract assets.

In determining whether the credit risk has increased significant since initial recognition, the Group shall consider all reasonable and supportable information (that is available without undue cost or effort), including qualitative and quantitative information, and analyze based on the Group's historical experiences, credit rating, and foreseeing information.

A financial instrument with an "investment grade" rating (BBB- on the Standard & Poor's or Baa3 on Moody's or twA on Taiwan rating or better) is considered as having low credit risk.

The credit risk on financial assets has increased significantly when contractual payments are more than 121 days past due.

When contractual payments are more than 271 days past due, the financial assets shall be deemed as that default has occurred.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

12-month expected credit losses represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date (or shorter, if the expected life of the financial instrument is shorter than 12 months.).

The maximum period over which expected credit losses shall be measured is the maximum contractual period over which the Group is exposed to credit risk.

Expected credit losses are the weighted average credit losses with the probability of default as the weight. Credit losses are measured at the present value of financial instrument all cash shortfalls, which is the difference between the cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive.

The Group shall assess whether financial assets at amortized cost and debt securities at fair value through other comprehensive income are impaired at each reporting date. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events :

- significant financial difficulty of the issuer or the borrower ;
- a breach of contract, such as a default or past due event over 271 days ;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider ;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization ; or
- the disappearance of an active market for that financial asset because of financial difficulties.

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements (Cont.)

The loss allowances of financial assets at amortized cost shall be deducted from the carrying amount of assets. The loss allowances of investments in debt instruments at fair value through other comprehensive income shall adjust the profit or loss and be recognized in other comprehensive income (instead of decreasing the assets' carrying amount).

The Group shall directly reduce the gross carrying amount of a financial asset when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For company accounts, the Group analyzes the time point and amount individually by the basis of whether there is reasonable expectation of recovering the financial asset. The Group expects that the significant reversal of amount written off will not occur. However, the Group can still enforce the financial assets written off, to comply with the procedures of recovering overdue amount.

(e) Derecognition of financial assets

The Group shall derecognize the financial assets when the contractual rights to the cash flows from the financial assets expire, or the Group transfers the financial assets and substantially all the risks and rewards of ownership of the financial assets to others, or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial assets, but does not retain control of the financial assets.

If a transfer of financial asset keeps the Group having retained substantially all the risks and reward of ownership of the transferred asset, the Group shall continue to recognize the transferred asset in the balance sheets.

2. Financial liabilities and equity instruments

(a) Classification of liabilities or equity

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

(b) Equity transactions

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. The equity instruments issued by the Group are recognized by the consideration received less the costs directly attributable to issuance.

(c) Treasury shares

Repurchase of the equity instruments issued by the Group shall be recognized as decrease in equity by the considerations paid (including the direct attributable costs). The shares repurchased are classified as treasury shares. The amount received for selling or reissuing treasury shares shall be recognized as increase in equity, and the surplus or losses arising from the transactions shall be recognized in capital surplus or retained earnings (if capital surplus is insufficient).

(d) Hybrid financial instruments

The hybrid financial instruments issued by the Group are the convertible corporate bonds (denominated in New Taiwan Dollars) that the holder has the conversion right. The shares issued do not change with the changes in fair value.

The liability component of a hybrid financial instrument shall be measured at the fair value of a similar liability without conversion right at initial recognition. The equity component shall be measured at the difference between the fair value of the entire hybrid financial instrument and the liability component at initial recognition. Any transaction costs directly attributable to the issuance of the convertible corporate bonds are allocated to the liability component and equity component in proportion to the allocation of initial carrying amount. °

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements (Cont.)

After initial recognition, the liability component of a hybrid financial instrument shall be measured at amortized cost by effective interest rate method. The equity component of a hybrid financial instrument shall not be remeasured after initial recognition. °

The interests resulting from financial liabilities are recognized in profit or loss. Financial liabilities shall be reclassified to equity at conversion without recognizing profit or loss.

(e) Financial liabilities

Financial liabilities shall be classified as financial liabilities at amortized cost or financial assets at fair value through profit or loss. Financial liabilities at fair value through profit or loss are financial liabilities held for trading or financial liabilities designated as measured at fair value through profit or loss, and the relevant net gains and losses, including any interest expenses, shall be recognized in profit or loss.

Other financial liabilities shall be measured at amortized cost by effective interest rate method subsequently. Interest expenses and exchange gains or losses are recognized in profit or loss. At derecognition, any resulting gains or losses are recognized in profit or loss as well.

(f) Derecognition of financial liabilities

The Group shall remove a financial liability from its statement of financial position when the obligation specified in the contract is discharged or cancelled or expires. A modification of the terms of an existing financial liability and there is substantially difference in cash flows shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability on the basis of fair value.

At derecognition, the difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid (including any non-cash assets transferred or liabilities assumed), shall be recognized in profit or loss. °

(g) Asset and liability offsetting

The Group shall offset financial assets and financial liabilities, only if the Group has a legally enforceable right to set off the recognized amount, and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. After the offset, the net amount shall be presented in the balance sheets.

8) Service Concession Arrangements

1. Recognition and measurement

When the Group (operator) and government agencies (grantor) sign the public-to-private service concession arrangement which complies with the conditions below, IFRIC 12 “Service Concession Arrangements” shall apply :

- (a) the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price ; and
- (b) the grantor controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the term of the arrangement.

If the Group provides construction or upgrade services, the consideration received or receivable by the Group shall be recognized as a financial asset or an intangible asset by the fair value. The Group shall recognize a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services; please refer to Note 4.7 “Financial instruments” for the details of accounting policies of financial assets. The Group shall recognize an intangible asset to the extent that it receives a right (a license) to charge users of the public service. A right to charge users of the public service is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. Please refer to Note 4.12 “Intangible assets” for the detailed accounting policies of intangible assets (concession).

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements (Cont.)

If the Group is paid for the construction services partly by a financial asset and partly by an intangible asset, it is necessary to account separately for each component of the Groups' consideration. The consideration received or receivable for both components shall be recognized initially at fair value.

2. Construction or upgrade services

The Group recognizes the revenue and costs relevant to the construction or upgrade services in accordance with the regulations in IFRS 15. Please refer to Note 4.15 "Revenue recognition."

3. Operation services

The Group recognize the revenue and costs relevant to the operation services in accordance with the regulations in IFRS 15. Please refer to Note 4.15 "Revenue recognition." °

9) Investments in associates

An associate is an entity over which the Group has significant influence to its financial and operating policies, but does not control or jointly control.

The Group shall account for the interests in associates by equity method. Under equity method, the investments in associates shall be recognized at cost on acquisition of the investments. The investment costs include transaction costs. The carrying amount of investments in associates includes the goodwill identified at initial investment, less any accumulated impairment losses.

The consolidated financial statements shall include the share of profit or loss and other comprehensive income of associates recognized by percentage of ownership from the date on which the Group has significant influence to the date one which the Group losses significant influence, after appropriate adjustments of accounting policies of the associates have been made to be uniform with the accounting policies of the Group. When there are changes in interests not relating to profit or loss and other comprehensive income, and the percentage of ownership to the associates is not affected, the Group shall recognize the changes in share of interests of associates as capital surplus.

Unrealized gains or losses resulting from transactions between the Group and associates are recognized in the Group's financial statements only to the extent of unrelated investors' interests in the associates.

If the Group's share of losses of an associate equals or exceeds its interest in the associate, the Group discontinues recognizing its share of further losses. Additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

10) Property, plant and equipment

1. Recognition and measurement

An item of property, plant and equipment shall be measured at its cost (including capitalized borrowing costs) less any accumulated depreciation and any accumulated impairment losses.

A significant part of an item of property, plant and equipment that has a different useful life shall be treated as a separate item (main component) of property, plant and equipment.

Gains or losses on disposal of property, plant and equipment shall be recognized in profit or loss.

2. Subsequent costs

Subsequent costs shall be capitalized, only if it's probable that future economic benefits associated with the item are expected to flow to the Group.

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements (Cont.)

3. Depreciation

Depreciation is calculated by the cost of an asset less its residual value by straight-line method over the estimated useful life of each component, and recognized in profit or loss.

Land shall not be depreciated.

The estimated useful lives in the current period and the comparative period are as follows :

Buildings and structures	30 years
Transportation equipment	2~6 years
Machinery equipment	2~10 years
Other equipment	3~20 years

The depreciation method, useful life, and residual value of an item of property, plant, and equipment shall be reviewed at least at each reporting date and appropriate adjustment shall be made if necessary.

11) Leases

The service concession arrangements within the scope of IFRIC 12 “Service Concession Arrangements” shall not apply the accounting treatments of leases. For the other contracts, at inception of a contract, the Group shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

1. Lessee

When the Group is the lessee under a lease contract, the Group shall recognize a right-of-use asset and a lease liability. The Group shall measure the right-of-use asset at cost, which comprise the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date, and an estimate of costs to be incurred by the Group in restoring the underlying asset to the condition required by the terms and conditions of the lease any initial direct costs incurred by the Group, less any lease incentives received, at initial recognition.

The Group shall depreciate the right-of-use asset from the commencement date to the earlier of the useful life of the right-of-use asset or the end of the lease term. In addition, the Group shall assess whether right-of-use assets are impaired on a regular basis and recognize any impairment losses occurred. And right-of-use assets shall be adjusted for any remeasurement of the lease liabilities.

Lease liabilities shall be measured at the present value of lease payments that are not paid at the commencement date at initial recognition. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the lessee’s incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following payments :

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

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements (Cont.)

Interests of lease liabilities shall be provided by effective interest rate method, and lease liabilities shall be remeasured under the conditions as follows :

- (a) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments ;
- (b) there is a change in the amounts expected to be payable under a residual value guarantee ;
- (c) there is a change in the assessment of an option to purchase the underlying asset ;
- (d) there is a change in the estimate of whether to exercise extension or termination option, resulting in the assessment of the lease term ;
- (e) there is a change in the underlying asset, scope or other terms and conditions of lease.

The Group shall remeasure the lease liability and recognized the amount of the remeasurement of the lease liability as an adjustment to the carrying amount of right-of-use asset, if there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, the amounts expected to be payable under a residual value guarantee, the assessment of purchase, extension, or termination option. However, if the carrying amount of the right-of-use asset is reduced to zero and there is further reduction in the measurement of the lease liability, the Group shall recognize any remaining amount of the remeasurement in profit or loss.

For lease modifications that decrease the scope of the lease, the lease liabilities shall be remeasured by decreasing the carrying amount of the right-of-use assets to reflect the partial or full termination of the lease, and the Group shall recognize in profit or loss any differences resulting from remeasurement.

Right-of-use assets and lease liabilities that do not meet the definitions of investment properties are presented in the balance sheets by a line item respectively.

The Group shall not recognize right-of-use assets and lease liabilities for a short-term lease or the underlying assets of the lease is of low value, but shall recognize the lease payments associated with a short-term lease or the underlying assets of the lease is of low value as an expense on a straight-line basis.

2. Lessor

A lease, in which the Group is the lessor, is classified as a financial lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset, otherwise, as an operating lease, at the commencement date. At assessment, the Group shall consider specific indications, such as whether the lease term is for the major part of the economic life of the underlying asset, etc.

If the Group is the lessor in a sublease, the head lease and the sublease shall be treated separately, and classify the sublease by reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease and recognition exemption applies, the sublease shall be classified as an operating lease.

For a contract that contains a lease component and non-lease components, the Group shall allocate the consideration in the contract in accordance with the regulations in IFRS 15.

12) Intangible assets

1. Recognition and measurement

Goodwill recognized in a business combination shall be measured at cost less any accumulated impairment. For investments accounted for using equity method, carrying amount of goodwill is included in the carrying amount of investments, and the impairment losses of these investments shall not be allocated to goodwill and any assets, but recognized as part of the carrying amount of investments accounted for using equity method.

The intangible assets with finite useful lives acquired by the Group shall be measured at cost

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements (Cont.)

less any accumulated amortization and any accumulated impairment losses.

2. Concessions

The Group shall recognize an intangible asset to the extent that it receives a right (a license) to charge users of the public service. Concessions shall be measured at cost at initial recognition, and subsequently measured at cost less any accumulated amortization and any accumulated impairment losses.

3. Operating rights

The identifiable intangible assets recognized in a business combination is the legal rights arising from waste disposal organizations license held by the Group. Please refer to Note 6.7 for the measurement at initial recognition.

4. Subsequent expenditures

Subsequent expenditures shall be capitalized only when they increase the future economic benefits of related specific assets. All the other expenditures shall be recognized in profit or loss as incurred, including the goodwill and brand developed internally.

5. Amortization

Except goodwill and intangible assets with indefinite useful lives, costs of intangible assets less estimated residual value shall be amortized by straight-line method over the useful lives and recognized in profit or loss. The useful life of an intangible asset is from the time when it is available for use, and the useful life of a concession is from the date acquiring the subsidiaries to the expiration of the concession.

The estimated useful lives in the current period and the comparative period are as follows :

(a) other intangible assets : 5 years

(b) operating rights : 13~25 years

The amortization method, useful lives and residual values of intangible assets shall be reviewed at each reporting date. Any adjustments shall be made if necessary.

13) Impairment of non-financial assets

The Group shall assess at the end of each reporting period whether there is any indication that the carry amount of a non-financial asset (except inventories, contract assets and deferred tax assets) may be impaired. If any indication is present, the Group is required to estimate the recoverable amount of the asset. The Group shall conduct impairment test to goodwill each year on a regular basis.

The purpose of the impairment test is to identify the smallest identifiable group of assets that generates cash flows that are largely independent of the cash inflows from other assets or group of assets. Goodwill acquired in a business combination shall be allocated to each of the Group's cash-generating units or groups of cash-generating units that is expected to benefit from the synergies of the combination.

Recoverable amount is the higher of an asset or a cash-generating unit's fair value less costs of disposal and its value in use. In assessing value in use, the Group shall discount the expected future cash flows to present value by the pre-tax discount rate. The discount rate shall reflect current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

If the recoverable amount of an asset or a cash-generating unit is less than its carrying amount, impairment loss shall be recognized.

Impairment losses shall be recognized in profit or loss immediately, and shall be allocated to reduce the carrying amount of any goodwill allocated to the cash-generating unit, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements (Cont.)

unit.

The impairment losses of goodwill shall not be reversed. The increased carrying amount of an asset other than good will 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.

14) Provisions

A provision is a present obligation arising from past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and shall be recognized when the amount of the obligation can be measured with sufficient reliability. The amount recognized as a provision shall be discounted by the pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The amortization by discounting the provision shall be recognized as interest expenses.

1. Warranties

Warranty provisions shall be recognized at selling goods or services. The provisions shall be measured by historical warranty information and weighting all possible outcomes by their associated probability.

2. Onerous contracts

When the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received under it, onerous contract provisions shall be recognized. The provision is measured at the lower of the present value of the expected costs to exit the contracts and the expected net costs to fulfill the contracts. Before recognizing onerous contract provisions, the Group shall recognize any impairment losses that have occurred on assets relevant to the contracts.

3. Rehabilitation costs

A provision is a present obligation arising from the service concession arrangements signed by the Group, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and shall be recognized when the amount of the obligation can be measured with sufficient reliability. The amount recognized as a provision shall be discounted by the pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The amortization by discounting the provision shall be recognized as interest expenses. °

15) Revenue recognition

1. Revenue from contracts with customers

Revenue shall be measured at the consideration to which the Group expects to be entitled in exchange for goods or services transferred. The Group shall recognize revenue when the customer obtains control of the goods or services and the performance obligation is satisfied. The recognition is explained by primary revenue items as follows :

(a) Construction contracts

The Group is engaged in construction of public works. As the assets are controlled by the customers at construction, revenue shall be recognized over time by the proportion of construction costs incurred account for the estimated total contract costs. Fixed considerations and variable considerations are included in the contracts. The Customers pay the fixed payments based on the agreed schedule. Variable considerations (e.g., price adjustment subsidy) are estimated by the expected value of past cumulative experiences. If the Group has not requested payment for recognized revenue, it shall be recognized as contract assets. When the Group has unconditional right to receive the consideration, the contract assets shall be transferred to accounts receivables.

