

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

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(English Translation of Financial Statements Originally Issued in Chinese)

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Independent Auditors' Report

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

Opinion

We have audited the accompanying financial statements of FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. (the "Company"), which comprise the parent company only balance sheets as of December 31, 2022 and 2021, and the parent company only statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Parent company only Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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

Please refer to Note 4.14 Revenue recognition to the parent company only financial statements for the accounting policies for the recognition of construction revenue. Please refer to Note 5 for the uncertainty arising from assumptions and estimates that the recognition of revenue from construction contracts involve. Please refer to Note 6.14 for the relevant disclosure about revenue from contracts.

Explanations of the key audit matter:

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

Audit procedures in response:

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

Responsibilities of Management and Those Charged with Governance for the Parent company only Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Parent company only Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the parent company only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than from one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, we are required to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the disclosures, and whether the parent company only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

KPMG Taiwan

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

Reference Number of the FSC Approval letter:

No. Financial Supervisory Commission VI 0940100754

No. Financial Supervisory Commission Auditing 1110333933

March 15, 2023

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD.

Parent Company Only Balance Sheets

December 31, 2022 and 2021

Unit: thousand NTD

Assets		December 31, 2022		December 31, 2021	
		Amount	%	Amount	%
Current Assets:					
1100	Cash and cash equivalents (Note 6.1)	\$ 941,516	9	1,465,549	14
1140	Current contract assets (Note 6.14 and 7)	920,219	9	598,228	6
1150	Notes receivables , net (Note 6.3, 6.14, and 7)	13,951	-	19,664	-
1172	Accounts receivables (Note 6.3, 6.14, 7 and 9)	917,351	9	717,006	7
1220	Current tax assets	165	-	45	-
1421	Prepayments(Note 7)	161,668	1	297,419	3
1476	Other current financial assets(Note 7 and 8)	457,743	4	373,241	3
1479	Other current assets – others	30,102	-	16,565	-
		<u>3,442,715</u>	<u>32</u>	<u>3,487,717</u>	<u>33</u>
Non-current Assets:					
1551	Investments accounted for using equity method (Note 6.4)	6,752,083	63	6,728,019	63
1600	Property, plant, and equipment (Note 6.5 and 8)	379,478	4	361,001	4
1755	Right-of-use assets (Note 7)	9,605	-	9,581	-
1840	Deferred tax assets (Note 11)	79,880	1	12,160	-
1920	Refundable deposits	11,097	-	10,985	-
		<u>7,232,143</u>	<u>68</u>	<u>7,121,746</u>	<u>67</u>
Total assets		<u>\$ 10,674,858</u>	<u>100</u>	<u>10,609,463</u>	<u>100</u>

(English Translation of Financial Statements Originally Issued in Chinese)

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD.

Parent Company Only Balance Sheets (Cont.)

December 31, 2022 and 2021

Unit: thousand NTD

		<u>December 31, 2022</u>		<u>December 31, 2021</u>	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Liabilities and Equity					
Current Liabilities:					
2102	Bank loans (Note 6.7)	\$ 1,530,000	14	1,398,721	13
2111	Short-term notes payables (Note 6.6)	1,136,000	11	695,000	6
2130	Current contract liabilities (Note 6.14)	121,472	1	200,917	2
2151	Notes payables (Note 7)	291,530	3	139,895	1
2170	Accounts payables (Note 7)	768,361	7	583,791	6
2219	Other payables—others(Note 6.5, 6.15 and 7)	152,357	1	160,985	2
2250	Current provisions	277,628	3	74,006	1
2280	Current lease liabilities (Note 7)	5,403	-	4,071	-
2321	Current portion of long-term borrowings(Note 6.9)	-	-	500,000	5
2322	Current portion of corporate bonds payables with put options (Note 6.8)	39,990	-	53,320	1
2399	Other current liabilities—others	14,424	-	6,132	-
		<u>4,337,165</u>	<u>40</u>	<u>3,816,838</u>	<u>37</u>
Non-current Liabilities:					
2500	Non-current financial liabilities at fair value through profit or loss (Note 6.2 and 6.9)	16,200	-	3,800	-
2530	Corporate bonds payables (Note 6.9)	948,919	9	935,744	9
2540	Long-term borrowings (Note 6.8)	-	-	39,990	-
2580	Non-current lease liabilities(Note 7)	4,665	-	5,555	-
2645	Guaranteed deposits received	66,990	1	81,734	1
		<u>1,036,774</u>	<u>10</u>	<u>1,066,823</u>	<u>10</u>
	Total liabilities	<u>5,373,939</u>	<u>50</u>	<u>4,883,661</u>	<u>47</u>
Equity (Note 6.9 and 6.12):					
3110	Ordinary shares	1,442,492	14	1,442,492	14
3200	Capital surplus	3,819,082	36	3,819,082	36
3310	Legal reserve	278,699	3	259,111	2
3320	Special reserve	59,185	-	-	-
3350	Retained earnings	(210,086)	(2)	264,302	2
3400	Other equity	(88,453)	(1)	(59,185)	(1)
	Total equity	<u>5,300,919</u>	<u>50</u>	<u>5,725,802</u>	<u>53</u>
	Total liabilities and equity	<u>\$ 10,674,858</u>	<u>100</u>	<u>10,609,463</u>	<u>100</u>

