

**FOREST WATER ENVIRONMENTAL
ENG'G CO., LTD.**

**Parent-only Financial Report and CPA's
Audit Report**

2023 and 2022

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CPA's Audit Report

To the Board of Directors of FOREST WATER ENVIRONMENTAL ENG'G CO., LTD.:

Audit Opinions

We have audited the balance sheets of FOREST WATER ENVIRONMENTAL ENG'G CO., LTD. as of December 31, 2023 and 2022, its statements of comprehensive income, statements of changes in equity and statements of cash flows for the periods from January 1 to December 31, 2023 and 2022, and the notes to its parent-only financial report (including the summary of significant accounting policies).

In our opinion, with respect to all material aspects, the foregoing parent-only financial report was prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and thus provided a fair presentation of the parent-only financial positions of FOREST WATER ENVIRONMENTAL ENG'G CO., LTD. as of December 31, 2023 and 2022, as well as its financial performance and cash flows for the periods from January 1 to December 31, 2023 and 2022.

Basis of Audit Opinions

We conducted audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and relevant auditing standards. Our responsibilities under such standards are further described in the section of "Responsibilities of CPAs for the Audit of Parent-only Financial Reports." Our CPAs who are subject to independence requirements have, in accordance with the Standards of Professional Ethics for Certified Public Accountants, remained independent from FOREST WATER ENVIRONMENTAL ENG'G CO., LTD. and have fulfilled all other responsibilities under the standards. We believe that we have acquired sufficient and appropriate audit evidence as the basis of our audit opinions.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the parent-only financial report of FOREST WATER ENVIRONMENTAL ENG'G CO., LTD. for 2023. Such matters were addressed in the context of our audit of the parent-only financial report as a whole and, in forming our opinions thereon, we have not provided any separate opinion on these matters. In our judgment, the following key audit matters shall be communicated in the audit report:

I. Recognition of profits/losses on engineering contracts and losses on onerous contracts

For the accounting policies regarding the recognition of revenues from engineering contracts, see “Revenues from customer contracts” under Note 4(14) to the parent-only financial report. For uncertainties of the assumptions and estimates involved in the recognition of revenues from engineering contracts, see Note 5. For disclosures related to contract revenues, see Note 6(14).

Description of key audit matters:

The primary business of FOREST WATER ENVIRONMENTAL ENG'G CO., LTD. consists of engineering contracts with customers, with a significant portion of the operating revenues generated from such contracts. The recognition of revenues from such contracts involves significant estimates and judgments, such as the total cost of engineering contracts, the degree of completion, the consideration of cost-related increases or decreases in the revenues from engineering projects, and the recognition of losses on onerous contracts. Subjective judgment of the management may result in certain changes in estimates, which in turn are likely to affect the profits/losses and revenues recognized in the financial statements of FOREST WATER ENVIRONMENTAL ENG'G CO., LTD. Therefore, the recognition of profits/losses on engineering contracts and losses on onerous contracts is an important matter for assessment in the audit of the parent-only financial report of FOREST WATER ENVIRONMENTAL ENG'G CO., LTD. conducted by us.

The corresponding audit procedures:

Our main procedures for the above-mentioned key audit matters included testing the effectiveness of internal control over the timing and accuracy of revenue and cost recognition for engineering contracts, reviewing significant contract samples, and interviewing management to understand the specific terms and risks of each contract. We also tested the management's reasonableness in estimating total contract costs, the degree of contract completion, and contract profit margins. We tested the procedures for estimating engineering project prices and reconciled and adjusted them according to the general ledger to assess whether the revenues and costs of engineering contracts were recognized in accordance with relevant accounting standards. Additionally, we obtained supporting documents from management to assess onerous contracts and checked whether accounting records reflected expected contract losses.

Responsibilities of the Management and Governing Bodies for Parent-only Financial Reports

The management is responsible for preparing the parent-only financial report with fair presentation in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and maintaining the necessary internal control related to preparation of the parent-only financial report to ensure that the parent-only financial report is free of material misstatements due to fraud or error.

During preparation of the parent-only financial report, the management is also responsible for evaluating FOREST WATER ENVIRONMENTAL ENG'G CO., LTD.'s going concern ability, disclosure of relevant matters and application of the going concern basis of accounting, unless the management intends to liquidate or cease the operation of FOREST WATER ENVIRONMENTAL ENG'G CO., LTD., or there are no other actual feasible solutions other than liquidation or cessation of operation.

The governing bodies (including the Audit Committee) of FOREST WATER ENVIRONMENTAL ENG'G CO., LTD. are responsible for supervising the process of financial reporting.

Responsibilities of CPAs for the Audit of Parent-only Financial Reports

The purpose of our audit of the parent-only financial report is to obtain reasonable assurance about whether the parent-only financial report is free of material misstatements due to fraud or error, with an audit report issued thereafter. Reasonable assurance means a high degree of assurance. However, there is no guarantee that any material misstatement contained in the parent-only financial report will be discovered during an audit conducted in accordance with relevant auditing standards. A misstatement may be due to fraud or error. A misstatement is deemed material if the individual or aggregate amount misstated is reasonably expected to affect economic decisions made by users of the parent-only financial report.

We rely on our professional judgment and professional skepticism during an audit conducted in accordance with relevant auditing standards. We also perform the following tasks:

1. We identify and assess the risk of misstatement in the parent-only financial report due to fraud or error, design and implement appropriate measures in response to the assessed risk, and acquire sufficient and appropriate audit evidence as the basis of our audit opinions. Since fraud may involve collusion, forgery, intentional omission, fraudulent statement or violation of internal control, the risk of misstatement due to fraud is higher than that due to error.
2. We acquire necessary understanding of the internal control related to an audit to design audit procedures appropriate for the current circumstances, provided that the purpose of the foregoing is not to express opinions regarding the effectiveness of the internal control of FOREST WATER ENVIRONMENTAL ENG'G CO., LTD.
3. We assess the appropriateness of the accounting policies adopted by the management and the reasonableness of the accounting estimates and relevant disclosures made by the management.

4. We draw a conclusion about the appropriateness of the application of the going concern basis of accounting by the management and whether there is material uncertainty in an event or circumstances which may cast significant doubt about the ability of FOREST WATER ENVIRONMENTAL ENG'G CO., LTD. to remain a going concern. If any material uncertainty is deemed to exist in such event or circumstance, we must provide a reminder in the audit report for the users of the parent-only financial report to pay attention to the relevant disclosures therein, or revise our audit opinions when any such disclosure is inappropriate. Our conclusion is based on the audit evidence obtained as of the date of this audit report. However, future events or circumstances could result in a situation where FOREST WATER ENVIRONMENTAL ENG'G CO., LTD. is no longer able to remain a going concern.
5. We assess the overall presentation, structure and contents of the parent-only financial report (including relevant notes) and whether the parent-only financial report provides a fair presentation of the relevant transactions and events.
6. We acquire sufficient and appropriate audit evidence of the financial information of investee companies accounted for using the equity method to provide opinions regarding the parent-only financial report. We are responsible for guidance, supervision and implementation in relation to audit cases and for formation of audit opinions for FOREST WATER ENVIRONMENTAL ENG'G CO., LTD.

The matters for which we communicate with the governing bodies include the planned scope and time of audit, and our material audit findings (including the significant deficiencies of internal control identified during the audit).

We also provide a declaration to the governing bodies stating that our CPAs who are subject to independence requirements have complied with the independence requirements in the Standards of Professional Ethics for Certified Public Accountants, and we communicate with the governing bodies regarding all relationships and other matters (including relevant safeguard measures) which are deemed likely to affect the independence of CPAs.

The key audit matters in the audit of the parent-only financial report of FOREST WATER ENVIRONMENTAL ENG'G CO., LTD. for 2023 have been determined by us from the matters regarding which we have communicated with the governing bodies. We have specified such matters in the audit report, except where public disclosure of certain matters is prohibited by applicable laws or regulations, or where, under very exceptional circumstances, we have decided not to cover communicate certain matters in the audit report due to the reasonable expectation that any negative effect arising from such communication would be greater than the public interest enhanced.

KPMG Taiwan

CPAs:

Document No. of Approval and Certification by the Competent Authority for Securities	Jin-Guan-Zheng-Liu-Zi No. 0940100754 Jin-Guan-Zheng-Shen-Zi No. 1110333933
March 14, 2024	

FOREST WATER ENVIRONMENTAL ENG'G CO., LTD.

Balance Sheet

December 31, 2023 and 2022

Unit: NTD thousand

Assets		2023.12.31		2022.12.31	
		Amount	%	Amount	%
Current assets:					
1100	Cash and cash equivalents (Note 6(1))	\$ 1,003,141	9	941,516	9
1140	Contract assets – current (Notes 6(14) and 7)	498,336	5	920,219	9
1150	Net notes receivable (Notes 6(3), 6(14) and 7)	9,096	-	13,951	-
1172	Accounts receivable (Notes 6(3), 6(14), 7 and 9)	1,013,183	10	917,351	9
1220	Income tax assets for the period	692	-	165	-
1421	Prepayment for goods (Note 7)	143,248	1	161,668	1
1476	Other financial assets – current (Notes 7 and 8)	511,912	5	457,743	4
1479	Other current assets – other	12,328	-	30,102	-
		<u>3,191,936</u>	<u>30</u>	<u>3,442,715</u>	<u>32</u>
Non-current assets:					
1517	Financial assets measured at fair value through other comprehensive income – non-current (Notes 6(17) and 13)	60,660	-	-	-
1551	Investments accounted for using the equity method (Note 6(4))	6,942,606	65	6,752,083	63
1600	Property, plant and equipment (Notes 6(5) and 8)	373,503	4	379,478	4
1755	Right-of-use assets (Note 7)	1,329	-	9,605	-
1840	Deferred income tax assets (Note 6(11))	82,214	1	79,880	1
1920	Deposits paid	10,820	-	11,097	-
		<u>7,471,132</u>	<u>70</u>	<u>7,232,143</u>	<u>68</u>
Total assets		<u>\$ 10,663,068</u>	<u>100</u>	<u>10,674,858</u>	<u>100</u>

FOREST WATER ENVIRONMENTAL ENG'G CO., LTD.

Balance Sheet (continued)

December 31, 2023 and 2022

Unit: NTD thousand

Liabilities and equity		2023.12.31		2022.12.31	
		Amount	%	Amount	%
Current liabilities:					
2102	Bank loans (Note 6(7))	\$ 1,711,168	16	1,530,000	14
2111	Short-term notes payable (Note 6(6))	846,000	8	1,136,000	11
2120	Financial liabilities measured at fair value through profit/loss – current (Notes 6(2) and 9)	4,590	-	-	-
2130	Contract liabilities – current (Notes 6(14) and 7)	44,856	-	121,472	1
2151	Notes payable (Note 7)	215,136	2	291,530	3
2170	Accounts payable (Note 7)	709,089	7	768,361	7
2219	Other payables – other (Notes 6(5), 6(15), 6(17) and 7)	188,438	2	152,357	1
2250	Liability provision – current	210,099	2	277,628	3
2280	Lease liabilities – current (Note 7)	457	-	5,403	-
2321	Corporate bonds maturing or puttable within one year or operating cycle (Note 6(9))	866,052	8	-	-
2322	Long-term loans maturing within one year or operating cycle (Note 6(8))	-	-	39,990	-
2399	Other current liabilities – other	6,493	-	14,424	-
		<u>4,802,378</u>	<u>45</u>	<u>4,337,165</u>	<u>40</u>
Non-current liabilities:					
2500	Financial liabilities measured at fair value through profit/loss – non-current (Notes 6(2) and 9)	-	-	16,200	-
2530	Corporate bonds payable (Note 6(9))	-	-	948,919	9
2580	Lease liabilities – non-current (Note 7)	820	-	4,665	-
2645	Deposits received	73,303	1	66,990	1
		<u>74,123</u>	<u>1</u>	<u>1,036,774</u>	<u>10</u>
	Total liabilities	<u>4,876,501</u>	<u>46</u>	<u>5,373,939</u>	<u>50</u>
Equity (Notes 6(9) and 6(12)):					
3110	Common share capital	1,573,490	15	1,442,492	14
3200	Capital reserves	4,084,257	38	3,819,082	36
3310	Legal reserves	68,613	1	278,699	3
3320	Special reserves	59,185	-	59,185	-
3350	Undistributed earnings	39,751	-	(210,086)	(2)
3400	Other equity	(38,729)	-	(88,453)	(1)
	Total equity	<u>5,786,567</u>	<u>54</u>	<u>5,300,919</u>	<u>50</u>
	Total liabilities and equity	<u>\$ 10,663,068</u>	<u>100</u>	<u>10,674,858</u>	<u>100</u>

(Please read the attached notes to the parent-only financial report)

Chairman: Shu-Chen Kuo President: Jen-Chieh Wu Accounting Manager: Hsin-Wen Yang

FOREST WATER ENVIRONMENTAL ENG'G CO., LTD.

Statement of Comprehensive Income

January 1 to December 31, 2023 and 2022

Unit: NTD thousand

		2023		2022	
		Amount	%	Amount	%
4000	Net operating revenue (Notes 6(14) and 7)	\$ 2,284,438	100	2,609,244	100
5000	Operating cost (Notes 6(10) and 7)	2,404,338	105	3,051,863	117
	Gross operating loss	(119,900)	(5)	(442,619)	(17)
6000	Operating expenses (Notes 6(10), 6(15) and 7)				
6200	Administrative expense	130,311	6	134,495	5
6300	R&D expense	-	-	483	-
		130,311	6	134,978	5
	Net operating loss	(250,211)	(11)	(577,597)	(22)
	Non-operating revenues and expenses:				
7100	Interest income (Note 6(16))	6,150	-	1,928	-
7020	Other profits and losses (Notes 6(9) and 6(16))	19,475	1	(13,467)	(1)
7050	Financial cost (Notes 6(9), 6(16) and 7)	(82,543)	(4)	(63,263)	(2)
7370	Share of profits of associates and joint ventures accounted for using the equity method (Note 13)	344,546	15	311,671	12
	Total non-operating revenues and expenses	287,628	12	236,869	9
		37,417	1	(340,728)	(13)
7950	Less: Income tax profit (Note 6(11))	(2,334)	-	(67,725)	(3)
	Net profit (loss) for the period	39,751	1	(273,003)	(10)
8300	Other comprehensive income:				
8310	Items not reclassified as profit/loss				
8316	Unrealized valuation profit/loss on investments in equity instruments measured at fair value through other comprehensive income	37,297	2	-	-
8330	Share of other comprehensive income of subsidiaries accounted for using the equity method	13,710	1	(30,753)	(1)
8349	Less: Income tax related to items not reclassified	-	-	-	-
		51,007	3	(30,753)	(1)
8360	Items likely to be subsequently reclassified as profit/loss				
8380	Share of other comprehensive income of subsidiaries accounted for using the equity method	(1,283)	-	1,485	-
8399	Less: Income tax related to items likely to be reclassified	-	-	-	-
	Total items likely to be subsequently reclassified as profit/loss	(1,283)	-	1,485	-
8300	Other comprehensive income for the period	49,724	3	(29,268)	(1)
	Total comprehensive income for the period	\$ 89,475	4	(302,271)	(11)
	Earnings (Losses) per share (Note 6(13))				
9750	Basic earnings (losses) per share (NTD)	\$	0.27		(1.89)
9850	Diluted earnings (losses) per share (NTD)	\$	0.24		(1.89)

(Please read the attached notes to the parent-only financial report)

Chairman: Shu-Chen Kuo President: Jen-Chieh Wu Accounting Manager: Hsin-Wen Yang

FOREST WATER ENVIRONMENTAL ENG'G CO., LTD.

Statement of Changes in Equity

January 1 to December 31, 2023 and 2022

Unit: NTD thousand

	<u>Share capital</u>		<u>Retained earnings</u>			<u>Other equity</u>		
	Common share capital	Capital reserves	Legal reserves	Special reserves	Undistributed earnings	Exchange differences on translation of financial statements of foreign operations	Unrealized profit/loss on financial assets measured at fair value through other comprehensive income	Total equity
Balance as of January 1, 2022	\$ 1,442,492	3,819,082	259,111	-	264,302	(2,749)	(56,436)	5,725,802
Net loss for the period	-	-	-	-	(273,003)	-	-	(273,003)
Other comprehensive income for the period	-	-	-	-	-	1,485	(30,753)	(29,268)
Total comprehensive income for the period	-	-	-	-	(273,003)	1,485	(30,753)	(302,271)
Allocation and distribution of earnings:								
Legal reserves set aside	-	-	19,588	-	(19,588)	-	-	-
Special reserves set aside	-	-	-	59,185	(59,185)	-	-	-
Cash dividends for common shares	-	-	-	-	(122,612)	-	-	(122,612)
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
Net profit for the period	-	-	-	-	39,751	-	-	39,751
Other comprehensive income for the period	-	-	-	-	-	(1,283)	51,007	49,724
Total comprehensive income for the period	-	-	-	-	39,751	(1,283)	51,007	89,475
Allocation and distribution of earnings:								
Losses covered with legal reserves	-	-	(210,086)	-	210,086	-	-	-
Cash capital increase	103,450	196,555	-	-	-	-	-	300,005
Conversion of convertible corporate bonds	27,548	68,620	-	-	-	-	-	96,168
Balance as of December 31, 2023	\$ 1,573,490	4,084,257	68,613	59,185	39,751	(2,547)	(36,182)	5,786,567

(Please read the attached notes to the parent-only financial report)

Chairman: Shu-Chen Kuo

President: Jen-Chieh Wu

Accounting Manager: Hsin-Wen Yang

FOREST WATER ENVIRONMENTAL ENG'G CO., LTD.