If the Group cannot reasonably measure the progress towards complete satisfaction of a

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements (Cont.)

performance obligation of a construction contract, contract revenue shall be measured only to the extent that the incurred costs are expected to be recovered.

When the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received under it, onerous contract provisions shall be recognized.

If there are changes in conditions, the estimates to revenue, costs, and progress towards completion shall be modified accordingly. The resulting changes shall be recognized in profit or loss during the period when the management is acknowledged about the changes in conditions and makes the modifications.

The Group provides standard warranties that comply with the specifications in the agreements to constructions, and has recognized warranty provisions for the obligations.

(b) Operation contracts

The Group provides operations and maintenance of sewage treatment to county or city government agencies, and recognized revenue by the considerations calculated by the quantities completed.

(c) Providing waste disposal services

The Group is engaged in waste disposal, and recognizes revenue over time during the reporting period that the Group provides services. The revenue of fixed price contracts shall be recognized for the services provided until the reporting date at the time point of satisfying performance obligation.

(d) Sales of recycled aggregate

The Group recognizes revenue when the customer obtains control of the recycled aggregate. It's the time when goods are transferred to a customer, the customer has the discretion to direct the price of goods, and there's no remaining obligation that could affect the acceptance of the goods. When goods are delivered to designated place, the risk is transferred to the customer, and the customer has accepted the goods according to sales contract, or the acceptance terms are expired, or there's objective evidence to approve that the standards of acceptance have been fulfilled, the goods are formally transferred to the customer.

The Group shall recognize accounts receivables when goods are delivered, as the Group has the unconditional right to receive the consideration at the time point.

(e) Revenue from sales of electricity

The performance obligations of selling electricity are satisfied over time, and the resulting revenue shall be recognized based on the actual kilowatts sold and the rate.

2. Costs to fulfill contracts

If the costs incurred in fulfilling a contract with a customer are not within the scope of other Standard (IAS 2 "Inventories," IAS 16 "Property, plant and equipment," or IAS 38 "Intangible assets"), the Group shall recognize an asset from the costs incurred to fulfill a contract only if the costs relate directly to a contract or an anticipated contract that the Group can specifically identify, the costs generate or enhance resource of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future, and the costs are expected to be recovered.

The Group shall recognize the general and administrative costs, costs of wasted materials, labor or other resources to fulfill the contract that were not reflected in the price of the contract, costs that related to satisfied performance obligation (or partially satisfied performance obligation) in the contract, and costs for which the Group cannot distinguish whether the costs relate to unsatisfied performance obligations or to satisfied performance obligations (or partially satisfied performance obligations) as expenses when incurred.

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements (Cont.)

16) Employee benefits

1. Defined contribution plans

Contribution obligations of defined contribution plans shall be recognized as expenses during the time that employees render services.

2. Short-term employee benefits

Short-term employee benefits obligations are recognized as expenses when employees have rendered services and liabilities shall be recognized under current legal or constructive obligation for employees' past services and those amounts can be reliably estimated.

17) Share-based payment transactions

For equity-settled share-based payment transactions, the Group shall measure the employees' services received by the fair value of the equity instruments granted at the grant date, recognize expenses during the vested period, and adjust equity accordingly. The expenses recognized shall be adjusted by number of equity instruments expected to vest by meeting service conditions and non-market vesting conditions. On the vesting date, the Group shall recognize the amount equal to the number of equity instruments that meet the service conditions and non-market vesting conditions.

The fair value of the equity instruments have reflected the effects of non-vesting conditions of share-based payments, and no verifications and adjustments shall be made for the differences between the expected and actual outcomes.

For cash-settled stock appreciation rights, the Group shall recognize the expenses and respective liabilities by the fair value during the period that employees have the unconditional right to receive the rewards, and remeasure the liabilities by the fair value of stock appreciation rights at each balance sheet date and settlement date. Any changes shall be recognized in profit or loss.

18) Income tax

Income tax comprises current and deferred income tax. Current tax and deferred tax are recognized in profit or loss, except to the extent that it relates to business combination, items recognized directly in equity, or the items recognized in other comprehensive income.

As the Group judged that the interests or fines (including uncertain tax treatment) do not meet the definition of income tax, IAS 37 shall apply.

Current tax includes the expected income tax payables or tax refund receivables calculated by the taxable income (loss) of the current year, and any adjustment to the income tax payables or tax refund receivables in prior years. The amount shall reflect the uncertainty related to income tax (if there is), and is the best estimate of the payment expected to be received or paid calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date.

Deferred income tax shall be measured and recognized for all temporary differences between the carrying amount and tax base of assets and liabilities at the reporting date, except to the extent that the temporary differences as follows :

1. 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) ;
2. temporary differences arising from investments in subsidiaries, associates, and interests in joint arrangements, the Group is able to control the timing of the reversal of the temporary differences, and it is probable that the temporary difference will not reverse in the foreseeable future ; and
3. taxable temporary differences arising from the initial recognition of goodwill .

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements (Cont.)

A deferred tax asset shall be recognized for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable income will be available against which the unused tax losses and unused tax credits can be utilized. The carrying amount of a deferred tax asset shall be reviewed at each reporting date. The Group shall reduce the carrying amount of a deferred tax asset to the extent that is based on no longer probable that the benefit of the deferred tax asset will be realized. Any such reduction shall be reversed to the extent that it becomes probable that sufficient taxable income will be available.

Deferred income tax shall be measured at the tax rate at the time when the temporary differences are expected to reverse. The tax rate is based on the tax rate enacted or substantively enacted, and shall reflect the uncertainty related to income tax (if there is).

The Group shall offset current tax assets and current tax liabilities, if and only if :

1. the Group has a legally enforceable right to set off current tax assets against current tax liabilities ; and
2. the deferred tax assets and deferred tax liabilities related to income taxes levied by the same taxation authority on either :
 - (a) the same taxable entity ; or
 - (b) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

The Group declares income tax by consolidated tax returns. However, the calculation of income tax is in accordance with the aforementioned principles.

19) Earnings per share

The Group presents the basic and diluted earnings per share attributable to owners of the ordinary shares of the Company. Basic earnings per share are calculated by dividing profit or loss for the year attributable to owners of the ordinary shares of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share are calculated by dividing the profit or loss attributable to owners of the ordinary shares of the Company, by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares, after adjusting any influences arising from potential dilutive ordinary shares. The potential dilutive ordinary shares include convertible corporate bonds and stock options granted to employees.

20) Segment information

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). 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 consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by the Financial Supervisory Commission, the management has made judgments to determine the account policies adopted, and make accounting estimates and assumptions, which affect the disclosure of reporting amount of assets, liabilities, revenue, and expenses. The actual results may be different from the estimates.

The management keeps reviewing estimates and basic assumption. Changes in accounting estimates

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements (Cont.)

shall be recognized in the period of the changes and the future periods that affected by the changes. Accounting policies that involve significant judgments and have significant influence over the recognized amounts in the consolidated financial statements are as follows :

- 1) Note 6.7 and 6.8, the classification of receivables and intangible assets under service concession agreements

The Group shall classify the receivables and intangibles assets by judging whether the terms of the service concession agreements meet the regulation of IFREC 12 about the unconditional right to receive cash or another financial asset from or at the direction of the grantor.

The uncertainty of the estimates and assumptions as follows could result in risks that require a material adjustment to the carrying amount of assets and liabilities in the next fiscal year, and has reflected the impact of Covid-19 pandemic. The relevant information is as follows :

- 1) Construction contracts and onerous contracts

The Group primarily engaged in construction contracts with customers that provide several designs, technologies and functions or the final objectives or purposes are closely related or interdependent. The revenue shall be recognized over time by the progress towards completion based on the construction contracts, and the progress towards completion shall be measured by the percentage that contract costs incurred accounts for the estimated total contract costs. The Group shall estimate the total contract costs by considering the factors including nature, expected construction period, construction projects, construction processes techniques and expected procurement amounts, etc. of each construction. Any changes in the aforementioned estimates may result in material adjustment to the estimated amounts.

- 2) Impairment assessment of property, plant and equipment and intangible assets

In assessing the impairment of assets, the Group shall depend on subjective judgment and determine the independent cash flows, useful lives of assets, income and expenses that may incurred in the future of specific classes of assets by the asset usage model and industrial characteristics. Any changes in estimates arising from the changes in economic conditions or the company strategies may result in significant impairment or reversal of impairment losses recognized. Please refer to Note 6.6 and 6.7 for the explanations about the key assumptions used in recoverable amount.

【Valuation processes】

The accounting policies and disclosures of the Group include measuring the financial and non-financial assets and liabilities by fair value. The financial department is responsible for reviewing all the significant fair value measurement (including the level 3 fair value), and directly reports to the CFO. The financial department shall review the significant unobservable inputs and adjustment on a regular basis. If the inputs used for measuring fair value are external information from the third parties (e.g., external professionals), the financial department shall evaluate the evidences to support the inputs provided by the external professionals, to ensure the valuation and the categorization of fair value hierarchy are in accordance with the regulations of the IFRSs.

When measuring assets and liabilities, the Group shall maximize the use of observable inputs in the markets. The fair value hierarchy is categorized by the inputs used in the valuation techniques as follows :

- Level 1 : quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 : inputs of assets or liabilities other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (the prices) or indirectly (derived from the prices).
- Level 3 : inputs of for the assets or liabilities not based on observable market data (unobservable inputs).

【Policies of transfers between levels】

If there are events or conditions of transfers between levels of fair value, the Group shall recognize the transfers at the reporting date.

【Further information on the assumptions adopted at measuring fair value】

Please refer to Note 6.19 “Financial instruments” for the relevant information on the assumptions adopted at measuring fair value. °

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements (Cont.)

(6) Explanation of significant accounts

1) Cash and cash equivalents

	December 31, 2022	December 31, 2021
Petty cash	\$ 8,838	7,937
Demand deposits	1,230,746	2,057,458
Checking deposits	123,014	69,408
Cash and cash equivalents presented in the consolidated statements of cash flows	<u>\$ 1,362,598</u>	<u>2,134,803</u>

Please refer to Note 6.19 for the interest rate risk and sensitivity analysis of financial assets and liabilities.

2) Financial assets and liabilities measured at fair value through profit or loss

	December 31, 2022	December 31, 2021
Financial assets mandatorily measured at fair value through profit or loss :		
Non-derivative financial assets		
Beneficiary certificates-open-end funds (current)	\$ 301,762	210,251
Stocks of listed companies (current)	10,963	8,138
Total	<u>\$ 312,725</u>	<u>218,389</u>

Financial liabilities mandatorily measured at fair value through profit or loss :

The redemption rights and put options of convertible corporate bonds	<u>\$ 16,200</u>	<u>3,800</u>
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1. Please refer to Note 6.18 for the amounts of remeasurement of fair value recognized in profit or loss.
2. The Group has disclosed the information on the credit risk and fair value relevant to financial assets in Note 6.19.
3. As of December 31, 2022 and 2021, the financial assets at fair value through profit or loss were not pledged as collateral.

3) Financial assets at fair value through other comprehensive income

	December 31, 2022	December 31, 2021
Equity instruments at fair value through other comprehensive income :		
Stocks of unlisted companies — Asia Renewable Energy (Cayman) Ltd	\$ 43,968	56,970
Stocks of unlisted companies — YUNG FU CO., LTD	12,502	12,041
Domestic emerging stocks — Tien Li Offshore Wind Technology CO., LTD.	42,995	60,979
Total	<u>\$ 99,465</u>	<u>129,990</u>

1. Investments in equity investments at fair value through other comprehensive income.
As the purpose of holding the investments in equity instrument is for long-term strategic investments and not for trading, the investments in equity instruments are designated to be measured at fair value through other comprehensive income.

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements (Cont.)

2. Please refer to Note 6.19 for the information on market risk.
3. The aforementioned financial assets were not pledged as collateral.
4) Notes receivables and accounts receivables

	December 31, 2022	December 31, 2021
Notes receivables—arising from operation	\$ 4,888	11,936
Accounts receivables — measured at amortized cost	1,468,080	1,086,504
Less : loss allowances	-	-
	<u>\$ 1,472,968</u>	<u>1,098,440</u>

1. The Group estimates the expected credit losses of notes receivables and accounts receivables at an amount equal to the lifetime expected credit loss by the simplified approach. For the purpose of measurement, the notes receivables and accounts receivables have been grouped by the mutual credit risk characteristics of the ability for paying all the amount due based on the terms of the contracts, and foreseeing information has been included in the measurement.

- (a) The analysis of expected credit losses of notes receivables and accounts receivables from government agencies is as follows :

December 31, 2022			
Aging interval	Carrying amount of receivables	Weighted-aver age expected credit loss rate	Allowances for lifetime expected credit loss
Undue	<u>\$ 1,147,877</u>	-	<u>-</u>

December 31, 2021			
Aging interval	Carrying amount of receivables	Weighted-aver age expected credit loss rate	Allowances for lifetime expected credit loss
Undue	<u>\$ 796,052</u>	-	<u>-</u>

- (b) The analysis of expected credit losses of notes receivables and accounts receivables from other customers is as follows :

December 31, 2022			
Aging interval	Carrying amount of receivables	Weighted-aver age expected credit loss rate	Allowances for lifetime expected credit loss
Undue	<u>\$ 49,543</u>	-	<u>-</u>

December 31, 2021			
Aging interval	Carrying amount of receivables	Weighted-aver age expected credit loss rate	Allowances for lifetime expected credit loss
Undue	\$ 40,400	-	-
Overdue for within 30 days	4,256		-
	<u>\$ 44,656</u>		<u>-</u>

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements (Cont.)

- (c) The notes receivables and accounts receivables entering into mediations or with performance disputes are as follows :

	December 31, 2022	December 31, 2021
Amount under dispute	\$ 367,079	267,482
Less : expected losses	(91,531)	(9,750)
Total	\$ 275,548	257,732

Note : The losses are evaluated based on the condition of mediations or performance disputes of each project, and regarded as changes in estimates of contract prices, which shall be recognized as the credit element of operating revenue. Please refer to the explanations in Note 9.

2. For the years ended December 31, 2022 and 2021, there is no provision or reversal of expected credit loss.
 3. As of December 31, 2022 and 2021, the notes receivables and accounts receivables were not pledged as collateral.
- 5) Subsidiaries with significant non-controlling interests
The non-controlling interests held by the subsidiaries which are significant to the Group are as follows :

<u>Name of subsidiary</u>	<u>Main operating location/ Country of incorporation</u>	<u>Percentage of ownership interests and voting rights held by non-controlling interests</u>	
		<u>December 31, 2022</u>	<u>December 31, 2021</u>
Green Forest Development Enterprise Co., Ltd.	Taiwan	30%	30.00%
Eastern Forest Environmental Technology Co., Ltd.	Taiwan	30%	30.00%
Grain Forest Green Energy Co., Ltd.	Taiwan	30%	30.00%
Re-use Environmental Co., Ltd.	Taiwan	49.59%	49.59%

The summarized financial information of the aforementioned subsidiaries is as follows. The financial information was prepared in accordance with the IFRSs endorsed by the FSC, and has reflected the adjustments for differences in accounting policies by the Group. The financial information has not eliminated the amount of inter-company transactions in the consolidated companies. :

1. The summarized financial information on Green Forest Development Enterprise Co., Ltd. :

	December 31, 2022	December 31, 2021
Current assets	\$ 647,747	447,379
Non-current assets	3,875,333	4,003,975
Current liabilities	(143,002)	(170,034)
Non-current liabilities	(286,299)	(270,626)
Net assets	\$ 4,093,779	4,010,694
Ending carrying amount of non-controlling interests	\$ 1,228,134	1,203,208

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements (Cont.)