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

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD.

Parent Company Only Statements of Comprehensive Income

For the Years Ended December 31, 2022 and 2021

Unit: thousand NTD

		<u>2022</u>		<u>2021</u>	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
4000	Operating revenue , net (Note 6.14 and 7)	\$ 2,609,244	100	2,328,736	100
5000	Operating costs (Note 6.10 and 7)	3,051,863	117	2,337,563	100
	Gross operating loss	(442,619)	(17)	(8,827)	-
6000	Operating expenses (Note 6.10, 6.15 and 7):				
6200	Administrative expenses	134,495	5	121,400	5
6300	Research and development expenses	483	-	979	-
		134,978	5	122,379	5
	Net operating income	(577,597)	(22)	(131,206)	(5)
	Non-operating income and expenses:				
7100	Interest revenue	1,928	-	15,356	1
7020	Other gains and losses (Note 6.4, 6.9 and 6.16)	(13,467)	(1)	(6,802)	-
7050	Financial costs (Note 6.9, 6.16 and 7)	(63,263)	(2)	(58,748)	(3)
7370	Share of profit or loss of associates and joint ventures accounted for using equity method (Note 13)	311,671	12	368,881	16
	Total non-operating income and expenses	236,869	9	318,687	14
		(340,728)	(13)	187,481	9
7950	Less:income tax benefits (Note 6.11)	(67,725)	(3)	(8,392)	-
	Profit (loss)	(273,003)	(10)	195,873	9
8300	Other comprehensive income:				
8310	Items not to be reclassified into profit or loss				
8330	Share of other comprehensive income of associates and joint ventures accounted for using equity method	(30,753)	(1)	(79,543)	(3)
8349	Less:income tax related to items of other comprehensive income that will not be reclassified to profit or loss	-	-	-	-
		(30,753)	(1)	(79,543)	(3)
8360	Items that may be subsequently reclassified into profit or loss				
8380	Share of other comprehensive income of associates and joint ventures accounted for using equity method	1,485	-	7,581	-
8399	Less:income tax related to items of other comprehensive income that may be reclassified to profit or loss	-	-	-	-
	Total items that may be subsequently reclassified into profit or loss	1,485	-	7,581	-
8300	Other comprehensive income	(29,268)	(1)	(71,962)	(3)
	Total comprehensive income	<u>\$ (302,271)</u>	<u>(11)</u>	<u>123,911</u>	<u>6</u>
	Profit (loss) per share (Note 6.13)				
9750	Basic earnings (losses) per share (NT\$)	<u>\$ (1.89)</u>		<u>1.36</u>	
9850	Diluted earnings (losses) per share (NT\$)	<u>\$ (1.89)</u>		<u>1.30</u>	

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

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD.