Statement of Cash Flows

January 1 to December 31, 2023 and 2022

Unit: NTD thousand

	2023	2022
Cash flows from operating activities:		
Pre-tax net profit (loss) for the period	\$ 37,417	(340,728)
Adjustments:		
Profits, expenses and losses		
Depreciation expense	17,085	15,529
Net loss (profit) on financial assets and liabilities measured at fair value through profit/loss	(10,910)	12,400
Interest expense	75,545	55,718
Interest income	(6,150)	(1,928)
Share of profits of subsidiaries, associates and joint ventures accounted for using the equity method	(344,546)	(311,671)
Loss on disposal and obsolescence of property, plant and equipment	323	115
Loss (Profit) on lease revisions	(450)	324
Liability provision set aside (reversed)	(62,016)	200,175
Total profits, expenses and losses	(331,119)	(29,338)
Changes in assets/liabilities related to operating activities:		
Contract assets	421,883	(321,991)
Notes receivable	4,855	5,713
Accounts receivable	(95,832)	(200,345)
Prepayments	18,420	135,751
Other current assets	17,774	(13,537)
Other financial assets	(53,328)	(74,002)
Contract liabilities	(76,616)	(79,445)
Notes payable	(76,394)	151,635
Accounts payable	(59,272)	184,570
Other payables	10,076	(7,718)
Liability provision	(5,513)	3,447
Other current liabilities	(7,931)	8,292
Total adjustments	(232,997)	(236,968)
Cash outflow from operations	(195,580)	(577,696)
Interest received	6,124	1,834
Interest paid	(60,302)	(43,453)
Income tax paid	(527)	(115)
Net cash outflow from operating activities	(250,285)	(619,430)

FOREST WATER ENVIRONMENTAL ENG'G CO., LTD.**Statement of Cash Flows (continued)****January 1 to December 31, 2023 and 2022****Unit: NTD thousand**

	2023	2022
Cash flows from investing activities:		
Acquisition of investments accounted for using the equity method	(89,500)	(35,000)
Acquisition of property, plant and equipment	(6,301)	(28,992)
Disposal of property, plant and equipment	10	30
Deposits paid	277	(112)
Dividends received	255,950	293,339
Other financial assets	(815)	(10,406)
Net cash inflow from investing activities	159,621	218,859
Cash flows from financing activities:		
Increase in short-term loans	181,168	131,279
Increase (Decrease) in short-term notes payable	(290,000)	441,000
Repayment of corporate bonds	-	(500,000)
Repayment of long-term loans	(39,990)	(53,320)
Increase (Decrease) in deposits received	6,313	(14,744)
Repayment of principal of lease	(5,207)	(5,065)
Distribution of cash dividends	-	(122,612)
Cash capital increase	300,005	-
Net cash inflow (outflow) from financing activities	152,289	(123,462)
Increase (Decrease) in cash and cash equivalents for the period	61,625	(524,033)
Beginning balance of cash and cash equivalents	941,516	1,465,549
Ending balance of cash and cash equivalents	\$ 1,003,141	941,516

(Please read the attached notes to the parent-only financial report)**Chairman: Shu-Chen Kuo President: Jen-Chieh Wu Accounting Manager: Hsin-Wen Yang**

FOREST WATER ENVIRONMENTAL ENG'G CO., LTD.

Notes to the Parent-only Financial Report

2023 and 2022

(All amounts are in NTD thousand, unless otherwise specified)

I. History of the Company

FOREST WATER ENVIRONMENTAL ENG'G CO., LTD. (hereinafter the “Company”) was incorporated on June 10, 2004, with its registered address at 3F, No. 99, Jilin Rd., Zhongshan Dist., Taipei City. The scope of the primary business of the Company includes engineering projects for environmental protection and sewage treatment.

II. Date and procedures of approval of the financial report

This parent-only financial report was approved and released by the Board of Directors on March 14, 2024.

III. Application of new and amended standards and interpretations

(I) Effects of the application of the new and amended standards and interpretations approved by the Financial Supervisory Commission (FSC)

The Company began to apply the following newly amended IFRSs on January 1, 2023, and there has been no material effect on the parent-only financial report.

- Amendment to IAS 1 “Disclosure of Accounting Policies”
- Amendment to IAS 8 “Definition of Accounting Estimates”
- Amendment to IAS 12 “Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction”

The Company began to apply the following newly amended IFRSs on May 23, 2023, and there has been no material effect on the parent-only financial report.

- Amendment to IAS 12 “International Tax Reform – Pillar Two Model Rules”

(II) Effects of the IFRSs approved by the FSC which have yet to be applied

The Company has assessed that the application of the following newly amended IFRSs, which came into effect on January 1, 2024, is unlikely to have any material effect on the parent-only financial report.

- Amendment to IAS 1 “Classification of Liabilities as Current or Non-current”
- Amendment to IAS 1 “Non-current Liabilities with Covenants”
- Amendments to IAS 7 and IFRS 7 “Supplier Finance Arrangements”
- Amendment to IFRS 16 “Lease Liability in a Sale and Leaseback”

Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL ENG'G CO., LTD. (continued)

(III) New and amended standards and interpretations not yet approved by the FSC

The Company expects that the following new and amended standards not yet approved by the FSC are unlikely to have any material effect on the parent-only financial report.

- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”
- Amendments to IFRS 17 “Insurance Contracts” and IFRS 17
- Amendment to IAS 21 “Lack of Exchangeability”

IV. Summary of material accounting policies

The material accounting policies adopted by this parent-only financial report are described below. Unless specified otherwise, the following accounting policies have been consistently applied to all presentation periods of this parent-only financial report.

(I) Statement of compliance

This parent-only financial report has been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

(II) Basis of preparation

1. Basis of measurement

Except for the following major titles of the balance sheet, this parent-only financial report has been prepared on the basis of historical cost:

- (1) Financial instruments measured at fair value through profit/loss;
- (2) Financial assets measured at fair value through other comprehensive income

2. Functional currency and presentation currency

The Company uses the currency of the primary economic environment where its operations are located as its functional currency. This parent-only financial report is presented in NTD, which is our functional currency. The unit for all financial information presented in NTD is NTD thousand.

(III) Foreign currency

1. Foreign currency transactions

Foreign currency transactions are translated into the functional currency at the exchange rate on the transaction date. The monetary items of foreign currency on the end date of each subsequent reporting period (hereinafter the “reporting date”) are translated into the functional currency at the exchange rate on that day.

The non-monetary items of foreign currency measured at fair value are translated into the functional currency at the exchange rate on the date when the fair value is measured. The non-monetary items of foreign currency measured at historical cost are translated at the

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
ENG'G CO., LTD. (continued)**

exchange rate on the transaction date.

Foreign currency exchange differences arising from translation are usually recognized in profit/loss, but are recognized in other comprehensive income under the following circumstances:

- (1) Equity instruments designated as measured at fair value through other comprehensive income;
- (2) financial liabilities designated for hedging of the net investment in foreign operations to the extent hedging is effective; or
- (3) a qualified cash flow hedge to the extent hedging is effective.

2. Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into NTD at the exchange rate on the reporting date. Profits, expenses and losses are translated into NTD at the average exchange rate of the current period, and the resulting exchange differences are recognized in other comprehensive income.

Where the disposal of a foreign operation results in a loss of control, joint control or a material effect, all accumulated exchange differences related to the foreign operation are reclassified in the profit/loss. In the case of a partial disposal of the investment of an associate or joint venture that includes foreign operations, the related accumulated exchange differences are reclassified as profit/loss on a pro rata basis.

Profits/Losses on foreign currency exchange arising from the monetary receivables or payables of a foreign operation, for which there are no settlement plans and which are unlikely to be settled in the foreseeable future, are recognized in other comprehensive income as part of the net investment in the foreign operation.

(IV) Criteria for classification of assets and liabilities as current and non-current

Assets that meet one of the following criteria are classified as current, and assets other than the current ones are classified as non-current:

1. The assets are expected to be realized in the Company's normal operating cycle (usually more than one year for engineering) or intended to be sold or consumed;
2. the assets are held primarily for the purpose of transaction;
3. the assets are expected to be realized within 12 months after the reporting period; or
4. the assets are cash or cash equivalents, except where the assets are restricted from being exchanged or used to settle liabilities for at least 12 months after the reporting period.

Liabilities that meet one of the following criteria are classified as current, and liabilities

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
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other than the current ones are classified as non-current:

1. The liabilities are expected to be settled in the Company's normal operating cycle (usually more than one year for engineering);
2. the liabilities are held primarily for the purpose of transaction;
3. the liabilities are expected to mature and be settled within 12 months after the reporting period; or
4. liabilities with a settlement date for which there is no right to unconditionally defer it for at least 12 months after the reporting period. Terms of liabilities that could, at the option of the counterparty, result in their settlement by the issuance of equity instruments will not affect their classification.

(V) Cash and cash equivalents

Cash includes cash on hand and demand deposits. Cash equivalents are short-term and highly liquid investments that can be converted into fixed amounts of cash at any time with minimal risk of changes in value. Time deposits that meet the foregoing definition and are held for the purpose of fulfilling short-term cash commitments rather than investment or any other purpose are recognized as cash equivalents.

(VI) Financial instruments

Accounts receivable and debt securities issued are initially recognized at the time they arise. All other financial assets and liabilities are initially recognized when the Company becomes a party to the contractual terms of the financial instrument. Financial assets or liabilities not measured at fair value through profit/loss (except for accounts receivable that do not include material financial components) are initially measured at fair value plus transaction costs directly attributable to the acquisition or issuance. Accounts receivable that do not include material financial components are initially measured at transaction price.

1. Financial assets

Where the purchase or sale of financial assets constitutes a regular transaction, the Company subjects all purchases and sales of financial assets classified in the same manner to accounting treatment based on the transaction date or settlement date.

Financial assets are classified as follows on initial recognition: Financial assets measured at amortized cost, investments in equity instruments measured at fair value through other comprehensive income, or financial assets measured at fair value through profit/loss. The Company only reclassifies all affected financial assets from the first day of the next reporting period when it changes the operating model for the management of financial assets.

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
ENG'G CO., LTD. (continued)**

(1) Financial assets measured at amortized cost

Financial assets that meet the following criteria and are not designated as measured at fair value through profit/loss are measured at amortized cost:

- The financial assets are held under an operating model with the purpose of receiving contractual cash flows.
- The cash flows generated by the contractual terms of the financial assets on specified dates are solely for the purpose of paying principal and the interest on outstanding principal.

Such assets are subsequently measured at the initially recognized amount plus or less the accumulated amount of amortization calculated using the effective interest method, and after the amortized cost of any loss allowance is adjusted. Interest income, profits/losses on foreign currency exchange, and impairment losses are recognized in profit/loss. Upon derecognition, profits or losses are recognized in profit/loss.

(2) Financial assets measured at fair value through other comprehensive income

Investments in debt instruments that meet the following criteria and are not designated as measured at fair value through profit/loss are measured at fair value through other comprehensive income:

- The financial assets are held under an operating model with the purposes of receiving contractual cash flows and sales.
- The cash flows generated by the contractual terms of the financial assets on specified dates are solely for the purpose of paying principal and the interest on outstanding principal.

On initial recognition, the Company may make an irrevocable election to recognize the subsequent changes in the fair value of any investment in equity instruments not held for transaction in other comprehensive income. Such election is made on an instrument-by-instrument basis.

Investors in equity instruments are subsequently measured at fair value. Dividend income (unless clearly representing the recovery of part of the investment cost) is recognized in profit/loss. The remaining net profit or loss is recognized in other comprehensive income and is not reclassified as profit/loss.

Dividend income from equity investments is recognized on the date when the Company is entitled to receive dividends (usually the ex-dividend date).

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
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(3) Financial assets measured at fair value through profit/loss

Financial assets that are not measured at amortized cost or at fair value through other comprehensive income, such as financial assets held for transaction and managed at fair value with their performance evaluated, are measured at fair value through profit/loss, including derivative financial assets. The Company may irrevocably designate financial assets measured at amortized cost or at fair value through other comprehensive income as financial assets measured at fair value through profit/loss at the time of initial recognition, in order to eliminate or significantly reduce any accounting mismatch.

Such assets are subsequently measured at fair value, and their net profits or losses (including any dividend and interest income) are recognized in profit/loss.

(4) Impairment of financial assets

The Company recognizes loss allowance for the expected credit loss of financial assets (including cash and cash equivalents, notes and accounts receivable, deposits paid, and other financial assets) and contract assets measured at amortized cost.

Loss allowance is measured at the amount of the 12-month expected credit loss for the following financial assets, and measured at the full lifetime expected credit loss for the others:

- Debt securities are determined to have a low credit risk on the reporting date; and
- The credit risk of other debt securities and bank deposits (i.e., the risk of default during the expected full lifetime of the financial instrument) has not increased significantly since initial recognition.

The loss allowance for accounts receivable and contract assets are measured at the amount of the full lifetime expected credit loss.

In determining whether the credit risk has significantly increased since initial recognition, the Company will consider reasonable and supportive information (which can be obtained without excessive cost or investment), including qualitative and quantitative information, and any analysis based on the historical experience, credit assessment and prospective information of the Company.

If the credit risk rating of a financial instrument is equivalent to any internationally defined “investment grade” (S&P’s investment grade of BBB-, Moody’s investment grade of Baa3, or the investment grade of twA of Taiwan Ratings, or any investment grade higher than the foregoing), the Company will deem the debt securities to have a low credit risk.

If a contractual payment is overdue for more than 121 days, the Company will assume that the credit risk of the financial asset has increased significantly.

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
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If a contractual payment is overdue for more than 271 days, the Company will deem the financial asset to be in default.

The full lifetime expected credit loss refers to the expected credit loss on a financial instrument from all possible default events over the expected life of the financial instrument.

The 12-month expected credit loss refers to the expected credit loss on a financial instrument resulting from possible default events within 12 months after the reporting date (or a shorter period if the expected life of the financial instrument is less than 12 months).

The longest period for measurement of the expected credit loss is the longest contract period in which the Company is exposed to credit risk.

The expected credit loss is a probability-weighted estimate of the credit loss during the expected life of a financial instrument. The credit loss is measured at the present value of all cash shortfalls, which is the difference between the cash flow receivable by the Company according to the contract and the cash flow expected to be received by the Company. The expected credit loss is discounted at the effective interest rate of the financial asset.

On each reporting date, the Company assesses whether there is any credit impairment to financial assets measured at amortized cost and debt securities measured at fair value through other comprehensive income. When one or more events that adversely affect the estimated future cash flow of a financial asset have occurred, there is a credit impairment to the financial asset. Evidence of credit impairment to a financial asset includes the observable information of the following circumstances:

- Major financial difficulties of the borrower or issuer;
- Default, such as delay or being overdue for more than 271 days;
- Due to economic or contractual reasons related to the financial difficulties of the borrower, the Company makes concessions to the borrower which originally would not be considered;
- The borrower is likely to file for bankruptcy or undergo other financial restructuring;
or
- The active market for the financial asset has disappeared due to financial difficulties.

The loss allowance for financial assets measured at amortized cost are deducted from the carrying amount of the assets. The loss allowance for debt instruments measured at fair value through other comprehensive income is adjusted for profit/loss and recognized in other comprehensive income (without reducing the carrying amount of the assets).

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
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When the Company cannot reasonably expect the recovery of financial assets in whole or in part, it will directly reduce the total carrying amount of its financial assets. For a corporate account, the Company analyzes the timing and amount for write-off separately on the basis of whether recovery is reasonably expected. The Company expects that the written-off amount will not be reversed significantly, but the written-off financial assets can still be subject to enforcement to comply with the procedures for the Company to recover overdue amounts. Based on its experience, it is impossible to recover any overdue amount from a corporate account after 271 days.

(5) Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights on cash flows from the asset are terminated, or when the asset has been transferred and substantially all of the risks and returns of ownership of the asset have been transferred to other companies, or when substantially all of the risks and returns of ownership of the asset are not transferred or retained and control over the asset is not retained.

Any transaction entered into by the Company to transfer financial assets will continue to be recognized in the balance sheet if all or most of the risks and returns of the ownership of the transferred assets are retained.

2. Financial liabilities and equity instruments

(1) Classification of liabilities or equity

The debt and equity instruments issued by the Company are classified as financial liabilities or equity according to the substance of the contract and the definitions of financial liabilities and equity instruments.

(2) Equity transactions

An equity instrument refers to any contract that represents the Company's remaining equity after deducting all liabilities from the asset. Equity instruments issued by the Company are recognized as the amount of the proceeds received less the direct cost of issuance.

(3) Treasury stocks

When repurchasing its recognized equity instruments, the Company recognizes the consideration paid (including directly attributable costs) as a decrease in equity. The repurchased shares are classified as treasury stocks. For any subsequent sale or reissuance of treasury stocks, the amount received is recognized as an increase in equity, and any surplus or loss arising from the transaction is recognized as capital reserves or retained earnings (if capital reserves are insufficient for offsetting).

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
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(4) Compound financial instruments

A compound financial instrument issued by the Company is any convertible corporate bond (denominated in NTD) that its holder may opt to convert into share capital, and the number of issued shares will not vary with changes in their fair value.