	2022	2021
Operating revenue	\$ 678,018	775,481
Profit	316,360	482,492
Other comprehensive income	-	-
Total comprehensive income	<u>\$ 316,360</u>	<u>482,492</u>
Profit attributable to the non-controlling interests	<u>\$ 94,908</u>	<u>144,747</u>
Total comprehensive income attributable to the non-controlling interests	<u>\$ 94,908</u>	<u>144,747</u>
Cash flows from operating activities	\$ 253,213	241,569
Cash flows from investing activities	-	54,700
Cash flows from financing activities	(233,275)	(344,423)
Net increase (decrease) in cash and cash equivalents	<u>\$ 19,938</u>	<u>(48,154)</u>
Dividends paid to non-controlling interests	<u>\$ 69,982</u>	<u>41,656</u>

2. The summarized financial information on Eastern Forest Environmental Technology Co., Ltd. :

	December 31, 2022	December 31, 2021
Current assets	\$ 15,730	13,246
Non-current assets	10,637	14,185
Current liabilities	(133)	(243)
Non-current liabilities	(1,061)	(1,546)
Net assets	<u>\$ 25,173</u>	<u>25,642</u>
Ending carrying amount of non-controlling interests	<u>\$ 8,612</u>	<u>9,238</u>
	2022	2021
Operating revenue	\$ 5,300	2,083
Profit	(1,018)	(7,163)
Other comprehensive income	64	(55)
Total comprehensive income	<u>\$ (954)</u>	<u>(7,218)</u>
Profit attributable to the non-controlling interests	<u>\$ (659)</u>	<u>(2,968)</u>
Total comprehensive income attributable to the non-controlling interests	<u>\$ (626)</u>	<u>(2,996)</u>
Cash flows from operating activities	\$ (1,915)	(3,382)
Cash flows from financing activities	-	(275)
Effect of movements in exchange	64	(54)
Net decrease in cash and cash equivalents	<u>\$ (1,851)</u>	<u>(3,711)</u>

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements (Cont.)

3. The summarized financial information on Grain Forest Green Energy Co., Ltd. :

	December 31, 2022	December 31, 2021
Current assets	\$ 65,721	63,950
Non-current assets	481,045	533,433
Current liabilities	(16,393)	(92,406)
Non-current liabilities	(291,537)	(291,691)
Net assets	<u><u>\$ 238,836</u></u>	<u><u>213,286</u></u>
Ending carrying amount of non-controlling interests	<u><u>\$ 71,651</u></u>	<u><u>63,986</u></u>
	2022	2021
Operating revenue	<u><u>\$ 40,485</u></u>	<u><u>61,396</u></u>
Profit	\$ (24,450)	(118,889)
Other comprehensive income	-	-
Total comprehensive income	<u><u>\$ (24,450)</u></u>	<u><u>(118,889)</u></u>
Profit attributable to the non-controlling interests	<u><u>\$ (7,335)</u></u>	<u><u>(35,667)</u></u>
Total comprehensive income attributable to the non-controlling interests	<u><u>\$ (7,335)</u></u>	<u><u>(35,667)</u></u>
Cash flows from operating activities	\$ (21,461)	(12,062)
Cash flows from investing activities	25,321	(47,062)
Cash flows from financing activities	(3,000)	75,000
Net increase in cash and cash equivalents	<u><u>\$ 860</u></u>	<u><u>15,876</u></u>

4. The summarized financial information on Re-use Environmental Co., Ltd. :

	December 31, 2022	December 31, 2021
Current assets	\$ 271,303	276,756
Non-current assets	463,700	493,198
Current liabilities	(65,432)	(51,816)
Non-current liabilities	(10,805)	(11,332)
Net assets	<u><u>\$ 658,766</u></u>	<u><u>706,806</u></u>
Ending carrying amount of non-controlling interests	<u><u>\$ 326,698</u></u>	<u><u>350,523</u></u>
	2022	2021
Operating revenue	<u><u>\$ 194,189</u></u>	<u><u>234,407</u></u>
Profit	\$ 36,500	73,729
Other comprehensive income	460	802
Total comprehensive income	<u><u>\$ 36,960</u></u>	<u><u>74,531</u></u>
Profit attributable to the non-controlling interests	<u><u>\$ 18,101</u></u>	<u><u>36,564</u></u>
Total comprehensive income attributable to the non-controlling interests	<u><u>\$ 18,329</u></u>	<u><u>36,962</u></u>

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements (Cont.)

	2022	2021
Cash flows from operating activities	\$ 110,046	70,055
Cash flows from investing activities	(2,608)	(16,441)
Cash flows from financing activities	(85,790)	(82,242)
Net increase (decrease) in cash and cash equivalents	\$ 21,648	(28,628)
Dividends paid to non-controlling interests	\$ 42,154	40,467

6) Property, plant and equipment

The changes in costs, depreciation, and impairment of property, plant and equipment for the years ended December 31, 2022 and 2021 are as follows :

	Land	Buildings and structures	Transport ation equipment	Other equipment	Unfinishe d constructi ons	Total
Costs or deemed costs :						
Balance as of January 1, 2022	\$ 456,838	95,439	35,066	226,877	-	814,220
Addition	-	-	938	33,303	9,885	44,126
Disposal	-	-	(871)	(6,284)	-	(7,155)
Reclassification	-	-	988	5,487	(6,475)	-
Balance as of December 31, 2022	\$ 456,838	95,439	36,121	259,383	3,410	851,191
Balance as of January 1, 2021	\$ 456,838	95,439	31,875	209,335	-	793,487
Addition	-	-	3,552	18,554	-	22,106
Disposal	-	-	(361)	(1,011)	-	(1,372)
Effect of changes in exchange rates	-	-	-	(1)	-	(1)
Balance as of December 31, 2021	\$ 456,838	95,439	35,066	226,877	-	814,220
Depreciation and impairment losses :						
Balance as of January 1, 2022	\$ -	47,011	21,765	127,807	-	196,583
Depreciation	-	1,310	3,995	27,399	-	32,704
Disposal	-	-	(730)	(4,691)	-	(5,421)
Reclassification	-	90	74	(164)	-	-
Balance as of December 31, 2022	\$ -	48,411	25,104	150,351	-	223,866
Balance as of January 1, 2021	\$ -	12,734	17,692	70,741	-	101,167
Depreciation	-	5,658	4,165	31,131	-	40,954
Impairment	-	28,619	-	26,682	-	55,301
Disposals	-	-	(92)	(746)	-	(838)
Effect of changes in exchange rates	-	-	-	(1)	-	(1)
Balance as of December 31, 2021	\$ -	47,011	21,765	127,807	-	196,583
Carrying amount :						
December 31, 2022	\$ 456,838	47,028	11,017	109,032	3,410	627,325
January 1, 2021	\$ 456,838	82,705	14,183	138,594	-	692,320
December 31, 2021	\$ 456,838	48,428	13,301	99,070	-	617,637

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements (Cont.)

1. As of December 31, 2022 and 2021, the outstanding payments amounted to both NT\$59,000 thousand, which are recognized as other payables.

2. Impairment losses and subsequent reversals

As the subsidiary, Easy Development Co., Ltd., delayed the acquisition of the license for type D organic sludge disposal, resulting in the significant changes in operation items in 2021, and recoverable amount shall be assessed.

The impairment of the subsidiary is assessed base on calculating recoverable amount by the value in use of the cash-generating unit. The value in use is calculated by discounting the cash flows indicated in the financial forecasts in the next 7 years by the pre-tax discount rate of 8.34% on December 31, 2022, to reflect the specific industrial risk of the cash-generating unit. Based on the aforementioned assessment, as the estimated recoverable amount of the subsidiary's property, plant and equipment is lower than the carrying amount, impairment losses recognized amounted to NT\$55,301 thousand, which were presented as other gains and losses. The subsidiary reassessed the estimates on December 31, 2022, but the impairment losses were not reversed.

3. Guarantee

Please refer to Note 8 for the information on the aforementioned assets pledged as guarantees for the credit lines as of December 31, 2022 and 2021.

7) Intangible assets

The changes in costs, amortization, and impairment of intangible assets for the years ended December 31, 2022 and 2021 are as follows :

	Concession	Operating rights	Computer software, etc.	Goodwill	Total
Costs :					
Balance as of January 1, 2022	\$ 2,654,956	504,237	9,145	30,822	3,199,160
Acquisition	1,022	-	-	-	1,022
Transfer in	32,428	-	-	-	32,428
Disposal	-	-	(8,407)	-	(8,407)
Balance as of December 31, 2022	\$ 2,688,406	504,237	738	30,822	3,224,203
Balance as of January 1, 2021	\$ 2,568,796	504,237	9,145	30,822	3,113,000
Acquisition	2,207	-	-	-	2,207
Transfer in	83,953	-	-	-	83,953
Balance as of December 31, 2021	\$ 2,654,956	504,237	9,145	30,822	3,199,160
Amortization and impairment losses :					
Balance as of January 1, 2022	\$ 652,029	75,700	9,145	26,668	763,542
Amortization	128,151	25,148	-	-	153,299
Impairment	22,000	-	-	-	22,000
Disposal	-	-	(8,407)	-	(8,407)
Balance as of December 31, 2022	\$ 802,180	100,848	738	26,668	930,434

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements (Cont.)

Balance as of January 1, 2021	\$ 433,993	55,293	9,025	17,635	515,946
Amortization	124,872	20,407	120	-	145,399
Impairment	93,164	-	-	9,033	102,197
Balance as of December 31, 2021	<u>\$ 652,029</u>	<u>75,700</u>	<u>9,145</u>	<u>26,668</u>	<u>763,542</u>

Carrying amount :

December 31, 2022	<u>\$ 1,886,226</u>	<u>403,389</u>	<u>-</u>	<u>4,154</u>	<u>2,293,769</u>
January 1, 2021	<u>\$ 2,134,803</u>	<u>448,944</u>	<u>120</u>	<u>13,187</u>	<u>2,597,054</u>
December 31, 2021	<u>\$ 2,002,927</u>	<u>428,537</u>	<u>-</u>	<u>4,154</u>	<u>2,435,618</u>

1. Amortization and impairment recognized

The amortization expenses and impairment losses of intangible assets are presented under the items as follows in the consolidated statements of comprehensive income :

	2022	2021
Operating costs	\$ 122,843	124,872
Administrative expenses	30,456	20,527
Other gains and losses	22,000	102,197
Total	<u>\$ 175,299</u>	<u>247,596</u>

2. The amount transferred from contract assets for the phased completion based on the service concession agreements signed with government agencies for the years ended December 31, 2022 and 2021 amounted to NT\$32,428 thousand and NT\$83,953 thousand, respectively.
3. Impairment tests of goodwill

The goodwill generated from the acquisition of the subsidiary, Lea Lea Environmental Enterprise Co., Ltd., in 2020 amounted to NT\$9,033 thousand, which is resulting from the expected benefit of the growth in operating revenue from the company's aggregate disposal. However, as the subsidiary is affected by the event that the former chairman and former plant manager are alleged violations of Waste Disposal Act, the operation slightly stagnates. Therefore, impairment losses of goodwill recognized in 2021 amounted to NT\$9,033 thousand.

The subsidiary, Grain Forest Green Energy Co., Ltd., estimated that it is unable to attain the expected benefit from the ancillary facilities project, as the promotion of the project is affected by the material market and the industrial market. The subsidiary has sent the letter to the owner of the project, Environmental Protection Bureau, Taichung City Government, to terminate the ancillary facilities agreement on September 7, 2021, and the Mediation Committee preliminarily determined to terminate the ancillary facilities project and recover the land and plant of the ancillary facilities on May 6, 2022. However, the subsequent recovery processes are remaining to be further discussed by the Mediation Committee. After conducting impairment test in accordance with the regulation of IAS 36, the recoverable amount shall be assessed by the fair value of the ancillary facilities less costs of disposal, and impairment losses of NT\$93,164 thousand have been recognized in 2021. The subsidiary reevaluates the estimate on December 31, 2022, but the losses were not reversed.

As of December 31, 2021, the recoverable amount of the subsidiary's ancillary facilities was determined by fair value less the costs of disposal. The amount of fair value less costs of disposal was derived by cost approach and market approach by the entrusted external professional. As the fair value measurement used the significant unobservable inputs, it is categorized in level 3.

The key assumptions used in estimating the recoverable amount are as follows. The values

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements (Cont.)

of key assumptions represent the management's evaluation to the future trend in the relevant industry, and considering simultaneously the historical information from internal and external sources.

	December 31, 2021
Physical damage	10.2%
Economic damage	10%

Physical damage : The equipment is damaged by worn, or fatigue, etc., due to the rub, shock, or vibration, etc. incurred on parts during the process of operation.

Economic damage : The economic damage of machinery equipment is resulting from external factors, including the intensification of market competition, the decrease in product requirements resulting in underproduction of equipment, relatively excess capacity, and shortening the normal useful life of equipment, etc.

The operating condition of the subsidiary, Perfection Forest Development Enterprise Co., Ltd., was worse than expected and losses were incurred. The impairment of the subsidiary's non-financial assets is assessed base on calculating recoverable amount by the value in use of the cash-generating unit. The value in use is calculated by discounting the cash flows indicated in the financial forecasts in the residual years of the ROT contract signed with Industrial Development Bureau, MOEA by the discount rate of 7.25% on December 31, 2022, to reflect the specific industrial risk of the cash-generating unit. Based on the assessment, as the estimated recoverable amount is lower than the carrying amount, impairment losses recognized amounted to NT\$22,000 thousand, which were presented as other gains and losses.

4. Guarantee

Please refer to Note 8 for the details of assets pledged as collaterals for long-term borrowings and credit lines as of December 31, 2022 and 2021.

8) Long-term receivables

The service concession agreements signed with government agencies shall be determined by IFRIC 12. As the Group provides construction or upgrade services, the consideration received or receivable by the Group shall be recognized as a financial asset. The Group calculates the present value of the considerations receivables by discounting the payments expected to be received during the agreement period by the appropriate discount rate. As of December 31, 2022 and 2021, the receivables recognized by the discounted value of the considerations receivables of the service concession agreements at each reporting date are as follows :

	December 31, 2022	December 31, 2021
Long-term receivables	\$ 7,162,905	7,305,940
Current	\$ 183,201	135,528
Non-current	6,979,704	7,170,412
Total	\$ 7,162,905	7,305,940

- The amount transferred from contract assets for the phased completion based on the service concession agreements signed with government agencies for the years ended December 31, 2022 and 2021 amounted to NT\$0 and NT\$255,055 thousand, respectively.

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements (Cont.)

2. The Group has signed the settlement agreement for the replacement fee dispute case with the Kaohsiung City Government on November 19, 2021. Based on the agreement, the original unreasonable deductions of replacement fee, amounting to NT\$1.28 per ton, the repayment of principal of construction fees with delay interests in 4 installments, amounting to NT\$371,136 thousand (tax included), and delay interests as of July, 2021, amounting to NT\$100,505 thousand (tax included) shall be paid by the schedule agreed in the settlement agreement as follows :

<u>Payment year</u>	<u>Settlement amount</u>
December 31, 2023	NT\$ 117,910 thousand
December 31, 2024	NT\$ 117,910 thousand
December 31, 2025	NT\$ 117,910 thousand
December 31, 2026	NT\$ 117,911 thousand

The accounts receivables and long-term receivables presented by the 4-year present value of annuity at maturity amounted to NT\$23,930 thousands and NT\$70,902 thousand as of December 31, 2022, and amounted to NT\$290 thousand and NT\$94,542 thousand as of December 31, 2021.

3. Please refer to Note 8 for the information on the assets pledged as collaterals for long-term borrowings and credit lines as of December 31, 2022 and 2021.

9) Short-term notes payables

The details of short-term notes payables are as follows :

<u>December 31, 2022</u>			
	<u>Guarantee or acceptance institution</u>	<u>Interest rate interval</u>	<u>Amount</u>
Commercial paper payables	MEGA BILLS	2.120%	\$ 80,000
"	Grand Bills	2.130%	80,000
"	Ta Ching Bills	2.502%	80,000
"	Taiwan Cooperative Bills	2.100%	196,000
"	DAH CHUNG BILLS	2.450%	150,000
"	International Bills	2.297%	300,000
"	China Bills	2.140%~2.192%	160,000
"	TAIWAN FINANCE	2.342%	100,000
Total			<u><u>\$ 1,146,000</u></u>

<u>December 31, 2021</u>			
	<u>Guarantee or acceptance institution</u>	<u>Interest rate interval</u>	<u>Amount</u>
Commercial paper payables	MEGA BILLS	1.562%	\$ 80,000
"	Grand Bills	1.600%	76,000
"	Ta Ching Bills	1.602%	80,000
"	Taiwan Cooperative Bills	1.498%	143,000
"	DAH CHUNG BILLS	1.590%	100,000
"	International Bills	1.688%	216,000
Total			<u><u>\$ 695,000</u></u>

Please refer to Note 8 for the information on the assets pledged as collaterals for the aforementioned commercial paper payables.

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements (Cont.)

10) Short-term borrowings

The details of short-term borrowings are as follows :

	December 31, 2022	December 31, 2021
Unsecured bank loans	\$ 900,000	994,000
Secured bank loans	710,000	496,721
Total	<u>\$ 1,610,000</u>	<u>1,490,721</u>
Unused credit lines	<u>\$ 346,746</u>	<u>674,287</u>
Interest rate interval	<u>1.45%~2.56%</u>	<u>1.45%~2.00%</u>

Please refer to Note 8 for the information on the assets pledged as collaterals for the bank loans.

11) Long-term borrowings

The details, terms and conditions of long-term borrowings are as follows :

December 31, 2022				
	Currency	Interest rate interval	Maturity	Amount
Unsecured bank loans	NTD	1.47%~2.09%	112	\$ 39,990
Secured bank loans	NTD	1.57%~3.33%	112~125	2,074,880
Less : arrangement fees for syndicated loans				(4,928)
Less : current portion				(310,721)
Total				<u>\$ 1,799,221</u>
Unused credit lines				<u>\$ 60,000</u>

December 31, 2021				
	Currency	Interest rate interval	Maturity	Amount
Unsecured bank loans	NTD	1.47%~1.57%	112	\$ 93,310
Secured bank loans	NTD	1.60%~2.80%	112~125	2,276,512
Less : arrangement fees for syndicated loans				(5,820)
Less : current portion				(265,951)
Total				<u>\$ 2,098,051</u>
Unused credit lines				<u>\$ 60,000</u>

Please refer to Note 8 for the information on the assets pledged as collaterals for the bank loans. °

1. Significant agreements in the loan contracts

(a) The subsidiary signed the syndicated credit facility contract with the group of the syndicated credit facilities (17 banks, including Mega Bank) for the requirement of building the sewage system in Nanzih, Kaohsiung City. The subsidiary shall maintain the financial ratios at a specific level at each year-end based on the agreements in the contract :

(i) Current ratio (current assets/current liabilities) : greater than or equal to 100%.

(ii) Debt-to-equity ratio (total liabilities/total equity) : less than or equal to 230%.

The aforementioned syndicated loans have been repaid in 2021.

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements (Cont.)

- (b) The subsidiary signed the syndicated credit facility contract with the group of the syndicated credit facilities (8 banks, including Land Bank of Taiwan) for the requirement of building the sewage system in Luodong, Yilan County. The subsidiary shall maintain the financial ratios at a specific level at each year-end based on the agreements in the contract :
- (i) Debt-to-equity ratio (total liabilities/total equity) : less than or equal to 200%.
- (ii) The subsidiary shall maintain the interest coverage ratio of the principal [(profit after tax+depreciation+interest expenses)/(mid-term and long-term principal that shall be repaid in the current period +interest expenses)] : greater or equal to 1.
- (iii) From the day receiving the notice from the agent bank to the day before completion of the improvement, the interests shall be accrued by the annual interest rate plus 0.25% for the balance of each credit facility. If the improvement is not completed within the period, the amount of 0.1% of the total balance unrepaid at the end of the improvement period (December 31) shall be paid to the agent bank.
- (c) The subsidiary signed the syndicated credit facility contract with the group of the syndicated credit facilities for the requirement of building and operating the composting plant in Waipu, Taichung City (green energy ecological park). The subsidiary shall maintain the financial ratios at a specific level at each year-end based on the agreements in the contract (to be reviewed from the financial statements for the years ended December 31, 2024) :
- (i) Current ratio (current assets/current liabilities) : greater than or equal to 100%.
- (ii) Debt-to-equity ratio (total liabilities/total equity) : less than or equal to 230%.
- (iii) The subsidiary shall maintain the interest coverage ratio of the principal [(profit after tax+depreciation+amortization+ interest expenses)/(interest expenses)] : greater or equal to 1.
- (iv) From the day receiving the notice from the banks to the day before completion of the improvement, the interests shall be accrued by the annual interest rate plus 0.15% for the balance of each credit facility. If the improvement is not completed within the period, the amount of 0.1% of the total balance unrepaid at the end of the improvement period shall be paid to the banks.

12) Corporate bonds payables

The details of the corporate bonds payables are as follows :

	December 31, 2022	December 31, 2021
Total amount of convertible corporate bonds issued	\$ 1,000,000	1,500,000
Unamortized balance of discounts on corporate bonds payables	(51,081)	(64,256)
Less: the portion due or with put options to be exercised within one year or one operating cycle	-	(500,000)
Ending corporate bonds payables	<u>\$ 948,919</u>	<u>935,744</u>
Embedded derivative instruments — call options and put options (presented as financial liabilities at fair value through profit or loss)	<u>\$ 16,200</u>	<u>3,800</u>
Equity component — conversion rights (presented as capital surplus — stock options)	<u>\$ 72,976</u>	<u>100,826</u>
	2022	2021
Embedded derivative instruments — gains or losses from remeasurement of call option at fair value (presented as losses from financial assets and liabilities at fair value through profit or loss)	<u>\$ 12,400</u>	<u>1,000</u>
Interest expenses	<u>\$ 15,687</u>	<u>15,211</u>

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements (Cont.)

The primary rights and obligations of the outstanding unsecured convertible corporate bonds are as follows :

Item	The first unsecured convertible corporate bonds issued in 2018
Total amount issued	NT\$500,000 thousand
Issue date	January 4, 2019
Issue period	January 4, 2019~ January 4, 2022
Coupon rate	0%
Trustor	MEGA Securities Co., Ltd.
Terms of repayment	Unless the bonds are converted to ordinary shares of the Company in accordance with the terms of conversion, or the Company redeems in advance in accordance with the terms of conversion, or the Company buys back from the TPEx for the cancellation, the Company shall repay in cash one lump sum by the denomination of bonds plus interest refunds (100.75% of the denomination) when the convertible bonds mature.
Terms of redemption	From the day following the three-month period after the issuance of the convertible bonds (April 5, 2019) to 40 days before the expiry of the issuance period (November 25, 2021), when the closing price of the Company's ordinary shares exceeds the current conversion price by 30% (inclusive) for 30 consecutive business days, or the outstanding balance of the convertible bonds is lower than 10% of the original total issued amount, the Company may redeem the outstanding bonds in advance.
Terms of conversion	Conversion period From the day following the three-month period after the issuance of the convertible bonds (April 5, 2019) to the maturity date (January 4, 2022), the bondholders may convert the convertible corporate bonds into ordinary shares of the Company in accordance with the terms of conversion.
Conversion price	NT\$50.8

Item	The second unsecured convertible corporate bonds issued in 2020
Total amount issued	NT\$1,000,000 thousand
Issue date	September 28, 2021
Issue period	September 28, 2021~ September 28, 2026
Coupon rate	0%
Trustor	MEGA Securities Co., Ltd.
Terms of repayment	Unless the bonds are converted to ordinary shares of the Company in accordance with the terms of conversion, or the Company redeems in advance in accordance with the terms of conversion, or the Company buys back from the TPEx for the cancellation, the Company shall repay in cash one lump sum by the denomination of bonds plus interest refunds (101.26% of the denomination) when the convertible bonds mature.
Terms of redemption	From the day following the three-month period after the issuance of the convertible bonds (December 29, 2021) to 40 days before the expiry of the issuance period (August 19, 2026), when the closing price of the Company's ordinary shares exceeds the current conversion price by 30% (inclusive) for 30 consecutive business days, or the outstanding balance of the convertible bonds is lower than 10% of the original total issued amount, the Company may redeem the outstanding bonds in advance.
Terms of demanding pay back by bondholders	The day after three-year period after the issuance of the convertible bond (September 28, 2024), the bondholder may demand the issuer to pay back the denomination of bonds plus interest refunds by cash (100% of the denomination).

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements (Cont.)

Item	The second unsecured convertible corporate bonds issued in 2020
Terms of conversion	Conversion period From the day following the three-month period after the issuance of the convertible bonds (December 29, 2021) to the maturity date (September 28, 2026), the bondholders may convert the convertible corporate bonds into ordinary shares of the Company in accordance with the terms of conversion.
Conversion price	NT\$36.3

The first unsecured convertible corporate bonds issued in 2018 have been matured on January 4, 2022. And the Company has repaid one lump sum by the denomination of bonds plus interest refunds, amounting to NT\$503,750 thousand on January 17, 2022.

13) Income tax

1. Income tax expenses

The details of income tax expenses for the years ended December 31, 2022 and 2021 are as follow :

	2022	2021
Current income tax expenses		
Incurred in the current period	\$ 78,330	132,456
Adjustments to current income tax of prior periods	(189)	(620)
	<u>78,141</u>	<u>131,836</u>
Deferred income tax expenses		
Origination and reversal of temporary differences	(40,570)	43,944
Income tax expenses	<u>\$ 37,571</u>	<u>175,780</u>

The relationship between the income tax expenses (benefits) and profit (loss) before tax for the year ended December 31, 2022 and 2021 is reconciled as follows :

	2022	2021
Profit (loss) before tax	\$ (131,310)	513,364
Income tax calculated by the local domestic enacted tax rates of each entity	\$ 43,225	179,083
Investment income accounted for using equity method	(62,117)	(73,221)
Valuation losses of financial assets and liabilities	2,138	259
Interest expenses of convertible corporate bonds	3,137	3,042
Non-deductible expenses	449	12,651
Impairment losses	-	31,500
Current tax losses not recognized as deferred tax assets	52,890	21,598
Changes in temporary differences not recognized	(1,693)	-
Others	(458)	868
Total	<u>\$ 37,571</u>	<u>175,780</u>

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements (Cont.)

2. Deferred tax assets and liabilities

(a) Deferred tax assets not recognized

The items not recognized as deferred tax assets are as follows :

	December 31, 2022	December 31, 2021
Tax losses	\$ 44,153	32,430
Deductible temporary differences	28,092	29,784
	<u>\$ 72,245</u>	<u>62,214</u>

Tax losses arising from the losses incurred in the 10 years before being verified by the tax authorities may be deducted from the profit of the current year before income tax assessment in accordance with the regulation in the Income Tax Act. As it is not probable that future taxable income of the Group will be available against which the unused tax losses can be utilized, the item is not recognized as deferred tax assets.

As of December 31, 2022, the deductible deadlines of tax losses not recognized as deferred tax assets are as follows :

Year of losses incurred	Undeducted losses	Last deductible year
2017	\$ 9,366	2027
2018	14,045	2028
2019	34,996	2029
2020	47,732	2030
2021	52,110	2031
2022	62,515	2032
	<u>\$ 220,764</u>	

(b) Deferred tax assets and liabilities recognized

The changes in deferred tax liabilities for the years ended December 31, 2022 and 2021 are as follows :

	Unrealized gains from constructions	Total
Deferred tax liabilities :		
Balance as of January 1, 2022	\$ 491,623	491,623
Debit (credit) in the statements of comprehensive income	32,258	32,258
Balance as of December 31, 2022	<u>\$ 523,881</u>	<u>523,881</u>
Balance as of January 1, 2021	\$ 437,641	437,641
Debit (credit) in the statements of comprehensive income	53,982	53,982
Balance as of December 31, 2021	<u>\$ 491,623</u>	<u>491,623</u>

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements (Cont.)

The changes in deferred tax assets for the years ended December 31, 2022 and 2021 are as follows :

		Differences in time point of book-tax recognition	Impairment losses	Total
Deferred tax assets :				
Balance as of January 1, 2022	\$	26,055	-	26,055
(Debit) credit in the statements of comprehensive income		68,428	4,400	72,828
Balance as of December 31, 2022	\$	94,483	4,400	98,883
Balance as of January 1, 2021	\$	16,017	-	16,017
(Debit) credit in the statements of comprehensive income		10,038	-	10,038
Balance as of December 31, 2021	\$	26,055	-	26,055

The Group may recognize the investment deductions that are probable to deduct future tax payables as deferred tax assets. The Group shall make significant accounting judgment to the deferred tax assets that may be recognized based on the possible time and amount of the occurrence of future tax payables and future tax planning. As it is not probable that future taxable income of the Group will be available against which the temporary differences can be utilized, the Group did not recognize part of the investment deductions as deferred tax assets,

3. Verification of income tax

- (a) The declaration of the profit-seeking enterprise income tax of the Group has been verified by the tax authorities until 2020.
- (b) The declaration of the profit-seeking enterprise income tax of domestic subsidiaries have been verified by the tax authorities until the years as follows :

Verification year	Name of company
2020	Green Forest Development Enterprise Co., Ltd.
2020	Orient Forest Development Enterprise Co., Ltd.
2020	Perfection Forest Development Enterprise Co., Ltd.
2020	Easy Development Co., Ltd.
2020	Re-use Environmental Co., Ltd.
2020	Eastern Forest Environmental Technology Co., Ltd.
2020	Grain Forest Green Energy Co., Ltd.
2020	Rising Environmental Co., Ltd.
2020	Lea Lea Environmental Enterprise Co., Ltd.

4. The parent company of the Group and the subsidiary, Orient Forest Development Enterprise Co., Ltd., adopt consolidated tax refund to declare profit-seeking enterprise income tax and additional tax on unappropriated earnings.

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements (Cont.)

14) Capital and Other components of equity

The Company had authorized capital of NT\$2,000,000 thousand as of December 31, 2022 and 2021, of which 144,249 thousand shares with par value of NT\$10 were issued. All the payments of shares issued have been received. °

1. Capital surplus

The components of capital surplus of the Company are as follows :

	December 31, 2022	December 31, 2021
Additional paid-in capital in excess of par of ordinary shares \$	1,363,684	1,363,684
Consolidation excess	2,262,991	2,262,991
Additional paid-in capital in excess of par arising from exercising stock options	79,213	79,213
Amount arising from stock option expiration	37,201	9,351
Changes in ownership to subsidiaries recognized	3,017	3,017
Issuance of convertible corporate bonds	72,976	100,826
	\$ 3,819,082	3,819,082

According to the regulation of the Company Act, after offsetting losses by capital surplus, it may distribute the realized capital surplus, 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. The aforementioned realized capital surplus includes the income derived from the issuance of new shares at a premium, and the income from endowments received by the company. Based on the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, where a company intends to capitalize the aforementioned capital surplus, the total amount per year shall not exceed 10% of paid-in capital.

The first unsecured convertible corporate bonds issued by the Group in 2018 have matured on January 4, 2022, and the stock options that were not exercised transferred to expired stock options amounted to NT\$27,850 thousand.