The initially recognized amount of the liability component of a compound financial instrument is measured at the fair value of similar liability that does not include the right to convert equity. The initially recognized amount of the equity component of the instrument is measured at the difference between its overall fair value and the fair value of the liability component. Any directly attributable transaction cost is amortized to the liability and equity components in proportion to the initial carrying amount of liabilities and equity.

After initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest rate method. The equity component of a compound financial instrument is not remeasured after initial recognition.

Interest related to financial liabilities is recognized in profit/loss. The conversion of financial liabilities reclassified as equity upon conversion is not recognized in profit/loss.

(5) Financial liabilities

A financial liability is measured at amortized cost or at fair value through profit/loss. If a financial liability is held for transaction, a derivative or designated at the time of initial recognition, it is classified as measured at fair value through profit/loss. Financial liabilities measured at fair value through profit/loss are measured at fair value, and their related net profits and losses, including any interest expense, are recognized in profit/loss.

Other financial liabilities are measured at amortized cost using the effective interest method. Interest expense and exchange profit/loss are recognized in profit/loss. Any profit or loss at the time of derecognition is recognized in profit/loss.

(6) Derecognition of financial liabilities

The Company derecognizes financial liabilities when the contractual obligations have been fulfilled or canceled or have expired. When the terms of a financial liability are amended and there is a significant difference in the cash flow of the liability after amendment, the original financial liability is derecognized, and a new financial liability is recognized at fair value based on the amended terms.

For the derecognition of a financial liability, the difference between its carrying amount and the total consideration paid or payable (including any non-cash asset transferred or any liability assumed) is recognized in profit/loss.

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
ENG'G CO., LTD. (continued)**

(7) Offsetting of financial assets against liabilities

Financial assets and financial liabilities may offset against each other and have their net amounts presented in the balance sheet only when the Company has a legally enforceable right to offset them against each other and has an intention to settle in their net amounts or to realize assets and settle liabilities at the same time.

(VII) Investments in associates

An associate is a company whose financial and operating policies are significantly influenced by the Company, but which is not under the latter's control or joint control.

The Company's interests in an associate are accounted for using the equity method. Under the equity method, they are initially recognized at cost, and the investment cost includes the cost of transaction. The carrying amount of any investment in an associate includes the goodwill identified at the time of initial investment, less any accumulated impairment loss.

The parent-only financial report includes the amount of the profit/loss and other comprehensive income of each investee associate recognized by the Company in proportion to equity after making adjustments consistent with the Company's accounting policies from the date of occurrence of its significant influence to the date of loss of its significant influence. Where any change in equity other than profit/loss and other comprehensive income occurs to an associate and where that change does not affect the Company's shareholding, the Company recognizes the change in equity attributable to the share of the associate it is entitled to as capital reserves in proportion to its shareholding.

The unrealized profits and losses arising from transactions between the Company and an associate are recognized in the financial statements of the companies only within the scope of the non-related-party investor's equity in the associate.

Where the Company's share of the losses of an associate, which must be recognized proportionally, equals or exceeds its interests in the associate, the Company will discontinue recognizing its losses. It will recognize additional losses and liabilities only to the extent it has incurred legal or constructive obligations or made payments on behalf of the investee company.

(VIII) Investments in subsidiaries

In preparing the parent-only financial report, the Company evaluates the investee companies it has control over using the equity method. Under the equity method, the current profit/loss and other comprehensive income in the parent-only financial report are the same as the share of the current profit/loss and other comprehensive income in the consolidated financial report attributable to owners of the parent company, and the owners' equity in the parent-only financial report is the same as the equity attributable to owners of the parent

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
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company in the consolidated financial report.

Changes in the Company's equity ownership in a subsidiary that do not result in a loss of control are treated as equity transactions with the owner.

(IX) Property, plant and equipment

1. Recognition and measurement

Property, plant and equipment are measured at cost (including capitalized borrowing cost) less accumulated depreciation and any accumulated impairment.

Material components of property, plant and equipment that have different useful lives are treated as a separate item (a main component) of property, plant and equipment.

Profits or losses on disposal of property, plant and equipment are recognized in profit/loss.

2. Subsequent costs

Subsequent expenses are capitalized only when their future economic benefits are likely to flow into the Company.

3. Depreciation

Depreciation is calculated at the cost of an asset less its residual value and recognized in profit/loss on a straight-line basis over the estimated useful life of each component.

Land is not accounted for in depreciation.

The estimated useful lives for the current and comparative periods are as follows:

Transportation equipment	2-5 years
Other equipment	2-15 years

On each reporting date, the Company reviews the depreciation method, useful lives and residual values, and makes appropriate adjustments if necessary.

(X) Lease

The Company assesses whether a contract constitutes or includes a lease on the date of establishment of the contract. If the contract transfers control over the use of identified assets for a period of time in exchange for a consideration, the contract constitutes or includes a lease.

1. Lessee

The Company recognizes right-of-use assets and lease liabilities on the lease commencement date. Right-of-use assets are initially measured at cost, which includes the amount of initial measurement of lease liabilities, adjusting any lease payment made on or before the lease commencement date, plus the initial direct cost incurred and the estimated cost for dismantling and removing the underlying asset and restoring their location or the underlying asset, and less any lease incentives received.

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
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Right-of-use assets are subsequently accounted for in depreciation on a straight-line basis over the period from the lease commencement date to the earlier of the date of expiration of the useful life or the lease term. In addition, the Company regularly assesses whether the right-of-use assets are impaired and deals with any impairment loss that has occurred, and adjusts the right-of-use assets if lease liabilities are remeasured.

Lease liabilities are initially measured at the present value of lease payments not yet made on the lease commencement date. If the interest rate implicit in a lease can be readily determined, the interest rate will be the discount rate. Where such interest rate cannot be readily determined, the Company's incremental borrowing rate is used. In general, the Company uses its incremental borrowing rate as the discount rate.

The following lease payments are included in the measurement of lease liabilities:

- (1) Fixed payments, including substantive fixed payments;
- (2) For variable lease payments contingent on a certain index or rate, the index or rate on the lease commencement date is used for the initial measurement;
- (3) The guaranteed amount of residual value expected to be paid; and
- (4) The exercise price or the penalty payable when the purchase option or lease termination option is reasonably determined to be exercised.

Interest on lease liabilities is subsequently calculated using the effective interest method, and its amount is remeasured under any of the following circumstances:

- (1) A change in the index or rate used to determine lease payments has resulted in a change in future lease payments;
- (2) There is a change in the guaranteed amount of residual value expected to be paid;
- (3) There is a change in the assessment of the purchase option for the underlying asset;
- (4) There is a change in the estimation of whether to extend or terminate the option, and the assessment of the lease term is changed;
- (5) Any amendment to the subject, scope or other terms of lease.

Where a lease liability is remeasured due to any change in the aforementioned index or rate used to determine lease payments, any change in the guaranteed amount of residual value, and any change in the assessment of the purchase, extension or termination of an option, the carrying amount of right-of-use assets is adjusted accordingly, and the remaining remeasured amount is recognized in profit/loss when the carrying amount of right-of-use assets is reduced to zero.

For a lease modification that reduces the scope of lease, the carrying amount of right-of-use assets is reduced to reflect the partial or full termination of lease, and its difference

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
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with the remeasured amount of lease liabilities is recognized in profit/loss.

The Company presents right-of-use assets and lease liabilities that do not meet the definition of investment property as single-line items in the balance sheet.

For short-term leases and leases of low-value underlying assets, the Company opts not to recognize right-of-use assets and lease liabilities, but to recognize the related lease payments as expenses on a straight-line basis over the lease term.

2. Lessor

For any transaction where the Company is the lessor, the lease contract is classified according to whether it transfers substantially all the risks and returns incident to the ownership of the underlying asset. If yes, it is classified as a finance lease; otherwise it is classified as an operating lease. During the assessment, the Company considers specific related indicators, including whether the lease term covers the main part of the economic life of the underlying asset.

If the Company is the sublessor, the primary lease and sublease transactions are treated separately, and the right-of-use assets generated from the primary lease are used to assess the classification of the sublease transaction. Where the primary lease is a short-term lease to which the recognition exemption applies, the sublease transaction is classified as an operating lease.

If the contract includes lease and non-lease components, the Company uses IFRS 15 to allocate the consideration in the contract.

(XI) Intangible assets

1. Recognition and measurement

Other intangible assets with limited useful lives acquired by the Company are measured at cost less the amounts of accumulated amortization and accumulated impairment.

2. Subsequent expenses

Subsequent expenses are capitalized only when they increase the future economic benefits of specific related assets. All other expenses are recognized in profit/loss upon incurrence, including the goodwill and brand developed internally.

3. Amortization

Except for goodwill, amortization is calculated at the cost of assets less the estimated residual value. From the time when an intangible asset reaches the state of availability, it is recognized in profit/loss over its estimated useful life on a straight-line basis.

The estimated useful lives for the current and comparative periods are as follows:

Computer software	5 years
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**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
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On each reporting date, the Company reviews the amortization method, useful lives and residual values of intangible assets, and makes appropriate adjustments if necessary.

(XII) Impairment of non-financial assets

On each reporting date, the Company assesses whether there is any indication that the carrying amount of non-financial assets (except for inventories, contract assets and deferred income tax assets) may be impaired. If there is any such indication of impairment, the recoverable amount of the assets is estimated. Goodwill is regularly tested for impairment on an annual basis.

For the purpose of impairment testing, the group of assets whose cash inflow is mostly independent of that of other individual assets or asset groups is designated as the minimum identifiable asset group. The goodwill acquired in a business merger is amortized to each cash-generating unit or cash-generating unit group that is expected to benefit from the synergy of the merger.

The recoverable amount is the fair value of an individual asset or cash-generating unit less the cost of disposal or its value of use, whichever is higher. In assessing the value of use, the estimated future cash flow is discounted to the present value using a pre-tax discount rate that reflects the current market's assessment of the time value of currency and specific risks of the asset or cash-generating unit.

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

An impairment loss is immediately recognized in profit/loss. The carrying amount of the amortized goodwill of the cash-generating unit is reduced first, and then the carrying amount of each of other assets in the unit is reduced according to the share of the carrying amount of that asset in the unit.

The impairment loss of goodwill will not be reversed. Non-financial assets other than goodwill are reversed only within the carrying amount (less depreciation or amortization) of the asset determined where no impairment loss was recognized in prior years.

(XIII) Liability provision

Liability provision is recognized when the Company has a current obligation as a result of a past event, and is very likely to require an outflow of resources with economic benefits to settle the obligation in the future, where the amount of the obligation can be reliably estimated. Liability provision is discounted at a pre-tax discount rate that reflects the current market's assessment of the time value of currency and specific risks of liabilities, and the amortization of the discount is recognized as an interest expense.

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
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1. Warranty

The provision for warranty liabilities is recognized at the time of sale of goods or services. The provision is measured based on the historical warranty information and all possible outcomes weighted by the relevant probability.

2. Onerous contracts

Where the Company expects that the inevitable cost of fulfilling a contractual obligation exceeds the economic benefits expected from the contract, the liability provision for the onerous contract is recognized. The liability provision is measured at the present value of the lower of the estimated cost of termination of the contract and the estimated net cost of continuation of the contract, and all impairment losses of assets related to the contract are recognized before the liability provision for the onerous contract is recognized.

(XIV) Recognition of revenue

1. Revenue from customer contracts

Revenue is measured based on the consideration expected to be received for the transfer of goods or services. The Company recognizes revenue when the control of goods or services is transferred to the customer and the performance obligation is met. The main items of revenue of the Company are described as follows:

(1) Engineering contracts

The Company engages in the contracting of public projects. Since an asset is controlled by the customer at the time of construction, the revenue is gradually recognized over time based on the share of the engineering cost incurred to date in the estimated total contract cost. The contract includes a fixed consideration and a variable consideration, and the customer pays a fixed amount in accordance with the agreed schedule. A variable consideration (such as a subsidy for price adjustment) is estimated at the expected value based on past experience. If the amount of recognized revenue has yet to be reimbursed, it is recognized as a contract asset. If the Company has an unconditional right to the consideration, the contract asset is transferred to accounts receivable.

If the degree of completion of the performance obligation under an engineering contract cannot be reasonably measured, the contract revenue is recognized only within the scope of the expected recoverable cost.

Where the Company expects that the inevitable cost of fulfilling the obligations of an engineering contract exceeds the economic benefits expected from the contract, the liability provision for the onerous contract is recognized.

If there is any change in the situation, the estimates of revenue, cost and degree of

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
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completion will be revised, and any resulting change of increase or decrease will be reflected in profit/loss during the period in which the management is aware of such change.

The Company provides standard warranty for a contracted project that is consistent with the agreed specifications, and has recognized liability provision of warranty for the obligation.

(2) Outsourced operator contracts

The Company provides services for the operation and maintenance of the sewage treatment plants of county and city governments, and the revenue is recognized based on the amount for which treatment is completed.

(XV) Employee benefits

1. Defined contribution plan

The contribution obligation of a defined contribution plan is recognized as an expense within the period when the employee provides services.

2. Short-term employee benefits

The obligations of short-term employee benefits are recognized as expenses at the time of provision of services. Where the Company has a current legal or constructive payment obligation due to past services provided by an employee and such obligation can be reliably estimated, its amount is recognized as a liability.

(XVI) Share-based payment transactions

For a share-based payment agreement for equity settlement, an expense is recognized with an increase in relative equity during the vesting period of the reward based on the fair value on the grant date. The recognized expense is adjusted according to the amount of reward expected to meet the service conditions and non-market-price vesting conditions. The ultimately recognized amount is measured based on the amount of reward meeting the service conditions and non-market-price vesting conditions on the vesting date.

The non-vesting conditions for a share-based payment reward are reflected in the measurement of the fair value of the share-based payment on the grant date, and the difference between the expected and actual results is not required to be verified and adjusted.

For the amount of the fair value of the stock appreciation rights payable to an employee for cash settlement, an expense is recognized with an increase in relative liabilities during the period when the employee may unconditionally receive rewards. The liability is remeasured at the fair value of the share appreciation rights on each reporting date and settlement date, with any change to it recognized in profit/loss.

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
ENG'G CO., LTD. (continued)**

(XVII) Income tax

Income taxes include current and deferred income taxes. Except for those related to business merger or recognized directly in equity or other comprehensive income, current and deferred income taxes must be recognized in profit/loss.

The Company determines that the interest or penalty related to income tax (including uncertain tax treatment) does not meet the definition of income tax, and it is therefore subject to the accounting treatment under IAS 37.

The current income tax includes the expected income tax payable or tax refund receivable calculated based on the taxable income (loss) of the current year, as well as any adjustment to the income tax payable or tax refund receivable in prior years. Its amount reflects the uncertainty related to income tax (if any), and is the best estimate of the expected amount payable or receivable at the statutory tax rate or substantively enacted tax rate on the reporting date.

Deferred income tax is measured and recognized based on any temporary difference between the carrying amount of assets and liabilities and their tax bases on the reporting date. Any temporary difference arising from any of the following circumstances will not be recognized for deferred income tax:

1. Assets or liabilities initially recognized in any transaction not constituting a business merger, to the extent that they (i) do not affect the accounting profit and taxable income (loss), and (ii) do not give rise to any equivalent taxable and deductible temporary difference at the time of transaction;
2. Any temporary difference arising from investments in the equity of a subsidiary, an associate or a joint venture, where the Company is able to control the timing of reversal of the temporary difference, and the temporary difference is unlikely to be reversed in the foreseeable future; and
3. Any taxable temporary difference arising from the initial recognition of goodwill.

The carry-forward of unused taxable losses and unused income tax credits, as well as deductible temporary differences, are recognized as deferred income tax assets to the extent where there is likely to be taxable income available for use in the future. On each reporting date, such assets are reassessed and reduced to the extent the related income tax profits are unlikely to be realized, or the originally reduced amount is reversed to the extent where there is likely to be sufficient taxable income.

Deferred income tax is measured at the tax rate at the time when the temporary difference is expected to be reversed, using the statutory tax rate or substantively enacted tax rate on the reporting date, and has reflected the uncertainty related to income tax (if any).

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
ENG'G CO., LTD. (continued)**

The Company will offset deferred income tax assets against deferred income tax liabilities only when all of the following criteria are met:

1. The Company has a legal right of enforcement to offset current income tax assets against current income tax liabilities; and
2. Deferred income tax assets and deferred income tax liabilities are related to any of the following taxable entities on whom income tax is levied by the same tax authority:
 - (1) The same taxable entity; or
 - (2) Different taxable entities, provided that each of the entities intends to settle current income tax liabilities and assets on a net basis, or to realize assets and settle liabilities simultaneously, during each future period when significant amounts of deferred income tax assets are expected to be recovered and deferred income tax liabilities are expected to be settled.

The Company adopts the accounting treatment for filing of a consolidated income tax return under a consolidated tax return system, but income tax is still calculated in accordance with the aforementioned principles. The amounts received and paid in connection with the filing of consolidated income tax returns are used to adjust the Company's income tax assets or income tax liabilities for the current period.

(XVIII) Earnings per share

The Company lists the basic and diluted earnings per share (EPS) attributable to the holders of the Company's common share equity. The Company's basic EPS is calculated by dividing the profit/loss attributable to the holders of the Company's common share equity by the weighted average number of outstanding common shares for the period. Diluted EPS is calculated by adjusting the effects of all potential diluted common shares for the profit/loss attributable to the holders of the Company's common share equity and the weighted average number of outstanding common shares, respectively. The Company's potential diluted common shares include employee stock options.