2. Retained earnings

According to the Articles of Incorporation, if there is any net profit after closing of a fiscal year, the Company shall first pay income tax, offset losses in previous years, set 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; and then set aside a special reserve as required in operation and in accordance with regulations. If there is still remaining balance, the Company shall set aside with accumulated retained earnings-unappropriated 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.

The Company will consider the environment and stage of growth, in response for future funding demand, financial structure, profitability and balanced stable dividend policy, and appropriately distribute profit by stock dividends or cash dividends depending on the funding demand and the dilution to earnings per share. The ratio of cash dividend shall not be lower than 10% of total distribution. However, the distribution principle of cash dividends and stock dividends may be adjusted by the resolution of shareholders meeting if necessary.

(a) Legal reserve

Where the Company incurs no loss, the legal reserve may be distributed by issuing new shares or by cash, for the portion in excess of 25% of the paid-in capital after resolved by the shareholders meeting.

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements (Cont.)

(b) Special reserve

According to the regulations of the FSC, when distributing distributable profits, the Company shall set aside special reserve for the difference between the net debit elements of other components of equity and the balance of special reserve provided in the preceding paragraph. The debit elements of other components of equity accumulated in prior periods shall not be distributed for the special reserve provided from unappropriated earnings in prior periods. If any of the debit elements under other components of equity is reversed, the special reserve in the amount equal to the reversal may be reversed for profits distribution. The provision (reversal) of special reserve resolved by the regular shareholders meeting on June 14, 2022 and July 13, 2021 amounted to NT\$59,185 thousand and NT\$(87,712) thousand.

(c) Earnings distribution

The earnings distribution proposals for the years ended December 31, 2021 and 2020 have been resolved by the regular shareholders meeting on June 14, 2022 and July 13, 2021. The amounts of dividends distributed to owners are as follows :

	2021		2020	
	<u>Dividend rate (NTD)</u>	<u>Amount</u>	<u>Dividend rate (NTD)</u>	<u>Amount</u>
Dividends distributed to owners of the ordinary shares :				
Cash	\$ 0.85	122,612	1.00	134,812
Dividend	-	-	0.70	94,369
Total		<u>\$ 122,612</u>		<u>229,181</u>

15) Earnings (losses) per share

1. Basic earnings (losses) per share

The earnings (losses) per share of the Group for the years ended December 31, 2022 and 2021 are calculated by profit (loss) attributable to owners of the ordinary shares and the weighted-average outstanding number of shares. The related calculations are as follows :

(a) Profit (loss) attributable to owners of ordinary shares of the Company

	<u>2022</u>	<u>2021</u>
Profit (loss) attributable to owners of ordinary shares of the Company	<u>\$ (273,003)</u>	<u>195,873</u>

(b) Weighted-average outstanding number of shares

	<u>2022</u>	<u>2021</u>
Weighted-average outstanding number of shares	<u>144,249</u>	<u>144,249</u>
Earnings (losses) per share (NTD)	<u>\$ (1.89)</u>	<u>1.36</u>

2. Diluted earnings (losses) per share

The earnings (losses) per share of the Group for the years ended December 31, 2022 and 2021 are calculated by profit (loss) attributable to owners of the ordinary shares and the weighted-average outstanding number of shares after adjusted for the dilutive effect of all potential ordinary shares. The related calculations are as follows :

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements (Cont.)

(a) Profit (loss) attributable to owners of ordinary shares of the Company (diluted)			
	2022	2021	
Profit (loss) attributable to owners of ordinary shares of the Company (basic)	\$ (273,003)	195,873	
Effects of dilutive potential ordinary shares			
Effects after tax of interest expenses and other gains and losses of convertible corporate bonds	(Note)	13,169	
Profit (loss) attributable to owners of ordinary shares of the Company (diluted)	<u><u>\$ (273,003)</u></u>	<u><u>209,042</u></u>	
(b) Weighted-average outstanding number of shares (diluted)			
	2022	2021	
Weighted-average outstanding number of shares (basic)	144,249	144,249	
Effects of shares of employees' bonuses	-	132	
Effects of conversion of convertible corporate bonds	(Note)	16,802	
Weighted-average outstanding number of shares (diluted)	<u><u>144,249</u></u>	<u><u>161,183</u></u>	
Earnings (losses) per share (NTD)	<u><u>\$ (1.89)</u></u>	<u><u>1.30</u></u>	

Note : As they are anti-dilutive, they were not included in the calculation of diluted earnings per share

16) Revenue from contracts with customers

1. Classification of revenue

	2022	2021
Primary regional market :		
Taiwan	<u><u>\$ 3,922,895</u></u>	<u><u>3,962,413</u></u>
Primary product/service lines :		
Revenue from contracts of water treatment engineering -service concession agreements	\$ 123,973	340,858
Revenue from contracts of water treatment engineering -public works	1,657,934	1,422,847
Revenue from operating and maintenance of water treatment	1,230,616	1,248,974
Service concession revenue	647,674	634,295
Revenue from waste disposal	247,162	300,459
Others	15,536	14,980
Total	<u><u>\$ 3,922,895</u></u>	<u><u>3,962,413</u></u>

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements (Cont.)

2. Balances of contracts

	December 31, 2022	December 31, 2021	January 1, 2021
Notes and accounts receivables	\$ 1,472,968	1,098,440	1,327,427
Less : loss allowances	-	-	-
Total	<u>\$ 1,472,968</u>	<u>1,098,440</u>	<u>1,327,427</u>
Contract assets-amounts incurred in projects without the rights to receive payments (Note)	\$ 765,964	422,110	1,076,436
Contract assets-retention of contract projects	255,310	186,644	247,631
Less : loss allowances	-	-	-
Total	<u>\$ 1,021,274</u>	<u>608,754</u>	<u>1,324,067</u>
Amounts expected to be recovered after 12 months	<u>\$ 31,800</u>	<u>16,053</u>	<u>53,269</u>
Contract liabilities-amounts received exceeding amounts incurred in projects	\$ 110,935	200,917	506,279
Contract liabilities-receipts in advance	9,942	13,929	133,589
Total	<u>\$ 120,877</u>	<u>214,846</u>	<u>639,868</u>
Amounts expected to be repaid after 12 months	<u>\$ -</u>	<u>9,641</u>	<u>132,187</u>

Note : The amount of possible losses from penalties and deductions in payments was assessed to be NT\$46,893 thousand for the year ended December 31, 2022, based on the performance conditions of each project, which is regarded as the changes in estimates of contract prices, and recognized as the credit element of operating revenue.

3. Please refer to Note 6.4 for the disclosures on accounts receivables and the impairments.
4. Please refer to Note 6.19 for the credit risk of contract assets.
5. The changes in contract assets and contract liabilities primarily result from the differences between the time point of transferring goods or services to customers and satisfying the performance obligations and the time point of the payments made by the customers. Please refer to Note 9 for the disputes relevant to contract assets.

17) Employees' and directors' remuneration

According to the Company's Articles of Incorporation, the Company shall allocate remuneration to employees at the rate no lower than 2% of annual profits, and to directors at the rate of no higher than 2% 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 accrued employees' remuneration amounted to NT\$0 and NT\$3,794 thousand, and the accrued directors' remuneration amounted to NT\$0 and NT\$3,794 thousand for the years ended December 31, 2022 and 2021, respectively. The amounts were estimated by the profit before tax and before deducting employees' and directors' remuneration of each period, multiplying the percentage of the distribution as employees' and directors' remuneration regulated in the Company's Articles of Incorporation, which were recognized as operating costs and operating expenses for the years ended December 31, 2022 and 2021. If the amount distributed in the next year is different from the accrued amount, it shall be treated as changes in accounting estimates, and the difference shall be recognized in profit or loss of the next year.

The accrued employees' and directors' remuneration for the year ended December 31, 2021 amounted to both NT\$3,794 thousand, which was lower than the actual distribution amount by both NT\$107 thousand. The accrued employees' and directors' remuneration for the year ended December 31, 2020 amounted to both NT\$2,889 thousand, which was higher than the actual

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements (Cont.)

distribution amount by both NT\$877thousand. The relevant information is available at the Market Observation Post System website.

18) Non-operating income and expenses

1. Interest revenue

The details of interest revenue for the years ended December 31, 2022 and 2021 are as follows :

	2022	2021
Interests of bank deposits	\$ 3,003	1,322
Interest revenue from delayed payments	-	94,542
Interest revenue from foreign corporate bonds	-	14,529
Other interest revenue	981	6
	<u>\$ 3,984</u>	<u>110,399</u>

2. Other gains and losses

The details of other gains and losses for the years ended December 31, 2022 and 2021 are as follows :

	2022	2021
Foreign exchange gains (losses)	\$ 453	(3,826)
Losses from financial assets and liabilities at fair value through profit or loss	(9,373)	(1,228)
Losses from disposal of property, plant and equipment	(1,309)	(151)
Miscellaneous income	6,706	7,046
Lease revenue	228	237
Losses from termination of leases	(323)	-
Impairment losses	(22,000)	(157,498)
	<u>\$ (25,618)</u>	<u>(155,420)</u>

3. Financial costs

The details of financial costs for the years ended December 31, 2022 and 2021 are as follows :

	2022	2021
Interest expenses		
Bank loans	\$ 103,732	101,135
Financial expenditures	19,015	19,476
Amortization of discount on provisions	1,836	2,320
Interest expenses of fixed royalty payables	3,591	3,888
Interest expenses of lease liabilities	615	632
Amortization of interests of convertible corporate bonds	13,175	13,340
Interest refunds of convertible corporate bonds	2,512	1,871
Interests of litigation damages	55	-
Capitalized borrowing costs	(438)	(459)
	<u>144,093</u>	<u>142,203</u>
Capitalization rate	<u>2.8%~3.33%</u>	<u>2.81%~2.85%</u>

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements (Cont.)

19) Financial instruments

1. Credit risk

(a) Amount of the maximum credit risk exposure

The carrying amount of financial assets and contract assets represent the amount of the maximum credit risk exposure.

(b) Credit risk concentration

The credit risk concentration is arising from BOT and public works contracted with government agencies, which account for 97% and 96% of total receivables as of December 31, 2022 and 2021, respectively.

(c) Credit risk of receivables

Please refer to Note 6.4 for the information on credit risk exposure for notes receivables and accounts receivables.

Other financial assets at amortized costs, including other receivables (recognized as other current financial assets), etc., primarily arose from the advance payments for jointly contracted projects and requested for payments based on the progress of projects in each period. The Group measures the expected credit loss by considering historical default loss rate, the current financial condition of the debtors and the forecast of the industry. There is no impairment loss.

As the credit risk of the aforementioned financial assets is low, the loss allowances are measured by the amount equal to 12-month expected credit loss. (Please refer to Note 4.7 for the explanations about how to determine the credit risk is low.) There was no loss allowance provided for the years ended December 31, 2022 and 2021.

(d) Contract assets

The customers of the Group concentrate in public works, BOT and ROT projects. The credit risk concentration is arising from BOT and public works contracted with government agencies, which account for 96% and 95% of total contract assets as of December 31, 2022 and 2021, respectively. However, as the counterparties are government agencies, there is no significant credit risk.

2. Liquidity risk

The maturities of the financial liabilities are as follows, which include the accrued interests but excluded the effect of netting agreement.

	Carrying amount	Contract ual cash flows	Within 1year	1-2 years	2-5 years	Over 5 years
December 31, 2022						
Non-derivative financial liabilities						
Floating interest rate instrument	\$ 3,719,942	3,913,330	1,996,769	722,984	1,171,471	22,106
Liabilities without bearing interests	1,476,130	1,476,130	1,223,461	154,438	98,231	-
Lease liabilities	30,928	33,795	8,392	3,423	9,174	12,806
Fix interest rate instruments	2,166,893	2,262,622	1,170,937	11,100	1,045,900	34,685
	\$ 7,393,893	7,685,877	4,399,559	891,945	2,324,776	69,597

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements (Cont.)

December 31, 2021

Non-derivative financial liabilities

Floating interest rate instrument	\$ 3,854,723	4,082,889	1,824,406	370,970	1,369,095	518,418
Liabilities without bearing interests	1,224,486	1,224,486	1,015,396	1,399	207,691	-
Lease liabilities	32,214	35,320	6,776	5,556	8,820	14,168
Fix interest rate instruments	2,209,696	2,317,692	1,214,907	11,100	1,045,900	45,785
	<u>\$ 7,321,119</u>	<u>7,660,387</u>	<u>4,061,485</u>	<u>389,025</u>	<u>2,631,506</u>	<u>578,371</u>

The Group does not expect the time point of the cash flow would be significantly moved up or the actual amount of the cash flow would be significantly different.

3. Exchange rate risk : None.

4. Analysis of interests

The exposure to interests of financial assets and financial liabilities is explained in the liquidity risk management in the note.

The sensitivity analysis is determined by the exposure to interest rates of derivative and non-derivative instruments at the reporting date. Liabilities with floating interest rates are analyzed by the assumption that the outstanding amount of liabilities at the reporting date is outstanding in the whole year. The variation of interest rate used for reporting to key management is increase by 1% or decrease by 1%, which represents the management's assessment to the reasonable possible change range of interest rate.

If the interest rate had increased or decreased by 1%, the Group's profit would have decreased or increased by NT\$17,593 thousand and NT\$11,524 thousand for the years ended December 31, 2022 and 2021, respectively, assuming all other variable factors remain constant. The changes primarily arise from the borrowings and deposits with floating interest rates.

5. Other price risk

The impacts on the items of profit or loss after tax and comprehensive income resulting from the changes in prices at the reporting date (The analyses of the two periods adopt the same basis, and assuming all other variable factors remain constant.) are as follows :

Security prices at the reporting date	2022		2021	
	Other comprehensive income, net of tax	Profit or loss, net of tax	Other comprehensive income, net of tax	Profit or loss, net of tax
Increase by 10%	\$ 9,067	31,273	11,860	21,839
Decrease by 10%	\$ (9,067)	(31,273)	(11,860)	(21,839)

6. Fair value information

(a) Types and fair value of financial instruments

The financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income are measure at fair value on a recurring basis. The carrying amounts and fair value (including information on fair value hierarchy. However, the fair value of financial assets that are not measure at fair value whose carrying amounts are the reasonable approximations of fair value, and lease liabilities shall not be disclosed based on regulations) of various financial assets and financial liabilities are disclosed as follows :

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements (Cont.)

December 31, 2022					
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss					
Non-derivative financial assets mandatorily measured at fair value through profit or loss	\$ 312,725	312,725	-	-	312,725
Financial assets at fair value through other comprehensive income					
Domestic TWSE- or TPEX-listed stocks and emerging stocks	42,995	-	42,995	-	42,995
Equity instruments without quoted prices at fair value	56,470	-	-	56,470	56,470
Subtotal	\$ 99,465	-	42,995	56,470	99,465
Financial liabilities at fair value through profit or loss					
Financial liabilities mandatorily measured at fair value through profit or loss	\$ 16,200	-	-	16,200	16,200

December 31, 2021					
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss					
Non-derivative financial assets mandatorily measured at fair value through profit or loss	\$ 218,389	218,389	-	-	218,389
Financial assets at fair value through other comprehensive income					
Domestic TWSE- or TPEX-listed stocks and emerging stocks	60,979	-	60,979	-	60,979
Equity instruments without quoted prices at fair value	69,011	-	-	69,011	69,011
Subtotal	\$ 129,990	-	60,979	69,011	129,990
Financial liabilities at fair value through profit or loss					
Financial liabilities mandatorily measured at fair value through profit or loss	\$ 3,800	-	-	3,800	3,800

- (b) Fair value valuation techniques of financial instruments not measured at fair value
The methods and assumptions used to estimate the instruments not measured at fair value are as follows :
- i. Financial assets and liabilities at amortized cost
The basis for fair value valuation of financial assets and liabilities with quoted price data of deals or market makers is the recent deal prices and quoted data. If there is no market price to reference, the fair value shall be estimated by valuation techniques. The estimates and assumptions used in valuation techniques are the fair value estimated by the discounted cash flows.
- (c) Fair value valuation techniques of financial instruments measured at fair value
- i. Non-derivative financial instruments
For financial instruments with quoted prices in an active market, the fair value shall be the quoted prices in an active market. The market prices in primary stock exchanges and the market prices of Central Government Bonds, which are determined to be hot bonds, declared by TPEX are the basis for fair value of TWSE- or TPEX-listed equity instruments and debt instruments with quoted prices in active markets.

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements (Cont.)

A financial instrument is regarded as quoted in an active market, if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the aforementioned conditions are not met, the market is regarded as not active. Generally speaking, the indicators of a market which is not active include big bid-ask spreads, significant increases in bid-ask spread or low transaction volume.

The financial instruments held by the Group with an active market, whose fair value is in the scope of beneficiary certificate by categorization and by nature, are financial assets with standardized terms and conditions traded in an active market. The fair value shall refer to the quoted price.

The fair value of financial instruments held by the Group without an active market is in the scope of equity instrument without quoted price by categorization and by nature. The fair value shall be estimated by market approach. The primary assumptions shall be measured based on the market capitalization and financial data of investees' similar companies. The estimated amount has been adjusted by the effect of the discount on lack of liquidity of the equity securities.

ii. Derivative financial instruments

The fair value is estimated by the valuation models widely accepted by the market users, including market approach and Binomial Tree convertible bonds valuation model.

(d) Transfers between level 1 and level 2 : None.

(e) Table of changes in level 3

	Measured at fair value through profit or loss	Measured at fair value through other comprehensive income
	Embedded derivative financial instruments of financial liabilities held for trading	Equity instruments without quoted prices
January 1, 2022	\$ 3,800	69,011
Recognized in profit or loss	12,400	-
Recognized in other comprehensive income	-	(12,541)
December 31, 2022	\$ 16,200	56,470
January 1, 2021	\$ -	123,387
Purchase	-	11,240
Issue	2,800	-
Recognized in profit or loss	1,000	-
Recognized in other comprehensive income	-	(65,616)
December 31, 2021	\$ 3,800	69,011

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements (Cont.)

The total gains or losses are presented as “other gains or losses” and “unrealized valuation losses from financial assets at fair value through other comprehensive income.” The portion related to the assets held as of December 31, 2022 and 2021 is as follows :

	2022	2021
Total gains or losses		
Recognized in profit or loss (presented as “other gains and losses”)	\$ (12,400)	(1,000)
Recognized in other comprehensive income (presented as “unrealized valuation gains (losses) from financial assets at fair value through other comprehensive income”)	(12,541)	(65,616)

(f) The quantitative information of significant unobservable inputs (level 3) of fair value measurement

The financial assets held by the Group whose fair value is categorized in level 3 primarily include financial liabilities at fair value through profit or loss — derivative financial instruments and financial assets at fair value through other comprehensive income — investments in equity securities.

Most of the fair value categorized in level 3 has single significant unobservable inputs.

The quantitative information of significant unobservable inputs is as follows :

Item	Valuation technique	Significant unobservable inputs	Relationship between significant unobservable inputs and fair value
Financial assets at fair value through other comprehensive income — investments in equity instruments without an active market	Market approach	<ul style="list-style-type: none"> Discount on lack of liquidity (as of December 31, 2022 and December 31, 2021 are 10.00%~23.01% and 30.00%, respectively) Volatility (as of December 31, 2022 and December 31, 2021 are 13.72%~23.01% and 23.48%, respectively) 	<ul style="list-style-type: none"> The higher the discount on lack of liquidity, the lower the fair value The higher the volatility, the higher the fair value
Financial liabilities at fair value through profit or loss — embedded derivative financial instruments	Binomial Tree convertible bonds valuation model	<ul style="list-style-type: none"> Volatility (as of December 31, 2022 and December 31, 2021 are 14.95% and 20.52%, respectively) 	<ul style="list-style-type: none"> The higher the volatility, the higher the fair value

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements (Cont.)

- (g) Sensitivity analysis of fair value to reasonably possible alternative assumptions of level 3 fair value measurement

The fair value measurement of financial instruments is reasonable. However, using different valuation model or valuation parameters may result in different results. For financial instruments categorized in level 3, the impacts on profit or loss or other comprehensive income resulting from changes in parameters are as follows :

		Move up or move down	Changes in fair value reflected in profit or loss		Changes in fair value reflected in other comprehensive income	
	Inputs		Favorable change	Adverse change	Favorable change	Adverse change
December 31, 2022						
Financial liabilities at fair value through profit or loss						
Embedded derivative financial instruments	Volatility	+1%	1,000	-	-	-
	Volatility	-1%	-	(1,200)	-	-
Financial assets at fair value through other comprehensive income						
Investments in equity instruments without an active market	Discount on lack of liquidity	+1%	-	-	-	(421)
	Discount on lack of liquidity	-1%	-	-	449	-
December 31, 2021						
Financial liabilities at fair value through profit or loss						
Embedded derivative financial instruments	Volatility	+1%	100	-	-	-
	Volatility	-1%	-	(100)	-	-
Financial assets at fair value through other comprehensive income						
Investments in equity instruments without an active market	Discount on lack of liquidity	+1%	-	-	-	(818)
	Discount on lack of liquidity	-1%	-	-	790	-
	Volatility	-1%	-	-	-	(70)
	Volatility	-1%	-	-	70	-

The favorable change and adverse change refer to the volatility of fair value. Fair value is calculated by valuation techniques based on unobservable inputs of different levels. If the fair value of financial instruments is affected by more than 1 variable, the table above reflects impact resulting from changes in a single input without considering the correlation and variation between inputs.

20) Financial risk management

1. Outline

The Group is exposed to the risks as follow resulting from the use of financial instruments :

- (a) Credit risk
- (b) Liquidity risk
- (c) Market risk

The notes present the information on exposure to the above risks, and the objective, policies and procedures of risk measurement and management. Please refer to the notes in the consolidated financial statements for further quantitative disclosures.

2. Risk management framework

The establishment of the risk management policies is for identifying and analyzing the risks that the Group is confronted with, setting appropriate risk limitations and controls, and monitoring risk and the compliance of risk limitations. The risk management policies and system review on a regular basis to reflect the market condition and changes in operation. The Group makes all the employees obtain an understating of their characters and obligations by training, managing principles and operation procedures to develop a control environment with

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements (Cont.)

disciplines and constructiveness.

The Group's audit committee monitors management how to monitor the Group's compliance of risk management policies and procedures, and reviews the appropriateness of the relevant risk management framework of the risk that the Group is confronted with. The internal auditors support the audit committee to monitor, conduct regular and occasional reviews to risk management controls and procedures, and report the results of reviews to the audit committee.

3. Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial losses to the Group, which is primarily arising from receivables from customers.

(a) Accounts receivables and other receivables

The credit risk concentration is arising from public works, BOT and ROT projects with government agencies, which account for 97% and 96% of total receivables as of December 31, 2022 and 2021, respectively. However, as the counterparties are government agencies, there is no significant credit risk. The Group assesses the possibility of recovering accounts receivables and provides loss allowances on a regular basis, and the loss assessment result is in the scope of management's expectations.

(b) Investments

The credit risk arising from bank deposits, fixed income investments and other financial instruments is measured and monitored by the financial department of the Group. As the counterparties of transactions are reputable banks and investment grade financial institutions, companies, and government agencies, there is no significant concern over the performance of contracts; thus, there is no material credit risk.

4. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Group manages liquidity to guarantee the Group has sufficient working capital to cope with liabilities due under general circumstances or circumstances with pressure, and avoid the occurrence of unacceptable losses or the damage to the Group's reputation.

5. Market risk

Market risk is the risk that the return of fair value of a financial instrument will fluctuate because of changes in market prices, including changes in exchange rate, interest rate, and prices of equity instruments. The objectives of market risk management are to control the market risk into the tolerable scope, and optimize returns on investments. The Group is not exposed to significant market risk.

(a) Interest rate risk

The interest rate risk primarily results from bank loans. The loans with floating interest rate results in cash flow risk, and the loans with fixed interest rate results in fair value risk. As the Group assesses that the interest rate level in the operating environment is stable in recent years, there is no significant interest rate risk.

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements (Cont.)

Name of related party	Relationship with the Group																										
21) Capital management																											
The primary objectives of the Group's capital management are to ensure that it operates continuously, keep providing returns to shareholders and interests to other stakeholders and maintains optimal capital structure to decrease the cost of capital.																											
The Company manages and adjusts the capital structure, probably by adjusting dividend payment, returning of capital, issuing new shares, or disposing assets to decrease liabilities.																											
The Group monitors the capital structure by both debt to capital ratio and cash flows. The debt-to-equity ratios at the reporting dates are as follows :																											
	<table> <tr> <th style="text-align: center;">December 31, 2022</th><th style="text-align: center;">December 31, 2021</th></tr> <tr> <td>Total liabilities</td><td style="text-align: right;">\$ 8,437,568</td></tr> <tr> <td>Less : cash and cash equivalents</td><td style="text-align: right;">(1,362,598)</td></tr> <tr> <td>Net debt</td><td style="text-align: right;">7,074,970</td></tr> <tr> <td>Total equity</td><td style="text-align: right;">6,943,020</td></tr> <tr> <td>Adjusted capital</td><td style="text-align: right;"><u>\$ 14,017,990</u></td></tr> <tr> <td>Debt to capital ratio</td><td style="text-align: right;"><u>50.47%</u></td></tr> <tr> <td></td><td style="text-align: right;">8,252,708</td></tr> <tr> <td></td><td style="text-align: right;">(2,134,803)</td></tr> <tr> <td></td><td style="text-align: right;">6,117,905</td></tr> <tr> <td></td><td style="text-align: right;">7,360,656</td></tr> <tr> <td></td><td style="text-align: right;"><u>13,478,561</u></td></tr> <tr> <td></td><td style="text-align: right;"><u>45.39%</u></td></tr> </table>	December 31, 2022	December 31, 2021	Total liabilities	\$ 8,437,568	Less : cash and cash equivalents	(1,362,598)	Net debt	7,074,970	Total equity	6,943,020	Adjusted capital	<u>\$ 14,017,990</u>	Debt to capital ratio	<u>50.47%</u>		8,252,708		(2,134,803)		6,117,905		7,360,656		<u>13,478,561</u>		<u>45.39%</u>
December 31, 2022	December 31, 2021																										
Total liabilities	\$ 8,437,568																										
Less : cash and cash equivalents	(1,362,598)																										
Net debt	7,074,970																										
Total equity	6,943,020																										
Adjusted capital	<u>\$ 14,017,990</u>																										
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	8,252,708																										
	(2,134,803)																										
	6,117,905																										
	7,360,656																										
	<u>13,478,561</u>																										
	<u>45.39%</u>																										

The increase of debt-to-equity ratio as of December 31, 2022 primarily resulted from the successive uses of bank loans for operating demand, and continuous investments in constructions. Paying construction payments to subcontractors decrease the cash position held by the Group and results in increase in net debt.

- 22) Investing and financing activities of non-cash transactions
There is no significant investing and financing activity of non-cash transactions.

(7) Related party transactions

- 1) The parent company and the ultimate controller
Ho Ching Enterprises Co., Ltd. is the parent company of the Group, whose percentage of ownership to the Group is 65.77%. PICH DEVELOPMENT CO., LTD. is the ultimate controller of the Group. PICH DEVELOPMENT CO., LTD. has prepared the consolidated financial statements that are available for public use.
- 2) Names of related parties and relationships

The related parties that have transactions with the Group in the period covered by the consolidated financial statements are as follows :

Name of related party	Relationship with the Group
PICH DEVELOPMENT CO., LTD. ("PICH DEVELOPMENT")	The ultimate parent company of the Group
Ho Ching Enterprises Co., Ltd. ("Ho Ching Enterprises")	The parent company of the Group
LEALEA TECHNOLOGY CO., LTD. ("LEALEA TECHNOLOGY")	The chairman is the second degree relative of the chairman of the Company
Broadway Hotel	The chairman is the second degree relative of the chairman of the Company
LEA LEA foundation	The chairman is the second degree relative of the chairman of the Company
KUO SAN LINE FOUNDATION	The chairman is the second degree relative of the chairman of the Company
DYX CONSTRUCTION CO., LTD. ("DYX CONSTRUCTION")	The chairman is the second degree relative of the director of the Company
HON LIN HEAVY INDUSTRIES CO., LTD. ("HON LIN HEAVY INDUSTRIES")	The chairman is the second degree relative of the chairman of the Company
LEALEA HOTELS & RESORTS CO., LTD. ("LEALEA HOTELS & RESORTS")	The chairman is the second degree relative of the chairman of the Company

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements (Cont.)

Name of related party	Relationship with the Group
HOTELS”)	director of the Company
Sea Mild Biotechnology Co., Ltd.	The chairman is the spouse of the second degree relative of the director of the Company (Note 1)
Lici Enterprise Co., Ltd.	The chairman is the director of the Company
LEA GREEN CARE	The chairman is the director of the Company
Recreation Co., Ltd., (“Recreation”)	The chairman is the director of the Company
GIANTFOREST SOLUTIONS CO.,LTD (“GIANTFOREST SOLUTIONS”)	The chairman is the director of the Company
HOWSLER FOODS CO., LTD.(“HOWSLER”)	The chairman is the director of the Company
QING SHAN LIN LIMITED(“QING SHAN LIN”)	The chairman is the director of the Company
Yilan Lealea Development Holdings Co., Ltd.(“Yilan Lealea”)	The chairman is the director of the Company
ITT MANAGEMENT CO.,LTD. (“ITT MANAGEMENT”)	The chairman is the director of the Company
LEA LEA LONG--TERM CARE	The chairman is the director of the Company
Jia Ruei International Development Co., Ltd	The chairman is the director of the Company
Lineng Power Co., Ltd (“Lineng “)	Substantive related party
GEC Electric (“GEC “)	Substantive related party
Li Yang Electric Development Co., Ltd. (“Li Yang Electric Development”)	Substantive related party
STEELS CO., LTD.(“STEELS”)	Substantive related party
LIBOLON ENTERPRISE CO., LTD.(“LIBOLON”)	Substantive related party
Lealea Mingchih Resort Co., Ltd. (“Lealea Mingchih”)	Substantive related party
Lili Development Co., Ltd.(“Lili Development”)	Substantive related party
FOREST WATER SUSTAINABILITY TECH EP ENG’G CO., LTD. (“FOREST WATER SUSTAINABILITY”)	Substantive related party
BHL TAIPEI LIMITED	Substantive related party
THE RICHFOREST HOTEL CO., LTD.(“THE RICHFOREST”)	Substantive related party
Qing Yi Development Co., Ltd (“Qing Yi Development”)	Substantive related party
HOPE JET ENGINEERING CO., LTD.(“HOPE JET ENGINEERING”)	Substantive related party
Richforest Garden Hotels Kentin Co., Ltd	Substantive related party
LEAD U Education	The director is the director of the Company
Teamphon Energy Co., Ltd.	The director is the director of the Company
LEALEA EAGLE TRAVELING CO.,LTD.(“LEALEA EAGLE TRAVELING”)	The director is the director of the Company
BUY CHOW FOODS CO., LTD.(“BUY CHOW FOODS”)	The director is the director of the Company
Nengbang Engineering Co., Ltd. (“Nengbang“)	The director is the director of the Company
Sinotech Environmental Technology Ltd. (“Sinotech Environmental”)	The director is the director of the subsidiary
LEALEA HOTELS & RESORTS CO., LTD. (“LEALEA HOTELS & RESORTS”)	The director is the chairman of the Company
Zhi Mei International Co., Ltd (“Zhi Mei International”)	The chairman of the Company and the company is the same person
Zhi Mao International Co., Ltd (“Zhi Mao International”)	The chairman of the Company and the company is the same person

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements (Cont.)