(XIX) Segment information

The Company has disclosed the segment information in the consolidated financial report. Therefore, no segment information will be disclosed in the parent-only financial report.

V. Main sources of uncertainty of material accounting judgments, estimates and assumptions

In preparing this parent-only financial report, the management is required to make judgments, estimates and assumptions that will affect the adoption of accounting policies and the reported amounts of assets, liabilities, profits and expenses. The actual results could differ from the estimates.

The management continues to review the estimates and basic assumptions, and changes in

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
ENG'G CO., LTD. (continued)**

accounting estimates are recognized over the period of change and the future period affected.

Information of accounting policies that involves material judgments and has a material effect on the amounts recognized in this parent-only financial report: None.

The uncertainty of the following assumptions and estimates has a significant risk of causing a material adjustment to the carrying amount of assets and liabilities in the next financial year. The relevant information is as follows:

(I) Engineering contracts and onerous contracts

The primary business of the Company arises from the signing of construction contracts with customers to provide certain designs, techniques and functions or ultimate purposes or uses that are closely related or interdependent. The contract revenue is recognized over time with reference to the degree of completion of the construction contract, and the degree of completion is measured based on the share of the contract cost incurred to date for the completed portion in the estimated total contract cost. The Company estimates the total contract cost by considering the nature, expected duration, scope, construction process, method and estimated contracting amount of each project. Any change in the aforementioned estimation basis may result in a significant adjustment to the estimated amount.

[Evaluation process]

The accounting policies and disclosures of the Company include the use of fair value to measure its financial and non-financial assets and liabilities. The financial department is responsible for reviewing all significant fair value measurements (including Level 3 fair value) and reports directly to the chief financial officer. The financial department regularly reviews the significant unobservable inputs and adjustments. If any input for fair value measurement uses external third-party information (such as external experts), the financial department will assess the evidence provided by external experts to support the input to determine whether the evaluation and the classification of its fair value level meet the requirements of IFRSs.

In measuring its assets and liabilities, the Company uses market observable inputs as much as possible. The levels of fair value are classified as follows based on the inputs used in the evaluation technique:

- Level 1: The open quoted price of identical assets or liabilities in an active market (unadjusted).
- Level 2: Except for the open quoted price included in Level 1, the input parameter of assets or liabilities are directly (i.e., price) or indirectly (i.e., derived from price) observable.
- Level 3: The input parameters of assets or liabilities are not based on observable market data (non-observable parameters).

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
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[Policy for transfer between different levels]

If any event or situation of a transfer between the fair value levels occurs, the Company will recognize the transfer on the reporting date.

[Further information of assumptions adopted for fair value measurement]

For information on the assumptions adopted for fair value measurement, see Note 6(17) “Financial instruments.”

VI. Description of major accounting titles

(I) Cash and cash equivalents

	<u>2023.12.31</u>	<u>2022.12.31</u>
Petty cash	\$ 6,859	7,567
Demand deposits	987,312	907,517
Check deposits	<u>8,970</u>	<u>26,432</u>
Cash and cash equivalents	<u>\$ 1,003,141</u>	<u>941,516</u>

For disclosures on the interest rate risks and sensitivity analysis of the financial assets and liabilities of the Company, see Note 6(17).

(II) Financial liabilities measured at fair value through profit/loss

	<u>2023.12.31</u>	<u>2022.12.31</u>
Financial liabilities measured at fair value through profit/loss on a mandatory basis:		
Rights of redemption and put for convertible corporate bonds	<u>\$ 4,590</u>	<u>16,200</u>

1. For the remeasurement by the Company of the amount recognized in profit/loss at fair value, see Note 6(16).

2. The Company has disclosed the information on credit risk and fair value related to financial instruments in Note 6(17).

(III) Notes and accounts receivable

	<u>2023.12.31</u>	<u>2022.12.31</u>
Notes receivable – arising from operations	\$ 9,096	13,951
Accounts receivable – measured at amortized cost	1,013,183	917,351
Less: Loss allowance	<u>-</u>	<u>-</u>
	<u>\$ 1,022,279</u>	<u>931,302</u>

1. The Company estimates the expected credit losses of all notes and accounts receivable in a simplified manner, i.e., using the full lifetime expected credit losses for measurement. For this purpose, such notes and accounts receivable are categorized based on the common

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
ENG'G CO., LTD. (continued)**

credit risk characteristics of the ability to pay all amounts due under the contractual terms on behalf of the customer, and have included the prospective information.

- (1) The expected credit losses of the notes and accounts receivable of government agencies are analyzed by the Company as follows:

		2023.12.31	
<u>Interval of account age</u>	<u>Carrying amount of accounts receivable</u>	<u>Weighted average rate of expected credit loss</u>	<u>Provision for full lifetime expected credit loss</u>
Not past due	<u>\$ 516,657</u>		<u>-</u>

		2022.12.31	
<u>Interval of account age</u>	<u>Carrying amount of accounts receivable</u>	<u>Weighted average rate of expected credit loss</u>	<u>Provision for full lifetime expected credit loss</u>
Not past due	<u>\$ 551,089</u>	-	<u>-</u>

- (2) The expected credit losses of the notes and accounts receivable of related parties are analyzed by the Company as follows:

		2023.12.31	
<u>Interval of account age</u>	<u>Carrying amount of accounts receivable</u>	<u>Weighted average rate of expected credit loss</u>	<u>Provision for full lifetime expected credit loss</u>
Not past due	<u>\$ 57,903</u>		<u>-</u>

		2022.12.31	
<u>Interval of account age</u>	<u>Carrying amount of accounts receivable</u>	<u>Weighted average rate of expected credit loss</u>	<u>Provision for full lifetime expected credit loss</u>
Not past due	<u>\$ 93,106</u>	-	<u>-</u>

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
ENG'G CO., LTD. (continued)**

- (3) The expected credit losses of the notes and accounts receivable of other customers are analyzed by the Company as follows:

		2023.12.31	
<u>Interval of account age</u>	<u>Carrying amount of accounts receivable</u>	<u>Weighted average rate of expected credit loss</u>	<u>Provision for full lifetime expected credit loss</u>
Not past due	<u>\$ -</u>		<u>-</u>

		2022.12.31	
<u>Interval of account age</u>	<u>Carrying amount of accounts receivable</u>	<u>Weighted average rate of expected credit loss</u>	<u>Provision for full lifetime expected credit loss</u>
Not past due	<u>\$ 11,559</u>	-	<u>-</u>

- (4) The Company's notes and accounts receivable that have undergone the process of mediation or have performance disputes are detailed as follows:

	2023.12.31	2022.12.31
Disputed amount	\$ 538,750	367,079
Less: Expected loss (Note)	(91,031)	(91,531)
Total	<u>\$ 447,719</u>	<u>275,548</u>

Note: The possible losses are assessed based on the mediation or performance disputes of each project, and are treated as changes in the estimated value of contract prices and recognized as a deduction of operating revenue. See Note 9 for details.

2. In 2023 and 2022, no expected credit losses or their reversals were set aside.
3. As of December 31, 2023 and 2022, none of the Company's notes and accounts receivable have been provided as collateral.

(IV) Investments accounted for using the equity method

The Company's investments accounted for using the equity method on the reporting date are listed as follows:

	2023.12.31	2022.12.31
Subsidiaries	<u>\$ 6,942,606</u>	<u>6,752,083</u>

Please see the 2023 consolidated financial report.

As of December 31, 2023 and 2022, none of the Company's investments accounted for using the equity method have been provided as collateral for pledge.

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
ENG'G CO., LTD. (continued)**

(V) Property, plant and equipment

The changes in the cost, depreciation and impairment loss of the Company's property, plant and equipment in 2023 and 2022 are detailed as follows:

	<u>Land</u>	<u>Transportation equipment</u>	<u>Other equipment</u>	<u>Total</u>
Cost or recognized cost:				
Balance as of January 1, 2023	\$ 326,058	18,951	77,344	422,353
Addition	-	1,334	4,967	6,301
Disposal	-	(57)	(10,365)	(10,422)
Balance as of December 31, 2023	<u><u>\$ 326,058</u></u>	<u><u>20,228</u></u>	<u><u>71,946</u></u>	<u><u>418,232</u></u>
Balance as of January 1, 2022	\$ 326,058	19,261	49,022	394,341
Addition	-	285	28,707	28,992
Disposal	-	(595)	(385)	(980)
Balance as of December 31, 2022	<u><u>\$ 326,058</u></u>	<u><u>18,951</u></u>	<u><u>77,344</u></u>	<u><u>422,353</u></u>
Depreciation and impairment loss:				
Balance as of January 1, 2023	\$ -	13,884	28,991	42,875
Depreciation in the year	-	1,587	10,356	11,943
Disposal	-	(56)	(10,033)	(10,089)
Balance as of December 31, 2023	<u><u>\$ -</u></u>	<u><u>15,415</u></u>	<u><u>29,314</u></u>	<u><u>44,729</u></u>
Balance as of January 1, 2022	\$ -	12,760	20,580	33,340
Depreciation in the year	-	1,640	8,730	10,370
Disposal	-	(516)	(319)	(835)
Balance as of December 31, 2022	<u><u>\$ -</u></u>	<u><u>13,884</u></u>	<u><u>28,991</u></u>	<u><u>42,875</u></u>
Carrying value:				
December 31, 2023	<u><u>\$ 326,058</u></u>	<u><u>4,813</u></u>	<u><u>42,632</u></u>	<u><u>373,503</u></u>
December 31, 2022	<u><u>\$ 326,058</u></u>	<u><u>5,067</u></u>	<u><u>48,353</u></u>	<u><u>379,478</u></u>
January 1, 2022	<u><u>\$ 326,058</u></u>	<u><u>6,501</u></u>	<u><u>28,442</u></u>	<u><u>361,001</u></u>

1. As of December 31, 2023 and 2022, the outstanding payments amounted to NTD 59,000 thousand, and were accounted for as other payables.

2. Collateral

For the provision of collateral for financing facilities as of December 31, 2023 and 2022, see Note 8.

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
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(VI) Short-term notes payable

The short-term notes payable by the Company are detailed as follows:

2023.12.31			
	Guaranteeing or accepting institution	Interest rate range	Amount
Commercial papers payable	Mega Bills Finance Co., Ltd.	2.430%	\$ 90,000
"	Grand Bills Finance Corp.	2.370%	80,000
"	Taiwan Cooperative Bills Finance Corporation	2.230%	196,000
"	International Bills Finance Corporation	2.362%	330,000
"	China Bills Finance Corporation	2.312%	150,000
Total			\$ 846,000

2022.12.31			
	Guaranteeing or accepting institution	Interest rate range	Amount
Commercial papers payable	Mega Bills Finance Co., Ltd.	2.120%	\$ 80,000
"	Grand Bills Finance Corp.	2.130%	80,000
"	Ta Ching Bills Finance Corporation	2.502%	80,000
"	Taiwan Cooperative Bills Finance Corporation	2.100%	196,000
"	Dah Chung Bills Finance Corp.	2.450%	150,000
"	International Bills Finance Corporation	2.297%	300,000
"	China Bills Finance Corporation	2.140%	150,000
"	Taiwan Finance Corporation	2.342%	100,000
Total			\$ 1,136,000

For the assets pledged by the Company as collateral for the aforementioned commercial papers payable, see Note 8.

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
ENG'G CO., LTD. (continued)**

(VII) Short-term loans

The short-term loans borrowed by the Company are detailed as follows:

	2023.12.31	2022.12.31
Unsecured bank loans	\$ 980,000	900,000
Secured bank loans	731,168	630,000
Total	\$ 1,711,168	1,530,000
Unused credit line	\$ 605,000	150,000
Interest rate range	<u>2.21%~2.68%</u>	<u>1.45%~2.56%</u>

For the assets pledged by the Company as collateral for bank loans, see Note 8.

(VIII) Long-term loans

The following are the details, conditions and terms of the long-term loans borrowed by the Company:

		2022.12.31		
	Currency	Interest rate range	Date of maturity	Amount
Unsecured bank loans	NTD	1.47%~2.09%	112.08.18	\$ 39,990
Less: Amount maturing within 1 year				(39,990)
Total				\$ -
Unused credit line				\$ -

The Company has not pledged its assets as collateral for long-term loans.

(IX) Corporate bonds payable

The corporate bonds payable by the Company are detailed as follows:

	2023.12.31	2022.12.31
Total amount of convertible corporate bonds issued	\$ 1,000,000	1,000,000
Unamortized balance of the discount of corporate bonds payable	(33,948)	(51,081)
Less: Cumulative converted amount	(100,000)	-
Less: Corporate bonds maturing or puttable within 1 year or operating cycle	(866,052)	-
Amount of corporate bonds payable at end of the period	\$ -	948,919
Embedded derivatives – right of put (accounted for in financial liabilities measured at fair value through profit/loss)	\$ 4,590	16,200
Equity component – right of conversion (accounted for in capital reserves – stock options)	\$ 65,678	72,976

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
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	2023	2022
Embedded derivatives – profit/loss on right of put remeasured at fair value (accounted for in profit (loss) on financial liabilities measured at fair value through profit/loss)	\$ 10,910	(12,400)
Interest expense	\$ 14,554	15,687

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

Item	2nd issue of unsecured convertible corporate bonds in 2021
Total amount issued	NTD 1,000,000 thousand
Date of issue	September 28, 2021
Period of issue	September 28, 2021 – September 28, 2026
Coupon rate	0%
Trustee	Mega Securities Co., Ltd.
Method of repayment	Except for an application by a holder of the bonds for converting them into the Company's common shares in accordance with the Company's conversion requirements, or the early redemption of the bonds by the Company in accordance with the conversion requirements, or the repurchase of the bonds by the Company from a securities issuer, the Company will repay the bonds in cash at their par value plus an interest compensation (101.26% of their par value) upon their maturity.
Requirements for redemption	From the date following the expiration of three months after the issue of the convertible bonds (December 29, 2021) to the date 40 days prior to the expiration of the issue period (August 19, 2026), if the closing price of the Company's common shares exceeds the current conversion price by at least 30% for 30 consecutive business days, or if the outstanding balance of the convertible bonds is less than 10% of the total amount originally issued, the Company is entitled to early redemption of the bonds.
Requirements for a creditor's request for redemption	A holder of the bonds may, on the date of expiration of three years after their issuance (September 28, 2024), request the issuing company to redeem the bonds at their par value plus an interest compensation (100% of their par value).
Conversion requirements	Conversion period From the date following the expiration of three months after the issue of the convertible bonds (December 29, 2021) to the date of their maturity (September 28, 2026), a holder of the bonds may convert them into the Company's common shares in accordance with the Company's conversion requirements.
Conversion price	NTD 36.3.

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
ENG'G CO., LTD. (continued)**

(X) Employee benefits

1. Defined contribution plan

According to the Company's defined contribution plan, an amount equal to 6% of an employee's monthly salary is allocated and contributed to a special personal account for labor pension at the Bureau of Labor Insurance. Under this plan, the Company will have no legal or constructive obligation to pay additional amounts after contributing a fixed amount to the Bureau of Labor Insurance.

In 2023 and 2022, the Company's pension expenses under the defined contribution plan amounted to NTD 16,252 thousand and NTD 18,567 thousand, respectively, which were contributed to the Bureau of Labor Insurance.

(XI) Income tax

1. Income tax expense

The income tax expenses of the Company in 2023 and 2022 are detailed as follows:

	<u>2023</u>	<u>2022</u>
Income tax expense for the period		
Adjustment to the current income tax of previous period	\$ -	(5)
Deferred income tax expense		
Occurrence and reversal of temporary differences	(2,334)	(67,720)
Income tax profit	<u>\$ (2,334)</u>	<u>(67,725)</u>

The relationship between the income tax expenses (profits) and the pre-tax net profits (losses) of the Company in 2023 and 2022 is adjusted as follows:

	<u>2023</u>	<u>2022</u>
Pre-tax profit (loss)	\$ 37,417	(340,728)
Income tax calculated at the domestic tax rate in the place where the Company is located	\$ 7,483	(68,146)
Loss (Profit) on valuation of financial liabilities	(2,182)	2,480
Non-deductible expense	137	162
Consolidated tax return system – credit for the current taxable income of subsidiaries	25,641	16,749
Current taxable loss of unrecognized deferred income tax assets	32,453	40,387
Interest expense of convertible corporate bonds	2,911	3,137
(Overestimation) Underestimation in the previous period	-	(5)
Investment profit/loss recognized using the equity method	(68,909)	(62,334)
Other	132	(155)
Total	<u>\$ (2,334)</u>	<u>(67,725)</u>

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
ENG'G CO., LTD. (continued)**

2. Deferred income tax assets and liabilities

(1) Recognized deferred income tax assets and liabilities

The changes in deferred income tax assets in 2023 and 2022 are as follows:

	<u>Unrealized loss on projects</u>
Deferred income tax assets:	
Balance as of January 1, 2023	\$ 79,880
Income statement of (debits) credits	<u>2,334</u>
Balance as of December 31, 2023	<u>\$ 82,214</u>
Balance as of January 1, 2022	\$ 12,160
Income statement of (debits) credits	<u>67,720</u>
December 31, 2022	<u>\$ 79,880</u>

3. The return of the Company's profit-seeking enterprise income tax has been assessed by the tax authority to 2021.

4. The Company and the subsidiary Orient Forest Development Enterprise Co., Ltd. have filed a consolidated income tax return for the profit-seeking enterprise income tax and the tax on undistributed earnings tax under a consolidated tax return system.