Name of related party	Relationship with the Group
Artbloom Co., Ltd (“Artbloom”)	The chairman of the Company and the company is the same person
Yi Lea Hotels Co., Ltd (“Yi Lea Hotels”)	The supervisor of the company is the director of the Company

Note 1 : The company is not the Group’s related party, after the director quit in September, 2022.

3) Significant transactions with related parties

1. Purchases from related parties

The amounts of purchases from other related parties are as follows :

	Contract amount		Purchase (pricing in the current period)	
	December 31, 2022	December 31, 2021	2022	2021
HOPE JET ENGINEERING	\$ 95,153	171,865	69,920	98,857
GEC Electric	154,060	180,627	50,445	47,372
Lili Development	138,662	139,954	18,816	45,805
HON LIN HEAVY INDUSTRIES	34,810	40,950	791	33,208
Nengbang	441,600	477,242	(176)	249
FOREST WATER SUSTAINABILITY	192,381	192,383	56,613	2,671
STEELS	22,054	-	22,054	-
Others	13,353	28,692	4,570	13,911
	\$ 1,092,073	1,231,713	223,033	242,073

The construction prices subcontracted to related parties are the prices after inquiry, comparison, and negotiation. The payments of negotiated prices by both parties are priced and requested monthly. Predecessor activity expenses are prepaid to part of the related parties after signing contracts, and after pricing and receiving invoices, half of the payments will be by demand promissory notes, and half of the payments will be paid by 30-day promissory notes. The payments to other related parties are paid by 30-day promissory notes, which are not significant different from the transaction conditions with non-related parties.

2. Payables to related parties

The payables to related parties are as follows : +

Account	Type of related party	December 31, 2022	December 31, 2021
Notes and accounts payables	Ultimate parent company	\$ 63	-
Notes and accounts payables	Other related party—Nengbang	5,207	31,884
Notes and accounts payables	Other related party—HOPE JET	24,265	37,804
Notes and accounts payables	Other related party—GEC Electric	16,348	13,267
Notes and accounts payables	Other related party—QING SHAN LIN	530	10,963
Notes and accounts payables	Other related party—Lili Development	8,609	5,046
Notes and accounts payables	Other related party—FOREST WATER SUSTAINABILITY	12,114	3,034
Notes and accounts payables	Other related party—others	6,411	4,997
Other payables (Note)	Ultimate parent company	9,450	10,086
Other payables	Other related parties	600	696
		\$ 83,597	117,777

Note : primarily interest expense payables for endorsements and guarantees.

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements (Cont.)

3. Prepayments

The prepayments to related parties for contracting constructions are as follows :

	December 31, 2022	December 31, 2021
Other related party—Nengbang	\$ 1,010	1,044
Other related party—GEC Electric	-	8,412
Other related party—FOREST WATER SUSTAINABILITY	26,620	37,942
Other related party—HOPE JET ENGINEERING	92	4,320
Other related party—HON LIN HEAVY INDUSTRIES	2,520	2,658
	<u>\$ 30,242</u>	<u>54,376</u>

4. Lease (rent) right-of-use assets

The Group rent office buildings and parking lots from the ultimate parent company and other related parties, etc., and signed the lease contracts for 1~2 years after referring to the market prices of rentals of office buildings in the neighborhood. The interest expenses recognized for the years ended December 31, 2022 and 2021 amounted to NT\$74 thousand and NT\$121 thousand, respectively. The balances of lease liabilities as of December 31, 2022 and 2021 amounted to NT\$2,682 thousand and NT\$5,317 thousand, respectively.

5. Endorsements and guarantees

The amounts of endorsements and guarantees provided by related party to subsidiaries for the syndicated loan are as follows :

	December 31, 2022	December 31, 2021
Ultimate parent company	<u>\$ 900,000</u>	<u>900,000</u>

The interest expenses paid to the ultimate parent company for the endorsements and guarantees amounted to NT\$9,000 thousand and NT\$9,606 thousand for the years ended December 31, 2022 and 2021, respectively.

6. Others

- (a) The software lease, setting and maintenance expenses paid to other related parties amounted to NT\$11,084 thousand and NT\$7,832 thousand for the years ended December 31, 2022 and 2021, respectively (recognized as operating costs and operating expenses).
- (b) The entertainment fees and company trip fees for operating demands paid to associates amounted to NT\$6,553 thousand and NT\$4,640 thousand for the years ended December 31, 2022 and 2021, respectively.
- (c) The amounts donated to other related parties are NT\$5,637 thousand and NT\$2,552 thousand for the years ended December 31, 2022 and 2021, respectively.
- (d) The guaranteed notes submitted issued to the parent company for borrowing demands amounted to both NT\$300,000 thousand for the years ended December 31, 2022 and 2021, respectively.

4) Transactions with key management

Key management's remunerations include :

	2022	2021
Short-term employee benefits	<u>\$ 21,083</u>	<u>17,732</u>

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements (Cont.)

(8) Pledged assets

The carrying amounts of the assets pledged as collaterals are as follows :

Name of asset	Pledge guarantee object	December 31, 2022	December 31, 2021
Other financial assets	Bank loans, performance bonds	\$ 290,133	356,801
Other financial assets -time deposits	Bank loans, performance bonds	148,628	98,416
Net of concession	Bank loans	1,168,284	1,201,013
Long-term receivables	Bank loans	3,170,428	3,228,081
Property, plant and equipment	Short-term notes payables, bank loans	428,156	428,915
		<u>\$ 5,205,629</u>	<u>5,313,226</u>

(9) Significant contingencies and unrecognized contract commitments

1) Significant unrecognized contract commitments :

1. The unrecognized contract commitments of subcontracted constructions are as follows :

	December 31, 2022	December 31, 2021
Considerations with contracts that are not received (pre-tax)	<u>\$ 5,306,819</u>	<u>4,589,476</u>
Considerations with contracts that are not paid (pre-tax)	<u>\$ 2,309,212</u>	<u>3,244,208</u>

2. The Group has signed service concession agreements with the government agencies by the BOT (build-operate-transfer) way for the sewage treatment services. The primary contents are as follows :

- (a) The Group shall provide building, operating, and maintaining services to the sewage treatment equipment by service ways designated by the government agencies during the service concession period ;
- (b) The Group has the right to use the equipment and relevant land to provide sewage treatment services during the service concession period, and receive rewards based on the prices agreed in the BOT contract and the price adjustment index ;
- (c) The government agencies will control and monitor the service scope that shall be provided by the Group by utilizing the equipment ;
- (d) The Group and the government agencies have the right to terminate the relevant agreements if the terms in the agreements are significantly breached ;
- (e) The Group is the registered holder of the superficies of land and the ownership of sewage treatment equipment during the service concession period; at the end of the service concession period, the designated plant and equipment shall be recovered to the extent that they are available for normal operation, and transferred and returned to the government agencies without compensation, based on the regulations of the BOT contracts ;
- (f) The Group may apply for the right of first renewal 4 years before expiration.
- (g) According to the Article 8.4.7 of the BOT contract signed with the Yilan County Government, the Yilan County Government shall deduct the difference between the quantity of ware use by users of water supply and the actual quantity of water coming into the sewage treatment plant in the agreed month, but the relevant data shall be clarified by the water supply plant. However, the Yilan County Government has deducted all the actual quantity of water coming into the sewage treatment plant, and the payments will be made after verifying the actual quantity of water use by users of water supply. Based on historical experiences, the Group will recover the payments about two years later, and estimate the deductions to revenue by historical deduction ration.
- (h) The Group and Economic Development Bureau, Kaohsiung City Government implements the sewage treatment services in Kaohsiung Nanzih Technology Industrial Park by the

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements (Cont.)

ancillary businesses of the original sewage treatment host plan. The concession period is from 2023 to 2026,

3. The Group has signed service concession agreements with the government agencies by the ROT (renovate-operate-transfer) way for the sewage treatment services. The primary contents are as follows :
- (a) The Group shall provide extending, renovating, repairing, and operating services to the sewage treatment equipment by service ways designated by the government agencies during the service concession period; according to the regulations in the contracts, the Group shall pay fixed royalties, variable royalties, and equipment transfer fees during the operating period ;
 - (b) The Group has the right to use the equipment and relevant land to provide sewage treatment services during the service concession period, and receive rewards based on the rate of using the sewage treatment systems verified by the government agencies as agreed in the investment contracts ;
 - (c) The government agencies will control and monitor the service scope that shall be provided by the Group by utilizing the equipment ;
 - (d) The Group and the government agencies have the right to terminate the relevant agreements if the terms in the agreements are significantly breached ;
 - (e) At the end of the service concession period, the designated plant and equipment shall be recovered to the operation requirements indicated in the license and transferred and returned to the government agencies without compensation, based on the regulations of the contracts ;
 - (f) The Group may apply for the right of first renewal by the end of November, 2029. However, the period of the new contracts shall not exceed 15 years.
4. The Group has signed service concession agreements with the government agencies by the ROT (renovate-operate-transfer) way for the waste and rice straws treatment services. The primary contents are as follows :
- (a) The Group shall provide renovating, operating, and maintaining services to the kitchen waste composting equipment by service ways designated by the government agencies during the service concession period; according to the regulations in the contracts, the Group shall pay fixed royalties, and variable royalties during the operating period ;
 - (b) The Group has the right to use the equipment and relevant land to provide composting waste and rice straw treatment services during the service concession period. The Group may receive rewards from waste disposal by the prices agreed in the contracts and the quantity of treatment, and pay expenses for the rice straw treatment by the prices agreed in the contracts and the quantity of treatment provided by the government agencies ;
 - (c) The government agencies will control and monitor the service scope that shall be provided by the Group by utilizing the equipment ;
 - (d) The Group and the government agencies have the right to terminate the relevant agreements if the terms in the agreements are significantly breached ;
 - (e) At the end of the service concession period, the designated plant and equipment shall be recovered to the operation requirements indicated in the license and transferred and returned to the government agencies without compensation, based on the regulations of the contracts ;
 - (f) The Group may apply for the right of first renewal by August, 2039. However, the period of the new contracts shall not exceed 20 years, and the contracts can be renewed only

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements (Cont.)

once.

- (g) The Group has sent the letter to the owner of the project, Environmental Protection Bureau, Taichung City Government, to terminate the ancillary facilities agreement (rice straw treatment service) on September 7, 2021, and received the preliminary coordination opinions on May 6, 2022. The Group is waiting for the final determination negotiated with the Environmental Protection Bureau, Taichung City Government and subsequent changes in contracts.

5. The service concession agreements signed with government agencies are as follows :

<u>Name of subsidiary as the operator</u>	<u>Location</u>	<u>Name of grantor</u>	<u>Type of agreement</u>	<u>Service concession period</u>
Green Forest Development Enterprise Co., Ltd.	Nanzih area	Kaohsiung City Government	BOT of sewage system	April, 2006~April, 2041
"	"	"	BOT of Kaohsiung Nanzih Technology Industrial Park	January, 2023~December, 2026
Orient Forest Development Enterprise Co., Ltd.	Luodong area	Yilan County Government	BOT of sewage system	December, 2005~December, 2040
Perfection Forest Development Enterprise Co., Ltd.	Guanyin Industrial Park	Industrial Development Bureau, MOEA	ROT of sewage system	August, 2016~July, 2031
Grain Forest Green Energy Co., Ltd.	Taichung area	Environmental Protection Bureau, Taichung City Government	ROT of system of composting for kitchen waste recycling and decomposition	August, 2017~August, 2042

6. The significant operation contracts contracted by the Group are as follows :

<u>Owner</u>	<u>Name of project</u>	<u>Contract amount</u>	<u>Performance period</u>
Yilan County Government	Operation and maintenance of water resources recycling center in Yilan area	Part of the amount is fixed revenue, and part of the amount is requested based on the amount incurred monthly	June, 2019~November, 2023
Central Taiwan Science Park Bureau	Operation and maintenance of sewage system of Central Taiwan Science Park	Part of the amount is fixed revenue, and part of the amount is requested based on the amount incurred monthly. However, the total amount requested in a year shall not exceed the upper limit regulated in the contract.	January, 2020~December, 2024
Water Resource Bureau, Taichung City Government	Entrusted operation and maintenance of Futien water resources recycling center, Taichung City	Part of the amount is fixed revenue, and part of the amount is requested based on the amount incurred monthly. However, the total amount requested in a year shall not exceed the upper limit regulated in the contract.	January, 2022~July, 2023
Environmental Protection Bureau, Taichung City Government	Entrusted operation and maintenance of night soil treatment center of Taichung City	Part of the amount is fixed revenue, and part of the amount is requested based on the amount incurred monthly. However, the total amount requested in a year shall not exceed the upper limit regulated in the contract.	January, 2022~December, 2023
Export Processing Zone Administration	Operation and maintenance of sewage system of Taichung Port Technology Industrial Park	Part of the amount is fixed revenue, and part of the amount is requested based on the amount incurred monthly. However, the total amount requested in a year shall not exceed the upper limit regulated in the contract.	January, 2022~December, 2024
Chiayi City Government	The first phase turnkey project of water resources recycling center of Chiayi City.	Part of the amount is fixed revenue, and part of the amount is requested based on the amount incurred monthly. However, the total amount requested in a year shall not exceed the upper limit regulated in the contract.	May, 2019~October, 2022 November, 2022~December, 2025
Public Works Department, Taipei City Government	Entrusted operation and maintenance of Dihua Sewage Treatment Plant	Part of the amount is fixed revenue, and part of the amount is requested based on the amount incurred monthly. However, the total amount requested in a year shall not exceed the upper limit regulated in the contract.	July, 2020~June, 2023
Tainan City Government	Entrusted operation and maintenance of Yongkang water recycling center and water reclamation plant of Tainan City	Part of the amount is fixed revenue, and part of the amount is requested based on the amount incurred monthly. However, the total amount requested in a year shall not exceed the upper limit regulated in the contract.	December, 2022~June, 2037
Southern Taiwan Science Park Bureau	Entrusted operation and maintenance of Yongkang advanced management facilities, distribution reservoir, and water distribution network of Tainan City	Part of the amount is fixed revenue, and part of the amount is requested based on the amount incurred monthly. However, the total amount requested in a year shall not exceed the upper limit regulated in the contract.	December, 2022~June, 2037

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements (Cont.)