(XII) Capital and other equity

As of December 31, 2023 and 2022, the Company's authorized share capital amounted to NTD 3,000,000 thousand and NTD 2,000,000 thousand, respectively, at a par value of NTD 10 per share, and the numbers of shares issued were 157,349 thousand and 144,249 thousand, respectively. All payments for the issued shares have been received.

1. Issuance of common shares

In 2023, the Company issued 2,755 thousand new shares at par value for a total of NTD 27,548 thousand due to the holders of convertible bonds exercising their conversion rights. The relevant legal registration procedures have been completed.

On December 6, 2023, a special shareholders' meeting adopted a resolution to authorize the Board of Directors to issue no more than 23,000 thousand common shares via private placement for cash capital increase in two tranches within one year after the resolution of the shareholders' meeting. On December 14, 2023, the Board of Directors adopted a resolution to issue 10,345 thousand common shares via private placement at a price of NTD 29 per share, with a par value of NTD 10 per share for a total of NTD 103,450 thousand. The difference between the aforesaid par value per share and purchase price was credited to capital reserves – premium on share capital in an amount of NTD 196,555

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
ENG'G CO., LTD. (continued)**

thousand, and December 25, 2023 was set as the record date for capital increase. The relevant legal registration procedures have been completed.

The assignment of the aforementioned privately placed common shares and the subsequently distributed bonus shares is subject to Article 43-8 of the Securities and Exchange Act. Before applying to the Taiwan Stock Exchange for public listing and trading, an application for public offering must be filed with the Financial Supervisory Commission three years after the date of delivery of the privately placed common shares.

2. Capital reserves

The balance of the Company's capital reserves consists of the following:

	2023.12.31	2022.12.31
Premium on common shares	\$ 1,560,239	1,363,684
Premium on conversion of convertible corporate bonds	75,918	-
Premium on consolidation	2,262,991	2,262,991
Premium on shares acquired from the exercise of stock options	79,213	79,213
Number of overdue stock options which were not exercised and became invalid	37,201	37,201
Recognition of changes in equity ownership in subsidiaries	3,017	3,017
Issuance of convertible corporate bonds	65,678	72,976
	<u>\$ 4,084,257</u>	<u>3,819,082</u>

According to the Company Act, capital reserves shall be first used to cover losses before issuing new shares or cash from realized capital reserves based on the original shareholding of a shareholder. The aforementioned realized capital reserves include the premium on shares issued in excess of the par value and the income from gifts received. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, the total amount of capital reserves to be capitalized each year shall not exceed 10% of the paid-in capital.

3. Retained earnings

According to the Articles of Incorporation, when there are earnings in the final account of a year, 10% of the earnings must be allocated as legal reserves after taxes are paid and previous losses are covered, unless the legal reserves are equal to or greater than the Company's paid-in capital. Additionally, special reserves may be allocated based on the Company's operational needs and the law. If there is a balance of earnings, the Board of Directors must prepare a proposal for distribution of earnings in respect of such balance plus the undistributed earnings at the beginning of the period, and submit the proposal to a

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
ENG'G CO., LTD. (continued)**

shareholders' meeting for a resolution for their distribution. If any of the aforementioned earnings, legal reserves, and capital reserves are distributed in cash, the Board of Directors is authorized to adopt a resolution for such distribution subject to approval by a majority of the attending directors with the attendance of at least two-thirds of all directors.

Taking into account the environment and growth stage where the Company is situated, as well as the future funding needs, financial structure, earnings and a balanced and stable dividend policy, the Company will distribute stock dividends or cash dividends as appropriate based on the funding needs and the degree of dilution of earnings per share, with cash dividends not less than 10% of the total amount distributed. If necessary, the principles for distribution of cash dividends and stock dividends may be adjusted by a resolution of the shareholders' meeting.

(1) Legal reserves

Where the Company has no losses, the shareholders' meeting may adopt a resolution to distribute new shares or cash from legal reserves, provided that they are distributed only from the portion of such reserves exceeding 25% of the paid-in capital.

(2) Special reserves

In accordance with the requirements of the Financial Supervisory Commission, when distributing distributable earnings, the Company will allocate special reserves from the profit/loss of the current period and the undistributed earnings of the previous period based on the difference between the net deduction of other shareholders' equity accounted for and the balance of the special reserves allocated in the preceding paragraph, as incurred in the current year. For the amount of the deduction of other shareholders' equity accumulated in the previous period, special reserves will be allocated from the undistributed earnings of the previous period, where no distribution may be made. In the event of any subsequent reversal of the amount of deduction of other shareholders' equity, earnings may be distributed based on the reversed amount.

On June 14, 2022, the annual shareholders' meeting adopted a resolution to allocate NTD 59,185 thousand as special reserves.

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
ENG'G CO., LTD. (continued)**

(3) Distribution of earnings

On June 13, 2023, the proposal for covering the losses of 2023 was approved by a resolution of the annual shareholders' meeting. For 2022, there were no earnings distributable due to accumulated losses. On June 14, 2022, the proposal for distribution of the earnings of 2021 was approved by a resolution of the annual shareholders' meeting. The following is the amount of dividends distributed to the owners:

	2021	
	Dividend payout ratio (NTD)	Amount
Dividends distributed to the owners of common shares:		
Cash	\$ 0.85	<u><u>122,612</u></u>

(XIII) Earnings (Losses) per share

1. Basic earnings (losses) per share

The basic earnings (losses) per share of the Company in 2023 and 2022 are calculated based on the net profit (loss) attributable to the holders of the Company's common share equity and the weighted average number of outstanding common shares. They are calculated as follows:

(1) Net profit (loss) attributable to the holders of the Company's common share equity

	2023	2022
Net profit (loss) attributable to the holders of the Company's common share equity	<u><u>\$ 39,751</u></u>	<u><u>(273,003)</u></u>

(2) Weighted average number of outstanding common shares

	2023	2022
Common shares issued at beginning of the period	144,249	144,249
Effect of conversion of convertible corporate bonds	2,257	-
Effect of new shares issued for cash capital increase	198	-
Weighted average number of outstanding common shares	<u><u>146,704</u></u>	<u><u>144,249</u></u>
Earnings (losses) per share (NTD)	<u><u>\$ 0.27</u></u>	<u><u>(1.89)</u></u>

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
ENG'G CO., LTD. (continued)**

2. Diluted earnings (losses) per share

The diluted earnings (losses) per share of the Company in 2023 and 2022 are calculated based on the net profit (loss) attributable to the holders of the Company's common share equity and the weighted average number of outstanding common shares after adjusting the dilutive effect of all potential common shares. They are calculated as follows:

(1) Net profit (loss) attributable to the holders of the Company's common share equity (diluted)

	<u>2023</u>	<u>2022</u>
Net profit (loss) attributable to the holders of the Company's common share equity (basic)	\$ 39,751	(273,003)
Effect of conversion of convertible corporate bonds	733	(Note)
Net profit (loss) attributable to the holders of the Company's common share equity (diluted)	<u>\$ 40,484</u>	<u>(273,003)</u>

(2) Weighted average number of outstanding common shares (diluted)

	<u>2023</u>	<u>2022</u>
Weighted average number of outstanding common shares (basic)	146,704	144,249
Effect of dilutive potential common shares		
Effect of stock dividends for employees	32	-
Effect of conversion of convertible corporate bonds	25,291	(註)
Weighted average number of outstanding common shares (diluted)	<u>172,027</u>	<u>144,249</u>
Earnings (losses) per share (NTD)	<u>\$ 0.24</u>	<u>(1.89)</u>

Note: Not included in the calculation of diluted earnings per share due to an anti-dilutive effect.

(XIV) Revenue from customer contracts

1. Breakdown of revenue

	<u>2023</u>	<u>2022</u>
Market of main territory:		
Taiwan	<u>\$ 2,284,438</u>	<u>2,609,244</u>
Main product/service lines:		
Revenue from water treatment project contracts	\$ 1,426,916	1,652,634
Revenue from the operation and maintenance of water treatment projects	857,166	956,610
Other operating revenues	356	-
Total	<u>\$ 2,284,438</u>	<u>2,609,244</u>
Timing of recognition of revenue:		
Services transferred at a certain point of time	\$ 356	-
Services transferred gradually over time	857,166	956,610
Projects transferred gradually over time	1,426,916	1,652,634
	<u>\$ 2,284,438</u>	<u>2,609,244</u>

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
ENG'G CO., LTD. (continued)**

2. Contract balance

	<u>2023.12.31</u>	<u>2022.12.31</u>	<u>Jan. 1, 2022</u>
Notes and accounts receivable	<u>\$ 1,022,279</u>	<u>931,302</u>	<u>736,670</u>
Contract assets – project investments not meeting the criteria for a right to receive payment	\$ 378,201	664,858	411,584
Contract assets – retention money for projects contracted	120,135	255,361	186,644
Less: Loss allowance	-	-	-
Total	<u>\$ 498,336</u>	<u>920,219</u>	<u>598,228</u>
Amount expected to be recovered after more than 12 months	<u>\$ 16,452</u>	<u>31,800</u>	<u>16,053</u>
Contract liabilities – payments received exceeding project investments	<u>\$ 44,856</u>	<u>121,472</u>	<u>200,917</u>
Amount expected to be settled after more than 12 months	<u>\$ -</u>	<u>-</u>	<u>-</u>

3. For the disclosures of accounts receivable and their impairment, see Note 6(3).

4. For the information of the credit risks of contract assets, see Note 6(17).

5. Changes in contract assets and contract liabilities are mainly due to the difference between the timing of fulfillment of the performance obligation and the timing of customer payment for the transfer of goods or services from the Company to the customer. For disputes related to contract assets, see Note 9.

(XV) Remuneration for employees and directors

In accordance with the Articles of Incorporation of the Company, if there is any profit in a year, no less than 2% of the profit shall be allocated as employee remuneration, and no more than 2% of the profit shall be allocated as director remuneration. If the Company still has accumulated losses, an amount of the profit shall be retained to cover such losses. The recipients of such remuneration distributed in shares or cash include employees of any affiliate who have met certain requirements.

For 2023 and 2022, the amounts of employee remuneration were estimated to be NTD 964 thousand and NTD 0 respectively, and the amounts of director remuneration were estimated to be NTD 964 thousand and NTD 0 respectively. The estimates were based on the pre-tax net profit for the relevant period, excluding the employee and director remuneration, multiplied by the percentage of employee and director remuneration for distribution as set forth in the Articles of Incorporation. The amounts were accounted for as operating costs or expenses for 2023 and 2022. Any difference between the actually distributed amount and the estimated amount in the next year will be treated as a change in accounting estimates and recognized as a profit/loss of the next year.

For 2022, the amounts allocated by the Company as the employee and director

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
ENG'G CO., LTD. (continued)**

remuneration were both NTD 0, which were not different from the actually distributed amounts. For 2021, the amounts allocated as the employee and director remuneration were both NTD 3,794 thousand, which were underestimated by NTD 107 thousand from the actually distributed amounts. Please visit the Market Observation Post System (MOPS) for relevant information.

(XVI) Non-operating revenues and expenses

1. Interest income

The interest incomes of the Company in 2023 and 2022 are detailed as follows:

	2023	2022
Interest on bank deposits	\$ 6,136	1,928
Other interest income	14	-
	\$ 6,150	1,928

2. Other profits and losses

The other profits and losses of the Company in 2023 and 2022 are detailed as follows:

	2023	2022
Profit on foreign currency exchange	\$ 80	-
Profit (Loss) on financial liabilities measured at fair value through profit/loss	10,910	(12,400)
Miscellaneous income (expense)	7,707	(628)
Impairment loss accounted for using the equity method	-	-
Loss on disposal of property, plant and equipment	(323)	(115)
Lease income	651	-
Profit (Loss) on lease termination	450	(324)
	\$ 19,475	(13,467)

3. Financial cost

The financial costs of the Company in 2023 and 2022 are detailed as follows:

	2023	2022
Interest expense		
Bank loans	\$ 60,543	39,788
Interest expense on lease liabilities	114	188
Amortization of discount of convertible corporate bonds	12,246	13,175
Interest compensation for convertible corporate bonds	2,308	2,512
Financial expense	6,998	7,545
Interest on lawsuit compensation	-	55
Other interest expenses	334	-
	\$ 82,543	63,263

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
ENG'G CO., LTD. (continued)**

(XVII) Financial instruments

1. Credit risk

(1) The maximum amount of credit risk exposure

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

(2) Concentration of credit risks

As of December 31, 2023 and 2022, the Company's concentration of credit risks on government agencies due to project and operation contracts accounted for 94% and 89% of total receivables, respectively.

(3) Credit risk of receivables

For information on the credit risk exposure of notes and accounts receivable, see Note 6(3).

Other financial assets measured at amortized cost include other receivables (accounted for in other financial assets – current), mainly due to advance payments for jointly contracted projects, with such payments reimbursed in installments according to the progress of a project, and thus no loss allowance has been allocated. Taking into account the historical loss given default (LGD), the debtor's current financial condition and the prospects of the industry where the Company is situated, the Company has measured the expected credit loss and found no impairment.

The above are all financial assets with a low credit risk. Therefore, the loss allowance for the period is measured based on the amount of the 12-month expected credit loss (for information on how the Company determines a low credit risk, see Note 4(6)). In 2023 and 2022, no loss allowance was set aside. There was no provision for loss in 2023 and 2022.

(4) Contract assets

The Company's customers are concentrated in tenders for the government's public projects and the operation of sewage treatment systems. As of December 31, 2023 and 2022, the Company's concentration of credit risks on government agencies due to the aforementioned tenders accounted for 99% and 97% of contract assets, respectively. Since the counterparties are government agencies, there is unlikely to be any credit risk.

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
ENG'G CO., LTD. (continued)**

2. Liquidity risk

The table below shows the contractual maturities of financial liabilities, including estimated interest but excluding the effect of netting agreement.

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1–2 years</u>	<u>2–5 years</u>	<u>Over 5 years</u>
December 31, 2023						
Non-derivative financial liabilities						
Non-interest-bearing liabilities	\$ 1,185,966	1,185,966	1,070,538	18,326	97,102	-
Lease liabilities	1,277	1,374	476	194	198	506
Instruments with a floating interest rate	1,711,168	1,733,775	1,733,775	-	-	-
Instruments with a fixed interest rate	<u>1,712,052</u>	<u>1,768,366</u>	<u>857,026</u>	<u>-</u>	<u>911,340</u>	<u>-</u>
	<u>\$ 4,610,463</u>	<u>4,689,481</u>	<u>3,661,815</u>	<u>18,520</u>	<u>1,008,640</u>	<u>506</u>
December 31, 2022						
Non-derivative financial liabilities						
Non-interest-bearing liabilities	\$ 1,279,238	1,279,238	1,026,569	154,438	98,231	-
Lease liabilities	10,068	10,715	5,544	717	1,240	3,214
Instruments with a floating interest rate	1,569,990	1,588,768	1,588,768	-	-	-
Instruments with a fixed interest rate	<u>2,084,919</u>	<u>2,162,395</u>	<u>1,149,795</u>	<u>-</u>	<u>1,012,600</u>	<u>-</u>
	<u>\$ 4,944,215</u>	<u>5,041,116</u>	<u>3,770,676</u>	<u>155,155</u>	<u>1,112,071</u>	<u>3,214</u>

The Company does not expect the timing of occurrence of cash flows in the maturity analysis to be significantly earlier, or the actual amount to be significantly different.

3. Exchange rate risk: None.

4. Interest rate analysis

The interest rate exposure of the Company's financial liabilities is described in liquidity risk management under this note.

The following sensitivity analysis is based on the interest rate risk exposure of derivative and non-derivative instruments on the reporting date. The analysis of liabilities with a floating interest rate is based on the assumption that the amounts of outstanding liabilities on the reporting date are outstanding over the whole year. A 1% increase or decrease in interest rate is the rate of change used in an internal report to the Company's key management regarding interest rate, and it also represents the range of reasonable possible changes in interest rate as assessed by the management.

If the interest rate increases or decreases by 1% with all other variables remaining constant, the net profits of the Company in 2023 and 2022 would decrease or increase by NTD 4,285 thousand and NTD 3,646 thousand respectively, mainly due to its deposits and

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
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loans with floating interest rates.

5. Fair value information

(1) Types and fair values of financial instruments

The Company's financial assets measured at fair value through profit/loss and financial assets measured at fair value through other comprehensive income are measured at fair value on a recurring basis. The carrying amounts and fair values of various types of financial assets or financial liabilities (including the information of fair value levels, except that no fair value information must be disclosed for financial instruments not measured at fair value whose carrying amount is a reasonable approximation to the fair value, and for lease liabilities) are listed as follows:

	2023.12.31				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through other comprehensive income					
Equity instruments without open quoted price measured at fair value	\$ 60,660	-	-	60,660	60,660
Financial liabilities measured at fair value through profit/loss					
Financial liabilities measured at fair value through profit/loss on a mandatory basis	\$ 4,590	-	-	4,590	4,590
	2022.12.31				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial liabilities measured at fair value through profit/loss					
Financial liabilities measured at fair value through profit/loss on a mandatory basis	\$ 16,200	-	-	16,200	16,200

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
ENG'G CO., LTD. (continued)**

- (2) Evaluation techniques for the fair value of financial instruments not measured at fair value

The following are the methods and assumptions used by the Company to estimate instruments not measured at fair value:

- (2.1) Financial assets and liabilities measured at amortized cost

Where there is any quotation from a trader or market maker, the most recent traded price and quotation are used as the basis for assessing the fair value. If there is no market value for reference, the evaluation method will be used for estimation. The estimates and assumptions used in the evaluation method are adopted to estimate the fair value of the discount of cash flows.

- (3) Evaluation techniques for the fair value of financial instruments measured at fair value

- (3.1) Non-derivative financial instruments

Where there is an open quoted active market price for a financial instrument, the fair value will be that open quoted active market price. The market prices announced by major exchanges and by the Taipei Exchange (TPEX) for central government bonds that have been determined to be popular constitute the basis for the fair values of publicly listed equity instruments and debt instruments with open quoted active market prices.

If it is able to obtain the open quoted price of a financial instrument in a timely and regular manner from an exchange, broker, underwriter, industrial association, pricing service provider or competent authority, and if the price represents actually and regularly occurring fair market transactions, the financial instrument is deemed to have an open quoted active market price. If the aforementioned conditions are not met, the market is deemed to be inactive. In general, a large bid-ask spread, a significant increase in the bid-ask spread, or a low trading volume is an indicator of an inactive market.

Where a financial instrument held by the Company has no active market, its fair value is an equity instrument without any open quoted price based on its type and attributes. Its fair value is estimated using the market approach, with its main assumptions for measurement based on the comparative corporate market value and financial information of an investee. Such estimate has adjusted the effect of the discount on the liquidity of the equity securities.

- (3.2) Derivative financial instruments

The evaluation is based on an evaluation model widely accepted by market

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
ENG'G CO., LTD. (continued)**

users, and the fair value is estimated using the market approach and a binary-tree convertible bond evaluation model.

(4) Transfer between Level 1 and Level 2: None.

(5) Statement of changes in Level 3

	Measured at fair value through profit/loss	Measured at fair value through other comprehensive income
	Embedded derivative financial instruments of financial liabilities held for transaction	Equity instruments without open quoted price
January 1, 2023	\$ 16,200	-
Recognized in profit/loss	(10,910)	-
Recognized in other comprehensive income	-	37,297
Purchase (Note)	-	23,363
Conversion of corporate bonds	(700)	-
December 31, 2023	\$ 4,590	60,660
January 1, 2022	\$ 3,800	-
Recognized in profit/loss	12,400	-
December 31, 2022	\$ 16,200	-

Note: As of December 31, 2023, the outstanding payments amounted to NTD 23,363 thousand, which were accounted for as other payables.

The total profits or losses above are accounted for in “other profits and losses” and “unrealized evaluation profit (loss) on financial assets measured at fair value through other comprehensive income.” Those related to assets still held as of December 31, 2023 and 2022 are as follows:

	2023	2022
Total profits or losses		
Recognized in profit/loss (accounted for in “other profits and losses”)	\$ 10,910	(12,400)
Recognized in other comprehensive income (accounted for in “unrealized evaluation profit (loss) on financial assets measured at fair value through other comprehensive income”)	23,363	-

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
ENG'G CO., LTD. (continued)**

(6) Quantitative information on the fair value measurement of significant unobservable inputs (Level 3)

The Company's fair value measurements classified as Level 3 mainly include financial liabilities measured at fair value through profit/loss – derivative financial instruments and financial assets measured at fair value through other comprehensive income – investments in equity securities.

Most of the Company's fair values are classified as Level 3, with only one single significant unobservable input.

The quantitative information of significant unobservable inputs is listed as follows:

Item	Evaluation technique	Significant unobservable input	Relationship between the significant unobservable input and fair value
Financial assets measured at fair value through other comprehensive income – investments in equity instruments without active market	Market approach	Liquidity discount (30% as of December 31, 2023)	The higher the liquidity discount, the lower the fair value.
Financial liabilities measured at fair value through profit/loss – embedded derivative financial instruments	Binary-tree convertible bond evaluation model	Volatility (21.22% and 14.95% as of December 31, 2023 and 2022, respectively)	The higher the volatility, the higher the fair value.

Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL ENG'G CO., LTD. (continued)

- (7) Fair value measurement for Level 3, and sensitivity analysis of fair value to reasonably possible alternative assumptions

The Company's measurement of the fair value of financial instruments is reasonable. However, the use of different evaluation models or evaluation parameters may result in different evaluation results. For financial instruments classified as Level 3, changes in the evaluation parameters will result in the following effects on the current profit/loss or other comprehensive income:

		Change by increase or decrease	Change in fair value reflected in current profit/loss		Change in fair value reflected in other comprehensive income	
Input			Positive change	Negative change	Positive change	Negative change
December 31, 2023						
Financial liabilities measured at fair value through profit/loss						
Embedded financial instruments	Volatility	+1%	360	-	-	-
	Volatility	-1%	-	(360)	-	-
Financial assets measured at fair value through other comprehensive income						
Investment in equity instruments without active market	Liquidity discount	+1%	-	-	-	(863)
	Liquidity discount	-1%	-	-	863	-
December 31, 2022						
Financial liabilities measured at fair value through profit/loss						
Embedded financial instruments	Volatility	+1%	1,000	-	-	-
	Volatility	-1%	-	(1,200)	-	-

The positive and negative changes in the Company refer to volatility in its fair value, and the fair value is calculated using the evaluation technique based on unobservable input parameters of different levels. If the fair value of a financial instrument is affected by one or more inputs, the above table only reflects the effect of changes in a single input, and does not take into account the correlation and variability between the inputs.

(XVIII) Financial risk management

1. Summary

The Company is exposed to the following risks due to its use of financial instruments:

- (1) Credit risk
- (2) Liquidity risk
- (3) Market risk

This note presents the Company's exposure information for the risks above, and its goals, policies and procedures for the measurement and management of risks. For further quantitative disclosures, see the relevant notes to the parent-only financial report.

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
ENG'G CO., LTD. (continued)**

2. Risk management framework

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and the compliance of risk limits. The risk management policies and systems are regularly reviewed to reflect changes in market conditions and the operations of the Company. Through training, management guidelines and operating procedures, the Company develops a disciplined and constructive control environment for all employees to understand their roles and obligations.

The Audit Committee of the Company oversees how the management monitors compliance with the Company's risk management policies and procedures, and reviews the appropriateness of the Company's risk management framework related to the risks it faces. The internal auditors assist the Audit Committee in playing a supervisory role. They conduct regular and special reviews of the risk management controls and procedures, and report the results of such reviews to the Audit Committee.

3. Credit risk

Credit risk is a risk of financial loss resulting from the failure of the Company's customers or counterparties for financial instruments to perform contractual obligations. Such risk mainly arises from the Company's accounts receivable from customers.

(1) Accounts receivable and other receivables

Since the Company's customers are concentrated in government agencies, there is unlikely to be any significant credit risk.

The Company still regularly assesses the possibility for the recovery of receivables and assesses loss allowance, and the result of its loss assessment remains within the management's expectations.

(2) Investment

The credit risks of bank deposits, fixed income investments and other financial instruments are measured and monitored by the Company's financial department. Since all of the transaction and contractual counterparties of the Company are banks with good credit standing and financial institutions, corporations and government agencies with an investment or higher grade, there is no significant concern about their performance, and thus there is no significant credit risk.

(3) Guarantee

For endorsements/guarantees provided by the Company for the needs of subsidiaries for loans and performance guarantee as of December 31, 2023, see Note 7(3).

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4. Liquidity risk

Liquidity risk refers to a risk that the Company is unable to deliver cash or other financial assets to settle financial liabilities and fail to fulfill related obligations. The Company manages liquidity by ensuring, as far as possible, that under normal and stressed circumstances, the Company has sufficient current funds to repay matured liabilities, without causing unacceptable losses or any damage to the Company's reputation.

5. Market risk

Market risk refers to a risk that changes in market prices, such as changes in exchange rates, interest rates or equity instrument prices, will affect the Company's income or the value of the financial instruments it holds. Market risk management aims to control the level of market risk exposure within an acceptable range and optimize investment returns. The Company is not exposed to any significant market risk.

(1) Interest rate risk

The Company's risk of interest rate changes mainly arises from its bank loans. Loans with a floating interest rate will expose the Company to cash flow risk, and loans with a fixed interest rate will expose the Company to fair value risk. The Company assesses that the level of interest rate in the operating environment where it is situated has been stable in recent years, and is thus unlikely to cause any significant interest rate risk.

(XIX) Capital management

The Company's capital management aims to ensure its going concern ability to continue to provide shareholders' returns and other stakeholders' interests, and maintain an optimal capital structure to reduce the capital cost.

In order to maintain or adjust the capital structure, the Company may adjust the dividends paid to shareholders, return payments to shareholders from capital reduction, issue new shares, or sell assets to settle liabilities.

The Company also monitors its capital structure through the debt-to-capital ratios and cash flows. The debt-to-capital ratios on the reporting date are as follows:

	<u>2023.12.31</u>	<u>2022.12.31</u>
Total liabilities	\$ 4,876,501	5,373,939
Less: Cash and cash equivalents	<u>(1,003,141)</u>	<u>(941,516)</u>
Net liabilities	3,873,360	4,432,423
Total equity	<u>5,786,567</u>	<u>5,300,919</u>
Adjusted capital	<u>\$ 9,659,927</u>	<u>9,733,342</u>
Debt-to-capital ratio	<u>40.10%</u>	<u>45.54%</u>

Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL ENG'G CO., LTD. (continued)

The debt-to-capital ratio as of December 31, 2023 decreased due to an increase in bank deposits and share capital as a result of a cash capital increase in the current period.

(XX) Investing and financing activities of non-cash transactions

There were no significant investing and financing activities of non-cash transactions.

VII. Related party transactions

(I) Parent company and ultimate controller

Ho Ching Enterprises Co., Ltd. is the Company's parent company, holding 66.87% of the outstanding common shares of the Company. Rich Development Co., Ltd. is the ultimate controller of the group to which the Company belongs. Rich Development Co., Ltd. has prepared a consolidated financial report for public use.

(II) Names of related parties and their relationship

The following are the subsidiaries of the Company and other related parties conducting transactions with the Company during the period covered by this parent-only financial report:

Name of related party	Relationship with the Company
Rich Development Co., Ltd. (hereinafter "Rich Development")	Ultimate parent company of the Company
Orient Forest Development Enterprise Co., Ltd. (hereinafter "Orient Forest")	Subsidiary of the Company
Green Forest Development Enterprise Co., Ltd. (hereinafter "Green Forest")	Subsidiary of the Company
Perfection Forest Development Enterprise Co., Ltd. (hereinafter "Perfection Forest")	Subsidiary of the Company
Grain Forest Green Energy Co., Ltd. (hereinafter "Grain Forest")	Subsidiary of the Company
Easy Development Co., Ltd. (hereinafter "Easy Development")	Subsidiary of the Company
Re-use Environmental Co., Ltd. (hereinafter "Re-use")	Subsidiary of the Company
Eastern Forest Environmental Technology Co., Ltd. (hereinafter "Eastern Forest")	Subsidiary of the Company
Rising Environmental Co., Ltd. (hereinafter "Rising")	Subsidiary of the Company
Modern Rich Investment Limited (hereinafter "Modern Rich")	Subsidiary of the Company
Lea Lea Environmental Enterprise Co., Ltd. (hereinafter "Lea Lea Environmental")	Subsidiary of the Company
Top Forest Water Co., Ltd. (hereinafter "Top Forest")	Subsidiary of the Company
Ho Ching Enterprises Co., Ltd. (hereinafter "Ho Ching Enterprises")	Parent company of the Company
Chih Mei International Trade Co., Ltd. (hereinafter "Chih Mei International")	The chairman of the company is also the chairman of the Company
Chih Mau International Co., Ltd. (hereinafter "Chih Mau International")	The chairman of the company is also the chairman of the Company
Bloom Creative Co., Ltd. (hereinafter "Bloom Creative")	The chairman of the company is also the chairman of the Company
Lea Jing Enterprise Co., Ltd. (hereinafter "Lea Jing Enterprise")	The chairman of the company is also the chairman of the Company
Lea Green Care	The chairman of the company is a director of the Company

Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL ENG'G CO., LTD. (continued)

Name of related party	Relationship with the Company
Mu Sheng Cloud Interior Decoration and Design Co., Ltd. (hereinafter “Mu Sheng Cloud”)	The chairman of the company is a director of the Company
Giantforest Solutions Co., Ltd. (hereinafter “Giantforest Solutions”)	The chairman of the company is a director of the Company
Howsler Foods Co., Ltd. (hereinafter “Howsler Foods”)	The chairman of the company is a director of the Company
Qing Shan Lin Limited (hereinafter “Qing Shan Lin”)	The chairman of the company is a director of the Company
Yilan Lealea Development Co., Ltd. (hereinafter “Yilan Lealea”)	The chairman of the company is a director of the Company
ITT Management Co., Ltd. (hereinafter “ITT Management”)	The chairman of the company is a director of the Company
Yilan County Lea Lea Elderly Care Center	The chairman of the company is a director of the Company
Jia Rui Development Co., Ltd. (hereinafter “Jia Rui Development”)	The chairman of the company is a director of the Company
Hon Lin Heavy Industries Co., Ltd. (hereinafter “Hon Lin Heavy Industries”)	A director of the company is a relative within the second degree of kinship of the Company’s chairman
Teamphon Energy Co., Ltd. (hereinafter “Teamphon Energy”)	A director of the company is a director of the Company
Lead U Education Co., Ltd. (hereinafter “Lead U Education”)	A director of the company is a director of the Company
Lealea Eagle Travel Service Co., Ltd. (hereinafter “Lealea Eagle”)	A director of the company is a director of the Company
Buy Chow Foods Co., Ltd. (hereinafter “Buy Chow Foods”)	A director of the company is a director of the Company
Neng Pan Engineering Co., Ltd. (hereinafter “Neng Pan Engineering”)	A director of the company is a director of the Company
Lealea Hotels and Resorts Co., Ltd. (hereinafter “Lealea Hotels and Resorts”)	A director of the company is the chairman of the Company
Ilea Hotel Co., Ltd. (hereinafter “Ilea Hotel”)	A supervisor of the company is a director of the Company
Li Young Electrical Development Co., Ltd. (hereinafter “Li Young Electrical”)	De facto related party
Libolon Enterprise Co., Ltd. (hereinafter “Libolon”)	De facto related party
Lealea Mingchih Resort Co., Ltd. (hereinafter “Lealea Mingchih”)	De facto related party
Lealea Development Co., Ltd. (hereinafter “Lealea Development”)	De facto related party
Forest Water Sustainability Tech EP Engineering Co., Ltd. (hereinafter “Forest Water Sustainability”)	De facto related party
BHL Taipei Limited (hereinafter “BHL Taipei”)	De facto related party
S.T.Y. Steels Co., Ltd. (hereinafter “S.T.Y. Steels”)	De facto related party
Ching Iee Development Co., Ltd. (hereinafter “Ching Iee Development”)	De facto related party
Hope Jet Engineering Co., Ltd. (hereinafter “Hope Jet Engineering”)	De facto related party

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
ENG'G CO., LTD. (continued)**

(III) Significant transactions with related parties

1. The amounts of significant sales from the Company to related parties are as follows:

Type of related party	Account title	2023	2022
Subsidiary – Orient Forest	Revenue from operation \$ and treatment	86,134	84,369
Subsidiary – Green Forest	Revenue from operation and treatment	122,689	118,539
		\$ 208,823	202,908

The prices of transactions with the related parties above are based on the prices agreed by both parties. The condition for a subsidiary to request payment for operation and treatment is that after it receives payment from the owner, the Company is notified to receive payment 10 days after issuing an invoice.

2. Project contracting

The amounts of projects contracted by the Company from related parties and their prices are as follows:

	Contract amount		Sales (price of the current period)	
	2023.12.31	2022.12.31	2023.12.31	2022.12.31
Subsidiary – Grain Forest	\$ 13,676	6,474	2,038	-
Subsidiary – Green Forest	114,100	92,000	58,714	47,748
	\$ 127,776	98,474	60,752	47,748

The price of a project contracted by the Company from a related party is reimbursed on a monthly basis at the price agreed by both parties, and is received in a 30-day check after acceptance of a transaction payment request. There is no significant difference with the terms of transactions with a non-related party. In addition, the contract assets (liabilities) and advance receipts arising from projects contracted by the Company from related parties are as follows:

	Contract assets (liabilities)	
	2023.12.31	2022.12.31
Subsidiary – Grain Forest	\$ 5,376	6,419
Subsidiary – Green Forest	(11,546)	(10,486)
	\$ (6,170)	(4,067)

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
ENG'G CO., LTD. (continued)**

3. Outsourcing contract

The amounts of projects outsourced by the Company to related parties and their prices are as follows:

	Contract amount		Purchase (price of the current period)	
	2023.12.31	2022.12.31	2023	2022
Hope Jet Engineering	\$ 53,980	-	712	-
Li Young Electrical	20,650	154,060	(79)	50,445
Hon Lin Heavy Industries	12,721	34,810	(561)	791
Forest Water Sustainability	377,497	192,381	101,647	56,613
S.T.Y. Steels	935	22,054	935	22,054
BHL Taipei	11,076	8,312	6,506	4,570
Other	5,041	5,041	470	-
	\$ 481,900	416,658	109,630	134,473

The price of a project contracted by the Company with a related party is the result of price consultation, comparison, and negotiation. It is reimbursed on a monthly basis at the price agreed by both parties and is paid in a 30-day check after receipt of a payment request. In the case of some related parties, half of the price is paid in a demand check and the other half is paid in a 30-day check. There is no significant difference with the terms of transactions with a non-related party.