2) Contingencies :

1. The guaranteed notes submitted issued for contracting contracts and borrowing demands amounted to NT\$1,607,458 thousand and NT\$1,400,779 thousand for the years ended December 31, 2022 and 2021, respectively.
2. The unused credit lines of L/C issued for purchasing raw materials and equipment amounted to NT\$0 and NT\$48,465 thousand as of December 31, 2022 and 2021, respectively.
3. The Company has signed the contracts of “the turnkey project of building Yongkang water recycling center and water reclamation plant of Tainan City” and “the turnkey project of Yongkang advanced management facilities, distribution reservoir, and water distribution network of Tainan City” with Construction and Planning Agency, MOI on January 19, 2019. The amount deducted by the owner due to overdue of the progress of the constructions was NT\$342,329 thousand as of December 31, 2022 (recognized as accounts receivables). However, the progress of the construction was affected by the constructions in the neighborhood, the Covid-19 pandemic, the inconsistency of the GIS map data provided by the Southern Taiwan Science Park Bureau with the actual condition resulting in cumbersome auditing procedures, and administrative factors, etc. Therefore, the Company is actively striving for extension of work period due to reasons not attributable to the Company. In addition, as the construction has exceeded the time-limit of contract performance, after considering the aforementioned reasons not attributable to the Company, the penalty is estimated to be NT\$79,156 thousand (recognized as the deduction to operating revenue). Based on the assessment by the lawyers and the explanations in the letter sent to competent authorities, the request of extension of work period is reasonable, not without evidence. Although the Group has accomplished the case to mediation on January 5, 2023, the final result is determined by the subsequent relief result.
4. Taiwan Changhua District Prosecutors Office listed the subsidiary, Lea Lea Environmental Enterprise Co., Ltd. (“Lea Lea Environmental”) as the joint defendant, because the former chairmen and former plant manager of Lea Lea Environmental are alleged violations of Waste Disposal Act. Lea Lea Environmental was sentenced to 2 years in probation by Taiwan Changhua District Prosecutors Office on December 16, 2021. During the probation period, the Group shall improve the environment and equipment in the plant based on the improvement plan verified by the Environmental Protection Bureau, Changhua County. The improvement project is ongoing, and the Group has sent the letter to request extending the period to August 31, 2024. In addition, the Company and the former chairman shall complete the illegal waste disposal by December 31, 2022 based on the waste disposal plan approved and recorded by the Environmental Protection Bureau , Yunlin County. Environmental Protection Bureau , Yunlin County has approved the completion of disposal on January 16, 2023.
5. As of December 31, 2022, the penalty arising from breaching agreements in the contracts because the equipment and water quality do not meet the standards of the Water Pollution Control Act in “the sixth phase of entrusted operation and maintenance of Dihua Sewage Treatment Plant project” amounted to NT\$24,750 thousand. However, as the penalty determination criteria are controversial, the Group accrued the penalty of NT\$12,375 thousand (recognized as the deduction to operating revenue) by the relief result in previous similar penalty determination. The Group will apply for mediation subsequently, but the final result is determined by the subsequent relief result.

(10) Losses due to major disasters : None.

(11) Significant subsequent events : None.

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements (Cont.)

(12) Others

Employee benefits, depreciation, depletion and amortization expenses summarized by function as follows :

By nature	By function	2022			2021		
		Recognized in operating costs	Recognized in operating expenses	Total	Recognized in operating costs	Recognized in operating expenses	Total
Employee benefits							
Payroll expenses		325,106	93,270	418,376	309,822	90,351	400,173
Labor and health insurance expenses		38,590	7,946	46,536	35,949	7,626	43,575
Pension expenses		17,754	4,181	21,935	16,440	4,025	20,465
Other employee benefits expenses		19,851	8,029	27,880	16,033	6,635	22,668
Depreciation expenses		34,842	5,380	40,222	41,477	5,799	47,276
Amortization expenses		122,843	30,456	153,299	124,872	20,527	145,399

(13) Other disclosures

1) Information on significant transactions

According to the Regulations Governing the Preparation of Financial Reports by Securities Issuers, the information on significant transactions for the years ended December 31, 2022 is as follows :

1.Loans to others : None.

2.Provision of endorsements and guarantees to others :

Expressed in thousands of New Taiwan Dollars

No.	Name of endorser and guarantor	Guarantee and endorsee		Limitation on amount of guarantees and endorsements for a specific enterprise	Highest balance for guarantee and endorsements during the period	Balance of guarantees and endorsements, end of year	Actual usage amount	Amount of property pledged for guarantee and endorsements	Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements	Maximum amount for guarantees and endorsements	Parent company endorsements/guarantees to subsidiary	Subsidiary endorsements/guarantees to the parent company	Endorsements/guarantees to third parties on behalf of companies in Mainland China
		Company name	Relationship										
0	The Company	Grain Forest Green Energy Co., Ltd.	2	1,060,184	500,000	407,000	407,000	-	7.68%	2,650,460	Y	N	N

Note 1 : 0 represents the Company.

Note 2 : There are 6 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) The 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 entities.
- (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.

Note 3 : According to the “Operational Procedures for Loaning of Company Funds,” the limitations of the total amount available for endorsements and guarantees provided to others and the amount for endorsement provided to one entity are as follows :

- (1) The total amount available for endorsements and guarantees provided to others shall

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements (Cont.)

not exceed 50% of the Company's net worth in the current period.

(2) The amount for endorsement provided to one entity shall not exceed 20% of the Company's net worth in the current period.

3. Holding of marketable securities at the end of the period (excluding investment in subsidiaries, associates, and interests in joint arrangements) :

Expressed in thousands of New Taiwan Dollars

Name of holder	Category and name of security	Relationship with the issuer	Account	Ending balance				The highest ownership or contribution during the period	Note
				Number of shares (unit)	Carrying amount	Percentage of ownership	Fair value		
Forest Water Environmental Engineering Ltd.	Equity of Millenmin Ventures Inc.	-	Non-current financial assets at fair value through other comprehensive income	1,648,000	-	3.91 %	-	3.91%	
Re-use Environmental Co., Ltd.	Mega Diamond Money Market Fund	-	Current financial assets at fair value through profit or loss	7,903,765	100,740	- %	100,740	- %	
Re-use Environmental Co., Ltd.	Teamphon Energy Co., Ltd.	-	Current financial assets at fair value through profit or loss	380,000	10,963	1.18 %	10,963	1.35%	
Orient Forest Development Enterprise Co., Ltd.	JIH SUN MONEY MARKET FUND	-	Current financial assets at fair value through profit or loss	3,334,156	50,248	- %	50,248	- %	
Orient Forest Development Enterprise Co., Ltd.	CAPITAL MONEY MARKET FUND	-	Current financial assets at fair value through profit or loss	4,292,113	70,326	- %	70,326	- %	
Green Forest Development Enterprise Co., Ltd.	Mega Diamond Money Market Fund	-	Current financial assets at fair value through profit or loss	6,311,727	80,448	- %	80,448	- %	
Re-use Environmental Co., Ltd.	YUNG FU CO., LTD	-	Non-current financial assets at fair value through other comprehensive income	535,415	12,502	0.76 %	12,502	0.89%	
Modern Rich Investment Limited	Tien Li Offshore Wind Technology CO., LTD.	-	Non-current financial assets at fair value through other comprehensive income	1,280,000	42,995	1.83 %	42,995	1.83%	
Modern Rich Investment Limited	Asia Renewable Energy (Cayman) Ltd	-	Non-current financial assets at fair value through other comprehensive income	2,820,278	43,968	2.77 %	43,968	2.77%	

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 : None.
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 :

Expressed in thousands of New Taiwan Dollars

The purchase (sales) company	Counterparty	Relationship	Transaction details				The details and reasons for transaction terms and conditions different from ordinary transaction terms and conditions		Notes and accounts receivables (payables)		Note
			Purchase (sales)	Amount	Percentage accounting for total purchase (sales)	Credit period	Unit price	Credit period	Balance	Percentage accounting for total notes and accounts receivables (payables)	
Forest Water Environmental Engineering Ltd.	Green Forest Development Enterprise Co., Ltd.	Parent-subsidiary	Sales	166,287	6.37 %	Pricing monthly	-	-	65,880	7.07%	

Note 1 : The transactions have been eliminated in preparing the consolidated financial statements.

8. Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more : None.
9. Trading in derivative instruments : None.
10. Business relationships among the parent company and subsidiaries, and significant intercompany transactions :

Expressed in thousands of New Taiwan Dollars

No.	Name of company	Name of counterparty	Relationship	Intercompany transactions			
				Account	Amount	Trading terms	Percentage accounting for the consolidated total revenue or total assets
0	Forest Water Environmental Engineering Ltd.	Orient Forest Development Enterprise Co., Ltd.	1	Sales revenue	84,369	After requesting payments from owners, receiving payments from the owners, the related party may receive the payments at 10 days after notifying the Company to issue invoices.	2.15%
0	Forest Water Environmental Engineering Ltd.	Green Forest Development Enterprise Co., Ltd.	1	Sales revenue	166,287	#	4.24%
0	Forest Water Environmental Engineering Ltd.	Orient Forest Development Enterprise Co., Ltd.	1	Notes and accounts receivables	27,197	#	0.18%
0	Forest Water Environmental Engineering Ltd.	Green Forest Development Enterprise Co., Ltd.	1	Notes and accounts receivables	65,880	#	0.43%

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements (Cont.)

Note 1. No. shall be filled in as follows :

1. 0 represents the parent company.
2. Subsidiaries shall be sequentially numbered from 1.

Note 2. Relationship shall be indicated as follows :

1. Parent company to subsidiary.
2. Subsidiary to parent company.

2) Information on investees :

The information on investees for the year ended December 31, 2022 is as follows :

Expressed in thousands of New Taiwan Dollars/in dollars of foreign currencies

Investor company	Investee company	Location	Main business	Original investment amount		Percentage of ownership as of December 31, 2022			The highest ownership or contribution during the period	Profit (loss) of investees in the current period	Investment gain (loss) recognized in the current period	Note
				December 31, 2022	December 31, 2021	Number of shares	Percentage	Carrying amount				
Forest Water Environmental Engineering Ltd.	Orient Forest Development Enterprise Co., Ltd.	R.O.C.	Water treatment engineering, plumbing engineering, and wastewater (sewage) treatment, etc.	1,773,984	1,773,984	223,013,980	100.00%	2,914,772	100.00%	150,088	150,088	
Forest Water Environmental Engineering Ltd.	Green Forest Development Enterprise Co., Ltd.	"	"	1,797,842	1,797,842	218,403,619	70.00%	2,865,645	70.00%	316,360	221,452	
Forest Water Environmental Engineering Ltd.	Perfection Forest Development Enterprise Co., Ltd.	"	"	190,000	190,000	19,000,000	100.00%	103,147	100.00%	(35,837)	(35,837)	
Forest Water Environmental Engineering Ltd.	Easy Development Co., Ltd.	"	Waste disposal, etc.	139,990	139,990	11,000,000	100.00%	9,587	100.00%	(3,171)	(3,171)	
Forest Water Environmental Engineering Ltd.	Grain Forest Green Energy Co., Ltd.	"	Electricity generation by renewable energy, etc.	318,500	283,500	31,850,000	70.00%	167,185	70.00%	(24,450)	(17,115)	
Forest Water Environmental Engineering Ltd.	Eastern Forest Environmental Technology Co., Ltd.	"	Environmental sanitation and pollution prevention	35,000	35,000	3,500,000	70.00%	17,621	70.00%	(514)	(359)	
Forest Water Environmental Engineering Ltd.	Re-use Environmental Co., Ltd.	"	Waste disposal, etc.	318,248	318,248	3,427,710	50.41%	336,224	50.41%	61,648	18,399	
Forest Water Environmental Engineering Ltd.	Rising Environmental Co., Ltd.	"	"	500	500	50,000	100.00%	455	100.00%	-	-	
Forest Water Environmental Engineering Ltd.	Lea Lea Environmental Enterprise Co., Ltd.	"	"	206,049	206,049	4,142,000	95.00%	133,101	95.00%	(12,566)	(16,980)	
Forest Water Environmental Engineering Ltd.	Modern Rich Investment Limited	Samoa	Investments in various production and finance business	260,443(Note) (USD5,610,000) (RMB20,000,000)	260,443(Note) (USD5,610,000) (RMB20,000,000)	8,568,730	100.00%	204,346	100.00%	(4,806)	(4,806)	
Eastern Forest Environmental Technology Co., Ltd.	Rising Investment Ltd.	"	"	16,276(Note) (USD530,000)	16,276(Note) (USD530,000)	530,000	100.00%	4,016	100.00%	(1,084)	(1,084)	
Rising Investment Ltd.	Forest Water Investment Ltd.	"	"	15,662(Note) (USD510,000)	15,662(Note) (USD510,000)	510,000	100.00%	3,542	100.00%	(1,100)	(1,100)	
Modern Rich Investment Limited	Faith Honest International Investment Limited	"	"	88,314(Note) (USD5,000) (RMB20,000,000)	88,314(Note) (USD5,000) (RMB20,000,000)	2,963,730	100.00%	116,794	100.00%	(4,791)	(4,791)	
Faith Honest International Investment Limited	Loyal Sheen International Limited	BVI	"	88,160(Note) (RMB20,000,000)	88,160(Note) (RMB20,000,000)	40	40.00%	116,775	40.00%	(8,745)	(4,781)	Associate

Note : The original investment amounts of investees are calculated by the amounts denominated in the original currencies multiplying the ending exchange rates.

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements (Cont.)

3) Information on investees in Mainland China :

1. The information on company names, main business of investees in Mainland China :

Expressed in thousands of New Taiwan Dollars/in dollars of foreign currencies

Investee in Mainland China	Main business	Paid-in capital	Method of investment	Accumulated outward remittance for investment from Taiwan as of January 1, 2022	Remittance of funds in current period		Accumulated outward remittance for investment from Taiwan as of December 31, 2022	Profit (loss) of investees in current period	Percentage of ownership of direct or indirect investments	The highest ownership or contribution during the period	Investment gain (loss) recognized in the current period	Carrying amount of investments as of December 31, 2022	Accumulated repatriation of gain on investment as of December 31, 2022
					Outward	Inward							
ANNING BEWEG HAORYUAN LIMITED (Note 3)	Water treatment engineering, and wastewater (sewage) treatment, etc.	103,588 (RMB23,500,000)	(Note 1)	88,160 (Note 2) (RMB20,000,000)	-	-	88,160 (Note 2) (RMB20,000,000)	(8,633) (RMB(1,972,775))	40.00%	40.00%	(3,454) (RMB(789,110))	90,645 (RMB20,563,795)	-
Beijing Forest Water Environmental Engineering Ltd. (Note 3)	Soil remediation engineering and relevant treatment, etc.	19,655 (RMB4,459,000)	(Note 1)	14,284 (Note 2) (RMB3,240,415)	-	-	14,284 (Note 2) (RMB3,240,415)	(RMB(3	49.00%	49.00%	(823) (RMB(188,108))	2,475 (RMB561,568)	-

Note 1 : The method of investment in investees in Mainland China is through a holding company registered in a third region

Note 2 : The amounts are calculated by the amounts denominated in the original currencies multiplying the ending exchange rates.

Note 3 : Investment gains or losses are recognized by the indirect percentage of ownership, which has been audited by the CPA of the parent company in Taiwan.

2. Upper limit of investments in Mainland China :

Accumulated outward remittance for investment in Mainland China as of December 31, 2022	Investment amount authorized by investment commission, MOEA	Upper limit on the amount of investment stipulated by investment commission, MOEA
102,444 (RMB23,240,415)	102,444 (RMB23,240,415)	3,180,551 (Note 1)

Note 1 : Calculation of the upper limit : net worth of equity in the current period×60%=NTD5,300,919 thousand×60%=NTD3,180,551 thousand.

3. Significant transactions with the investees in Mainland China : None.

4) Information on major shareholders :

Name of major shareholders	Shares	Number of shares held	Percentage of ownership
Ho Ching Enterprises Co., Ltd.		94,875,007	65.77%

(14) Segment information

1) General information

The reportable segment of the Group is the sewage treatment unit, which is primarily engaged in sewage treatment engineering, plumbing engineering, wastewater (sewage) treatment, and wholesale of pollution prevention equipment. In addition, the information on segment profit or loss, segment assets and segment liabilities are the same as the information in the financial statements. Please refer to the balance sheets and statements of comprehensive income.

2) Information by product and by service :

Please refer to Note 6.16 for the information on revenue from external customers by product and by service.

3) Geographic information

The primary operating location is in Taiwan. The revenue from external customers occurred in Taiwan for the years ended December 31, 2022 and 2021.

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements (Cont.)

4) Information on major customers

	<u>2022</u>	<u>2021</u>
A Customer A from the sewage treatment segment	\$ 678,018	775,035
A Customer B from the sewage treatment segment	432,224	475,197
A Customer C from the sewage treatment segment	143,055	694,483
A Customer D from the sewage treatment segment	893,420	352,210
	<u>\$ 2,146,717</u>	<u>2,296,925</u>