4. Receivable from related parties

The Company's receivables from related parties are detailed as follows:

Account title	Type of related party	2023.12.31	2022.12.31
Notes and accounts receivable	Subsidiary – Orient Forest	\$ 25,164	27,197
Notes and accounts receivable	Subsidiary – Green Forest	32,739	65,880
Notes and accounts receivable	Other related parties	-	29
Other receivables	Subsidiary – others	1,685	952
Other receivables	Other related parties	709	109
		\$ 60,297	94,167

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
ENG'G CO., LTD. (continued)**

5. Prepayments

The prepayments from the Company to related parties for contracting projects are detailed as follows:

	<u>2023.12.31</u>	<u>2022.12.31</u>
Hon Lin Heavy Industries	\$ -	2,520
Forest Water Sustainability	13,675	26,620
BHL Taipei	6,868	-
	<u>\$ 20,543</u>	<u>29,140</u>

6. Payables to related parties

The Company's payables to related parties are detailed as follows:

<u>Account title</u>	<u>Type of related party</u>	<u>2023.12.31</u>	<u>2022.12.31</u>
Notes and accounts payable	Ultimate parent company	\$ -	63
Notes and accounts payable	Subsidiary – Green Forest	1,734	1,202
Notes and accounts payable	Other related party – Qing Shan Lin	87	530
Notes and accounts payable	Other related party – Li Young Electrical	-	16,348
Notes and accounts payable	Other related party – Forest Water Sustainability	35,365	11,401
Notes and accounts payable	Other related party – others	3,677	6,231
Other payables	Subsidiary – Orient Forest	-	12
Other payables	Other related parties	892	329
		<u>\$ 41,755</u>	<u>36,116</u>

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
ENG'G CO., LTD. (continued)**

7. Lease (Rental)

The Company has rented office buildings and parking spaces from the ultimate parent company and other related parties, and has signed a lease contract for one to two years with reference to the office rent in the neighboring areas. The interest expenses recognized in 2023 and 2022 were NTD 26 thousand and NTD 74 thousand, respectively, and the balances of lease liabilities as of December 31, 2023 and 2022 were NTD 0 and NTD 2,682 thousand, respectively.

8. The amounts of guarantees provided by the Company to affiliates in accordance with contracts for the needs for loans and performance guarantee are as follows:

	<u>2023.12.31</u>	<u>2022.12.31</u>
Subsidiary – Grain Forest	\$ 375,278	407,000
Subsidiary – Top Forest	100,000	-
	<u>\$ 475,278</u>	<u>407,000</u>

9. Other

- (1) In 2023 and 2022, the Company paid NTD 7,328 thousand and NTD 7,082 thousand, respectively, to other related parties as the costs for software maintenance and IT equipment.
- (2) In 2023 and 2022, the Company donated NTD 0 and NTD 3,112 thousand, respectively, to other related parties.
- (3) In 2023 and 2022, the Company paid NTD 5,156 thousand and NTD 3,650 thousand, respectively, as the expenses for entertainment and company trips to other related parties due to operational needs.
- (4) In 2023 and 2022, the service fees received by the Company for providing the personnel services of subsidiaries were both NTD 11,388 thousand.
- (5) As of December 31, 2023 and 2022, the Company issued notes for deposits paid in the amounts of NTD 712,161 thousand and NTD 755,605 thousand, respectively, due to loans, endorsements/guarantees and project warranties.

(IV) Transactions with key management personnel

The remuneration for key management personnel includes:

	<u>2023</u>	<u>2022</u>
Short-term employee benefits	\$ 18,255	18,169

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
ENG'G CO., LTD. (continued)**

VIII. Pledged assets

The carrying values of the assets provided by the Company as collateral for pledge are detailed as follows:

Name of asset	Subject of collateral for pledge	2023.12.31	2022.12.31
Property, plant and equipment	Short-term notes payable	\$ 326,058	326,058
Other financial assets – current	Project performance bonds and bank loans	188,173	206,773
Other financial assets – time deposits	Project performance bonds	19,415	-
		<u>\$ 533,646</u>	<u>532,831</u>

IX. Material contingent liabilities and unrecognized contractual commitments

(I) Material unrecognized contractual commitments:

1. The unrecognized contractual commitments of the Company for sewage treatment projects are as follows:

	2023.12.31	2022.12.31
Proceeds not received after contracting (before tax)	<u>\$ 3,744,185</u>	<u>5,357,545</u>
Proceeds not paid after contracting (before tax)	<u>\$ 2,410,953</u>	<u>2,211,777</u>

2. The material outsourced operation contracts entered into by the Company are as follows:

Calculated based on the monthly amount of sewage treated

Owner	Project title	Term of performance
Green Forest Development Enterprise Co., Ltd.	Operation and maintenance of the sewage treatment plant in Nanzi	April 2006 to April 2041
Orient Forest Development Enterprise Co., Ltd.	Operation and maintenance of the sewage treatment plant in Luodong	December 2015 to December 2040

Part of the amount is regular revenue, and part of it is reimbursed according to the monthly amount of investment, with the amount reimbursed each year not exceeding the limit set by the contract

Owner	Project title	Term of performance
Yilan County Government	Operation and maintenance of the water recycling center in Yilan	December 2023 to November 2026
Central Taiwan Science Park Bureau, National Science and Technology Council	Operation and maintenance of the sanitary sewage system in Taichung Industrial Park	January 2020 to December 2024
Chiayi City Government	Operation and maintenance of the water recycling center in Chiayi	November 2022 to December 2025
Water Resources Bureau, Tainan City Government	Operation and maintenance of the water recycling center and reclaimed water treatment plant in Yongkang, Tainan City	December 2022 to December 2037
Southern Taiwan Science Park Bureau, National Science and Technology Council	Operation and management of the advanced reclaimed water management facilities, water distribution reservoir and water distribution network in Yongkang, Tainan City	December 2022 to December 2037
Penghu Branch, Office for District 7, Taiwan Water Corporation	Construction, operation and maintenance of an additional 6,000-metric ton seawater desalination plant in Magong	October 2023 to October 2038

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
ENG'G CO., LTD. (continued)**

(II) Contingent liabilities:

1. As of December 31, 2023 and 2022, the Company issued notes for deposits paid in the amounts of NTD 747,236 thousand and NTD 790,680 thousand, respectively, due to contracting, loans and other operational needs. For endorsements/guarantees provided for the needs of subsidiaries for loans and performance guarantee, see Note 7(3).
2. As of December 31, 2023 and 2022, the Company had banks issue performance bonds in the amounts of NTD 1,000,149 thousand and NTD 1,217,665 thousand, respectively, due to the needs for performance guarantee.
3. On January 19, 2019, the Company signed contracts with the for the “Turnkey Project on the Construction of Water Recycling Center and Reclaimed Water Treatment Plant in Yongkang, Tainan City” and the “Turnkey Project on the Construction of Advanced Reclaimed Water Treatment Facilities, Water Distribution Reservoir and Water Distribution Network in Yongkang, Tainan City.” As of December 31, 2023, NTD 515,000 thousand has been deducted by the owner for failure to meet the construction schedule (accounted for as accounts receivable). However, the construction process of the projects was affected by adjacent projects, the COVID-19 pandemic, complicated review procedures due to inconsistencies of the GIS maps provided by the Southern Taiwan Science Park Bureau, the weather, and administrative factors, causing delays in the construction schedule. Therefore, the Company is currently actively requesting the owner for an extension of the construction schedule not attributable to the Company. After considering the above-mentioned factors not attributable to the Company, the Company estimated a fine of NTD 79,156 thousand (accounted for as a deduction of the operating revenue for 2022) as a result of the failure of the projects to meet the deadline for performance. Based on the attorney’s assessment and the explanation in a letter from the competent authority, the extension of the construction schedule requested was justified and not baseless. On January 5, 2023, the Company filed an application for mediation, but the final decision is still subject to the result of subsequent remedy.
4. As of December 31, 2023, the Company was fined NTD 23,750 thousand by the owner for breach of the contract due to the failure of the equipment and water quality to meet the standards in the Water Pollution Control Act, as a result of its contract with the Taipei City Government on the “Operation and Maintenance of the Dihua Wastewater Treatment Plant – Phase 6.” However, the criteria for imposition of part of the fines are still disputed. Based on the results of previous mediation for the same type of fine, the amount of the relevant fine was estimated to be NTD 11,875 thousand (accounted for as a deduction of the

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
ENG'G CO., LTD. (continued)**

operating revenue for 2022). The Company will subsequently file an application for mediation, but the final decision is still subject to the result of subsequent remedy.

X. Material losses from disasters: None.

XI. Material subsequent events

On March 14, 2024, the Board of Directors of the Company adopted a resolution for the disposal of nine lots of land including Zhuanzi Lot No. 1209 in Ligang, Pingtung County to non-related parties at a total contract price of NTD 326,058 thousand.

XII. Other

The following is a summary of the expenses of employee benefits, depreciation, depletion and amortization by function:

Function Nature	2023			2022		
	Classified as operating cost	Classified as operating expense	Total	Classified as operating cost	Classified as operating expense	Total
Employee benefit expense						
Salary expense	249,024	54,696	303,720	275,026	51,163	326,189
Labor and health insurance expenses	28,169	6,478	34,647	32,569	6,118	38,687
Pension expense	12,809	3,443	16,252	15,027	3,540	18,567
Remuneration for directors	-	10,272	10,272	-	12,130	12,130
Other employee benefit expenses	14,814	5,887	20,701	17,235	7,344	24,579
Depreciation expense	12,390	4,695	17,085	10,905	4,624	15,529
Amortization expense	-	-	-	-	-	-

The following is additional information on the number of employees and employee benefit expenses of the Company in 2023 and 2022:

	2023	2022
Number of employees	597	718
Number of non-employee directors	8	7
Average employee benefit expense	\$ 637	\$ 574
Average employee salary expense	\$ 516	\$ 459
Adjustment to average employee salary expense	12.42%	0.22%
Remuneration for supervisors	\$ -	\$ -

The Company's remuneration policies (including directors, supervisors, managers and employees) are as follows:

- (I) According to the Company's remuneration policy for directors and supervisors, directors and supervisors performing duties for the Company are entitled to receive remuneration from the Company regardless of whether the Company records a profit or loss, and the Board of Directors

Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL ENG'G CO., LTD. (continued)

is authorized to pay such remuneration in accordance with the standards of peers and the relevant laws and regulations. For the regulations governing the remuneration for directors and supervisors, see Note 6(15).

- (II) According to the Company's remuneration policy for employees, the salary, annual bonus or salary adjustment for an employee is based on a comprehensive consideration of the job market information and overall operating performance, as well as the employee's position, length of service and the result of performance evaluation. For the regulations governing the remuneration for employees, see Note 6(15).

XIII. Note disclosures

(I) Information of significant transactions

In accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, the Company is required to further disclose the following information of significant transactions in 2023:

1. Funds loaned to others: None.
2. Endorsements/Guarantees to others:

Unit: NTD thousand

No.	Name of company providing endorsement/guarantee	Recipient of endorsement/guarantee		Limit of endorsement/guarantee to a single company	Maximum balance of endorsement/guarantee for the current period	Balance of endorsement/guarantee at end of the period	Actual amount disbursed	Amount of endorsement/guarantee secured by property	Cumulative amount of endorsements/guarantees as a percentage of the net value of the financial statements for the most recent period	Maximum amount of endorsement/guarantee	Endorsement/Guarantee from the parent company to a subsidiary	Endorsement/Guarantee from a subsidiary of the parent company	Endorsement/Guarantee to China
		Company name	Relationship										
0	The Company	Grain Forest Green Energy Co., Ltd.	2	1,157,313	407,000	375,278	375,278	-	6.49%	2,893,284	Y	N	N
0	The Company	Top Forest Water Co., Ltd.	2	1,157,313	100,000	100,000	-	-	1.73%	2,893,284	Y	N	N

Note 1: 0 represents the Company.

Note 2: It is sufficient to indicate only the number of one of the following types of relationship between the provider and recipient of endorsement/guarantee:

- (1) A company engaging in business transactions with the Company.
- (2) A company where the Company directly and indirectly holds more than 50% of the voting shares.
- (3) A company directly and indirectly holding more than 50% of the voting shares of the Company.
- (4) Between companies where the Company directly and indirectly holds no less than 90% of the voting shares.
- (5) A company mutually guaranteed according to a contract between peer companies or joint applicants due to the need for project contracting.
- (6) A company receiving endorsements/guarantees from all contributing shareholders in proportion to their shareholdings due to a relationship of joint investment.

Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL ENG'G CO., LTD. (continued)

Note 3: The total amount of liability for endorsement/guarantee and the limit of endorsement to a single company, as set forth in the Regulations Governing Endorsements/Guarantees of the Company, are as follows:

- (1) The total amount of liability for external endorsements/guarantees shall not exceed 50% of the Company's net value.
- (2) The amount of endorsements/guarantees to a single company shall not exceed 20% of the Company's net value of the current period.

3. Securities held at end of the period (excluding the equity of investee subsidiaries, associates and joint ventures):

Unit: NTD thousand

Holding company	Type and name of securities	Relationship with the securities issuer	Account title	End of period				Remarks
				Number of shares (unit)	Carrying amount	Shareholding (%)	Fair value	
Forest Water Environmental Engineering Co., Ltd.	Millenmin Ventures Inc.	-	Financial assets measured at fair value through other comprehensive income – non-current	1,648,000	-	3.91 %	-	
Forest Water Environmental Engineering Co., Ltd.	Taiya Renewable Energy Co., Ltd.	-	Financial assets measured at fair value through other comprehensive income – non-current	1,693,000	60,660	1.19 %	60,660	
Re-use Environmental Co., Ltd.	Mega Diamond Money Market Fund	-	Financial assets measured at fair value through profit/loss – current	3,947,689	50,923	- %	50,923	
Re-use Environmental Co., Ltd.	Teamphon Energy Co., Ltd.	-	Financial assets measured at fair value through profit/loss – current	489,000	12,738	1.52 %	12,738	
Re-use Environmental Co., Ltd.	Yung Fu Co., Ltd.	-	Financial assets measured at fair value through other comprehensive income – non-current	535,415	10,393	0.76 %	10,393	
Orient Forest Development Enterprise Co., Ltd.	Jih Sun Money Market Fund	-	Financial assets measured at fair value through profit/loss – current	3,334,156	50,861	- %	50,861	
Orient Forest Development Enterprise Co., Ltd.	Capital Money Market Fund		Financial assets measured at fair value through profit/loss – current	4,292,113	71,193	- %	71,193	
Green Forest Development Enterprise Co., Ltd.	Mega Diamond Money Market Fund	-	Financial assets measured at fair value through profit/loss – current	7,022,141	90,582	- %	90,582	
Modern Rich Investment Limited	Tien Li Offshore Wind Technology Co., Ltd.	-	Financial assets measured at fair value through other comprehensive income – non-current	1,280,000	63,155	1.83 %	63,155	
Modern Rich Investment Limited	Asia Renewable Energy (Cayman) Ltd	-	Financial assets measured at fair value through other comprehensive income – non-current	2,820,278	38,581	2.77 %	38,581	

**Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL
ENG'G CO., LTD. (continued)**

4. Cumulative amount of purchase or sale of the same securities equaling or exceeding NTD 300 million or 20% of the paid-in capital: None.
5. Amount of real property acquired equaling or exceeding NTD 300 million or 20% of the paid-in capital: None.
6. Amount of real property disposed of equaling or exceeding NTD 300 million or 20% of the paid-in capital: None.
7. Amount of purchase/sale of goods from/to related parties equaling or exceeding NTD 100 million or 20% of the paid-in capital:

Unit: NTD thousand

Purchasing (Selling) company	Name of counterpart y	Relations hip	Transaction details				Difference of the transaction terms with those of regular transactions and the reason for such difference		Notes/Accounts receivable (payable)		Remar ks
			Purchase (Sale)	Amount	Share of total purchase (sale)	Loan period	Unit price	Loan period	Balance	Share of total notes/account s receivable (payable)	
Forest Water Environmental Engineering Co., Ltd.	Green Forest Development Enterprise Co., Ltd.	Parent company to subsidiary	銷貨	181,403	7.94 %	Priced on a monthly basis	-	-	32,739	3.20%	

8. Payments receivable from related parties equaling or exceeding NTD 100 million or 20% of the paid-in capital: None.
9. Transactions of derivative instruments: None.

Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL ENG'G CO., LTD. (continued)

(II) Information of investee companies:

The following is the information of the Company's investee companies in 2023:

Unit: NTD thousand/(Foreign currency)

Name of investor company	Name of investee company	Location	Primary business	Initial amount of investment		Held at end of the period			Profit/ Loss of investee company in the current period	Profit/Loss on investments recognized in the current period	Remarks
				End of the current period	End of the previous year	Number of shares	Percentage	Carrying amount			
Forest Water Environmental Engineering Co., Ltd.	Orient Forest Development Enterprise Co., Ltd.	ROC	Water treatment, piping, wastewater (sewage) treatment, etc.	1,773,984	1,773,984	223,013,980	100.00%	3,092,413	177,641	177,641	
Forest Water Environmental Engineering Co., Ltd.	Green Forest Development Enterprise Co., Ltd.	"	"	1,797,842	1,797,842	218,403,619	70.00%	2,854,208	295,666	206,966	
Forest Water Environmental Engineering Co., Ltd.	Perfection Forest Development Enterprise Co., Ltd.	"	"	200,000	190,000	20,000,000	100.00%	73,969	(39,178)	(39,178)	
Forest Water Environmental Engineering Co., Ltd.	Top Forest Water Co., Ltd.	"	Water treatment, treatment of reclaimed water, etc.	70,000	-	7,000,000	70.00%	69,164	(1,195)	(836)	
Forest Water Environmental Engineering Co., Ltd.	Easy Development Co., Ltd.	"	Waste disposal, etc.	139,990	139,990	11,000,000	100.00%	5,611	(3,976)	(3,976)	
Forest Water Environmental Engineering Co., Ltd.	Grain Forest Green Energy Co., Ltd.	"	Power generation from renewable energy	318,500	318,500	31,850,000	70.00%	157,968	(13,167)	(9,217)	
Forest Water Environmental Engineering Co., Ltd.	Eastern Forest Environmental Technology Co., Ltd.	"	Environmental health and pollution prevention	35,000	35,000	3,500,000	70.00%	12,893	(7,099)	(4,970)	
Forest Water Environmental Engineering Co., Ltd.	Re-use Environmental Co., Ltd.	"	Waste disposal, etc.	318,248	318,248	3,427,710	50.41%	349,686	104,743	42,632	
Forest Water Environmental Engineering Co., Ltd.	Rising Environmental Co., Ltd.	ROC	Waste disposal, etc.	500	500	50,000	100.00%	456	1	1	
Forest Water Environmental Engineering Co., Ltd.	Lea Lea Environmental Enterprise Co., Ltd.	"	"	215,549	206,049	5,092,000	95.00%	112,593	(26,279)	(30,008)	
Forest Water Environmental Engineering Co., Ltd.	Modern Rich Investment Limited	Samoa	Investments in production and financial businesses	258,795(Note) (USD5,610,000) (RMB20,000,000)	260,443(Note) (USD5,610,000) (RMB20,000,000)	8,568,730	100.00%	213,645	5,491	5,491	
Eastern Forest Environmental Technology Co., Ltd.	Li Xing Investment Co., Ltd.	"	"	- (USD-)	16,276(Note) (USD530,000)	-	- %	-	(325)	(325)	
Li Xing Investment Co., Ltd.	Forest Water Investment Co., Ltd.	"	"	- (USD-)	15,662(Note) (USD510,000)	-	- %	-	(277)	(277)	
Modern Rich Investment Limited	Faith Honest International Investment Limited	"	"	86,694(Note) (USD5,000) (RMB20,000,000)	88,314(Note) (USD5,000) (RMB20,000,000)	2,963,730	100.00%	111,363	5,533	5,533	
Faith Honest International Investment Limited	Loyal Sheen International Limited	BVI	"	86,540(Note) (RMB20,000,000)	88,160(Note) (RMB20,000,000)	40	40.00%	111,343	17,040	5,533	Associate

Note: Translated by multiplying the investee company's original amount of investment in the original currency by the exchange rate at the end of the period.

Notes to the Parent-only Financial Report of FOREST WATER ENVIRONMENTAL ENG'G CO., LTD. (continued)

(III) Information of investments in Mainland China:

- Names of investee companies in China, their primary business, and other relevant information:

Unit: NTD thousand/(Foreign currency) thousand

Name of investee company in China	Primary business	Paid-in capital	Investment form	Accumulated amount of investments remitted from Taiwan at beginning of the current period	Amount of investments remitted or recovered in the current period		Accumulated amount of investments remitted from Taiwan at end of the current period	Profit/Loss of investee company in the current period	The Company's shareholding in direct or indirect investments	Profit/Loss on investments recognized in the current period	Carrying value of investments at end of the period	Profit on investments received as of the current period
					Remitted	Recovered						
Anning (Beijing Holdings) Haoyuan Water Co., Ltd. (Note 3)	Water treatment, wastewater (sewage) treatment, etc.	101,685 (RMB23,500)	(Note 1)	86,540 (Note 2) (RMB20,000)	-	-	86,540 (Note 2) (RMB20,000)	18,557 (RMB4,249)	40.00%	7,423 (RMB1,700)	85,949 (RMB19,863)	9,440 (RMB2,180)
Beijing Forest Water Environment Technology Co., Ltd. (Note 3)	Soil restoration project and related treatment	19,093 (RMB4,459)	(Note 1)	13,875 (Note 2) (RMB3,240)	-	2,615 (Note 4) (USD85)	11,261 (Note 2) (RMB2,630)	111 (RMB25)	-%	54 (RMB12)	- (RMB-)	-

Note 1: The investment is made by investing in companies in a third area and then reinvesting in companies in China.

Note 2: Translated by multiplying the Company's actual amount of investment in the original currency by the exchange rate at the end of the period.

Note 3: The profit/loss on investment is recognized according to the indirect shareholding as audited by the CPAs of the parent company in Taiwan.

Note 4: On April 14, 2022, Beijing Forest Water Environment Technology Co., Ltd. underwent liquidation by a resolution of its shareholders' meeting. On April 19, 2023, it remitted liquidated share payments amounting to USD 84,506 to its investor company Forest Water Investment Co., Ltd.

- Limit on the amount of investments in China:

Accumulated amount of investments remitted from Taiwan to China at end of the current period	Amount of investments approved by the Investment Commission, MOEA	Limit on amount of investments in China as required by the Investment Commission, MOEA
86,540 (RMB20,000)	86,540 (RMB20,000)	3,471,940 (Note 1)

Note 1: Calculation of the limit: Net equity of the current period x 60% = NTD 5,786,567 thousand x 60% = NTD 3,471,940 thousand.

- Significant transactions with the investee companies in China: None.

(IV) Information of major shareholders:

Name of major shareholder	Shares	Number of shares held	Shareholding (%)
Ho Ching Enterprises Co., Ltd.		105,220,007	66.87%

XIV. Segment information

See the 2023 consolidated financial report.

**FOREST WATER ENVIRONMENTAL ENG'G
CO., LTD.**

Statement of Cash and Cash Equivalents

December 31, 2023

Unit: NTD thousand

Item	Summary	Amount
Cash on hand and petty cash		\$ 6,859
Bank deposits		
Check deposits		8,970
Demand deposits	Including USD 367, EUR 3,633 and RMB 472, translated to a total of NTD 137 thousand.	<u>987,312</u>
		<u>\$ 1,003,141</u>

Statement of Contract Assets

Name of customer	Summary	Amount	Remarks
Construction and Planning Agency, Ministry of the Interior	Project on water resources in Yongkang	\$ 118,354	
Taiwan Sugar Corporation	Project on the Yamay Plant of Taiwan Sugar Corporation	210,849	
Hsinchu Science Park Bureau, National Science and Technology Council	Project on sewage treatment in Baoshan – phase 2	83,970	
Other		<u>85,163</u>	The balance for each customer does not exceed 5%.
Net amount		<u>\$ 498,336</u>	

**FOREST WATER ENVIRONMENTAL ENG'G
CO., LTD.**

Statement of Accounts Receivable

December 31, 2023

Unit: NTD thousand

<u>Name of customer</u>	<u>Summary</u>	<u>Amount</u>	<u>Remarks</u>
Non-related parties			
Construction and Planning Agency, Ministry of the Interior	Revenue from projects	\$ 508,887	
Taiwan Sugar Corporation	"	137,355	
Tainan City Government	Revenues from projects and outsourced operation	84,805	
Changhua County Government	"	59,817	
Other	"	173,512	The balance for each customer does not exceed 5%.
Related parties			
Other	Revenues from projects and outsourced operation	48,807	The balance for each customer does not exceed 5%.
Net amount		<u><u>\$ 1,013,183</u></u>	

FOREST WATER ENVIRONMENTAL ENG'G CO., LTD.

Statement of Changes in Investments Accounted for Using the Equity Method

January 1 to December 31, 2023

Unit: NTD thousand

Name	Balance at beginning of the period		Increase in the current period		Decrease in the current period		Balance at end of the period			Net market price or equity		Provided as collateral or pledge
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Shareholding (%)	Amount	Unit price (NTD)	Total price	
Orient Forest Development Enterprise Co., Ltd.	223,013,980	\$ 2,914,772	-	177,641	-	-	223,013,980	100.00%	3,092,413	13.87	3,092,413	
Green Forest Development Enterprise Co., Ltd.	218,403,619	2,865,645	-	206,966	-	218,403	218,403,619	70.00%	2,854,208	13.07	2,854,208	
Perfection Forest Development Enterprise Co., Ltd.	19,000,000	103,147	1,000,000	10,000	-	39,178	20,000,000	100.00%	73,969	3.70	73,969	
Grain Forest Green Energy Co., Ltd.	31,850,000	167,185	-	-	-	9,217	31,850,000	70.00%	157,968	4.96	157,968	
Easy Development Co., Ltd.	11,000,000	9,587	-	-	-	3,976	11,000,000	100.00%	5,611	0.51	5,611	
Eastern Forest Environmental Technology Co., Ltd.	3,500,000	17,621	-	242	-	4,970	3,500,000	70.00%	12,893	3.68	12,894	
Modern Rich Investment Limited	8,568,730	204,346	-	20,264	-	10,965	8,568,730	100.00%	213,645	24.93	213,645	
Re-use Environmental Co., Ltd.	3,427,710	336,224	-	42,632	-	29,170	3,427,710	50.41%	349,686	44.45	152,357	
Rising Environmental Co., Ltd.	50,000	455	-	1	-	-	50,000	100.00%	456	9.12	456	
Lea Lea Environmental Enterprise Co., Ltd.	4,142,000	133,101	950,000	9,500	-	30,008	5,092,000	95.00%	112,593	0.66	3,344	
Top Forest Water Co., Ltd.	-	-	7,000,000	70,000	-	836	7,000,000	70.00%	69,164	9.88	69,164	
		<u>\$ 6,752,083</u>		<u>537,246</u>		<u>346,723</u>			<u>6,942,606</u>		<u>6,636,029</u>	

The increases/decreases in the Company's long-term investments accounted for using the equity method are detailed as follows:

Name of investee company	Investment profit recognized using the equity method	Cash dividends	Purchases in current period	Exchange differences on translation of financial statements of foreign operations	Other comprehensive income of subsidiaries recognized using the equity method – unrealized evaluation profit (loss) on financial assets measured at fair value through other comprehensive income	Total
Orient Forest Development Enterprise Co., Ltd.	\$ 177,641	-	-	-	-	177,641
Green Forest Development Enterprise Co., Ltd.	206,966	(218,403)	-	-	-	(11,437)
Perfection Forest Development Enterprise Co., Ltd.	(39,178)	-	10,000	-	-	(29,178)
Grain Forest Green Energy Co., Ltd.	(9,217)	-	-	-	-	(9,217)
Easy Development Co., Ltd.	(3,976)	-	-	-	-	(3,976)
Eastern Forest Environmental Technology Co., Ltd.	(4,970)	-	-	242	-	(4,728)
Modern Rich Investment Limited	5,491	(9,440)	-	(1,525)	14,773	9,299
Re-use Environmental Co., Ltd.	42,632	(28,107)	-	-	(1,063)	13,462
Rising Environmental Co., Ltd.	1	-	-	-	-	1
Lea Lea Environmental Enterprise Co., Ltd.	(30,008)	-	9,500	-	-	(20,508)
Top Forest Water Co., Ltd.	(836)	-	70,000	-	-	69,164
	<u>\$ 344,546</u>	<u>(255,950)</u>	<u>89,500</u>	<u>(1,283)</u>	<u>13,710</u>	<u>190,523</u>

FOREST WATER ENVIRONMENTAL ENG'G CO., LTD.

Statement of Short-term Loans

December 31, 2023

**Unit: NTD
thousand**

Loan type	Description	Balance at end of the period	Term of contract	Interest rate range	Financing limit	Mortgaged or secured
Secured loan	First Commercial Bank	\$ 36,168	November 17, 2023 – February 16, 2024	2.48%~2.59%	36,168	Other financial assets – current
Secured loan	Hua Nan Bank	150,000	December 13, 2023 – January 12, 2024	2.66%	150,000	Other financial assets – current
Secured loan	Entie Commercial Bank	180,000	November 7, 2023 – January 5, 2024	2.60%	180,000	Other financial assets – current
Secured loan	Taichung Bank	100,000	August 24, 2023 – February 23, 2024	2.32%	100,000	Other financial assets – current
Secured loan	King's Town Bank	120,000	October 2, 2023 – October 1, 2024	2.25%	120,000	Other financial assets – current
Secured loan	Bank of East Asia	100,000	December 1, 2023 – March 1, 2024	2.65%	100,000	Other financial assets – current
Secured loan	O-Bank	45,000	December 5, 2023 – March 5, 2024	2.53%	100,000	Other financial assets – current
Unsecured loan	Bank of Kaohsiung	80,000	September 20, 2023 – February 20, 2024	2.25%	80,000	None
Unsecured loan	Chang Hwa Bank	200,000	November 17, 2023 – May 17, 2024	2.45%	200,000	None
Unsecured loan	Shanghai Commercial and Savings Bank	50,000	June 26, 2023 – June 24, 2024	2.46%	50,000	None
Unsecured loan	Yuanta Bank	150,000	December 5, 2023 – March 4, 2024	2.40%	150,000	None
Unsecured loan	Taishin Bank	200,000	October 18, 2023 – January 18, 2024	2.68%	200,000	None
Unsecured loan	Taipei Fubon Commercial Bank	200,000	October 20, 2023 – May 2, 2024	2.64%	200,000	None
Unsecured loan	Export-Import Bank of the Republic of China	100,000	August 21, 2023 – August 14, 2024	2.21%	100,000	None
	Total	<u>\$ 1,711,168</u>				

Statement of Short-term Notes Payable

Item	Guaranteeing or accepting institution	Term of contract	Interest rate range	Amount	Unamortized discount of short-term notes payable	Remarks
				Amount issued (Carrying amount)		
Short-term notes payable	Mega Bills Finance Co., Ltd.	October 20, 2023 – January 18, 2024	2.430%	\$ 90,000	85	
Short-term notes payable	Grand Bills Finance Corp.	December 22, 2023 – March 21, 2024	2.370%	80,000	310	
Short-term notes payable	Taiwan Cooperative Bills Finance Corporation	November 7, 2023 – January 5, 2024	2.230%	196,000	46	
Short-term notes payable	International Bills Finance Corporation	November 14, 2023 – January 12, 2024	2.362%	330,000	165	
Short-term notes payable	China Bills Finance Corporation	December 5, 2023 – March 4, 2024	2.312%	150,000	352	
	Total			<u>\$ 846,000</u>	<u>(註) 958</u>	

Note: Accounted for in other current assets – other.

**FOREST WATER ENVIRONMENTAL ENG'G
CO., LTD.**

Statement of Accounts Payable

December 31, 2023

**Unit: NTD
thousand**

<u>Name of customer</u>	<u>Summary</u>	<u>Amount</u>	<u>Remarks</u>
Kao Hui Construction Co., Ltd.	Project payment	\$ 85,801	
AGCO Australia Limited, Taiwan Branch (Australia)	"	87,704	
Win-Win Engineering Co., Ltd.	"	73,657	
Other	"	<u>461,927</u>	The balance for each customer does not exceed 5%.
Net amount		<u><u>\$ 709,089</u></u>	

Statement of Corporate Bonds Payable

For relevant information, see Note 6(9).

**FOREST WATER ENVIRONMENTAL ENG'G
CO., LTD.**

Statement of Operating Revenue

January 1 to December 31, 2023

Unit: NTD thousand

<u>Item</u>	<u>Summary</u>	<u>Amount</u>
Revenue from water treatment project contracts	DD241-0	\$ 381,306
	DD245	227,907
	DD248	73,626
	DD250	150,868
	Other (with an amount less than 10% of the account title)	<u>593,209</u>
	Subtotal	<u>1,426,916</u>
Revenue from the operation and maintenance of water treatment projects	DD016	122,689
	DD024	176,883
	DD015	86,134
	DD020	84,421
	DD033	61,576
	Other (with an amount less than 10% of the account title)	<u>325,463</u>
	Subtotal	<u>857,166</u>
Other		<u>356</u>
Total		<u><u>\$ 2,284,438</u></u>

Statement of Operating Costs

<u>Item</u>	<u>Summary</u>	<u>Amount</u>
Costs from water treatment project contracts	DD241-0	\$ 487,148
	DD245	221,818
	DD248	187,613
	Other (with an amount less than 10% of the account title)	<u>822,099</u>
	Subtotal	<u>1,718,678</u>
Costs from the operation and maintenance of water treatment projects	DD024	118,752
	DD033	144,521
	Other (with an amount less than 10% of the account title)	<u>484,765</u>
	Subtotal	<u>748,038</u>
Less: Estimated loss on onerous contracts		<u>(62,016)</u>
Other		<u>(362)</u>
Total		<u><u>\$ 2,404,338</u></u>

**FOREST WATER ENVIRONMENTAL ENG'G
CO., LTD.**

Statement of Operating Expenses

January 1 to December 31, 2023

Unit: NTD thousand

<u>Item</u>	<u>Administrative expense</u>	<u>Remarks</u>
Salary expense	\$ 64,968	Note 1
Insurance premium	6,478	
Service expense	16,148	
Entertainment expense	9,178	
Miscellaneous expense	6,756	
Other expenses	26,783	Note 2
Total	<u><u>\$ 130,311</u></u>	

Note 1: Including salary expense – year-end bonus, overtime, and remuneration for employees and directors.

Note 2: With an amount less than 5% of the account title.

**Statement of Non-operating Revenues and
Expenses**

For relevant information, see Note 6(16).