Parent Company Only Statements of Changes in Equity

For the Years Ended December 31, 2022 and 2021

Unit: thousand NTD

	Share capital		Retained earnings			Other equity		Total equity
	Ordinary shares	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) from investments in equity instruments at fair value through other comprehensive income	
Balance as of January 1, 2021	\$ 1,348,123	3,746,106	243,614	87,712	225,395	(10,330)	23,107	5,663,727
Profit for the period	-	-	-	-	195,873	-	-	195,873
Other comprehensive income for the period	-	-	-	-	-	7,581	(79,543)	(71,962)
Total comprehensive income for the period	-	-	-	-	195,873	7,581	(79,543)	123,911
Appropriation and distribution of earnings:								
Appropriation of legal reserve	-	-	15,497	-	(15,497)	-	-	-
Reversal of special reserve	-	-	-	(87,712)	87,712	-	-	-
Cash dividends of ordinary shares	-	-	-	-	(134,812)	-	-	(134,812)
Stock dividends of ordinary shares	94,369	-	-	-	(94,369)	-	-	-
Equity component recognized for issuance of convertible bonds incurred by stock options	-	72,976	-	-	-	-	-	72,976
Balance as of December 31, 2021	1,442,492	3,819,082	259,111	-	264,302	(2,749)	(56,436)	5,725,802
Losses 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)
Appropriation and distribution of earnings:								
Appropriation of legal reserve	-	-	19,588	-	(19,588)	-	-	-
Appropriation of special reserve	-	-	-	59,185	(59,185)	-	-	-
Cash dividends of ordinary shares	-	-	-	-	(122,612)	-	-	(122,612)
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

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

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD.

Parent Company Only Statements of Cash Flows

For the Years Ended December 31, 2022 and 2021

Unit: thousand NTD

	2022	2021
Cash flows from operating activities:		
Profit (loss) before tax	\$ (340,728)	187,481
Adjustments:		
Items of income and expenses		
Depreciation expenses	15,529	12,518
Amortization expenses	-	102
Net losses from financial assets and liabilities at fair value through profit or loss	12,400	1,000
Interest expenses	55,718	51,936
Interest revenue	(1,928)	(15,356)
Share of losses (profits) of associates and joint ventures accounted for using equity method	(311,671)	(368,881)
Losses from disposals and scraps of property, plant and equipment	115	257
Impairment losses of non-financial assets	-	9,033
Losses from modification of lease contracts	324	-
Appropriation of provisions	200,175	42,090
Total items of income and expense	(29,338)	(267,301)
Changes in operating assets/liabilities:		
Contract assets	(321,991)	537,381
Notes receivables	5,713	(19,664)
Accounts receivables	(200,345)	108,452
Prepayments	135,751	(256,743)
Other current assets	(13,537)	(4,956)
Other financial assets	(74,002)	(86,651)
Contract liabilities	(79,445)	(303,699)
Notes payables	151,635	(154,203)
Accounts payables	184,570	(260,390)
Other payables	(7,718)	(49,629)
Provisions	3,447	4,070
Other current liabilities	8,292	4,180
Total adjustments	(236,968)	(749,153)
Cash inflow (outflow) generated from operations	(577,696)	(561,672)
Interests received	1,834	15,409
Interest paid	(43,453)	(37,083)
Income taxes paid	(115)	(2,629)
Net cash inflow (outflow) provided by operating activities	(619,430)	(585,975)

(English Translation of Financial Statements Originally Issued in Chinese)

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD.

Parent Company Only Statements of Cash Flows (Cont.)

For the Years Ended December 31, 2022 and 2021

Unit: thousand NTD

	<u>2022</u>	<u>2021</u>
Cash flows from investing activities:		
Acquisition of investments accounted for using equity method	(35,000)	(82,500)
Acquisition of property, plant and equipment	(28,992)	(13,256)
Disposal of property, plant and equipment	30	-
Refundable deposits	(112)	(6,309)
Dividends received	293,339	239,399
Other financial assets	(10,406)	185,691
Net cash inflow (outflow) provided by investing activities	<u>218,859</u>	<u>323,025</u>
Cash flows from financing activities:		
Increase (decrease) in short-term borrowings	131,279	(161,847)
Increase (decrease) in short-term notes payables	441,000	(111,000)
Issuance of corporate bonds	-	1,013,576
Repayment of corporate bonds	(500,000)	-
Repayment of long-term borrowings	(53,320)	(26,690)
Decrease in guaranteed deposits received	(14,744)	(6,604)
Repayment of lease principal	(5,065)	(3,951)
Cash dividends distribution	(122,612)	(134,812)
Net cash inflow (outflow) provided by financing activities	<u>(123,462)</u>	<u>568,672</u>
Net increase (decrease) in cash and cash equivalents	(524,033)	305,722
Cash and cash equivalents at the beginning of period	1,465,549	1,159,827
Cash and cash equivalents at the end of period	<u>\$ 941,516</u>	<u>1,465,549</u>

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

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

(1) Company history

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

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

The parent company only financial statements of the Company were authorized for issue by the Board of Directors on March 15, 2023.

(3) New standards, amendments and interpretations adopted

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

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

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

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

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

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

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD.
Notes to the Parent Company Only Financial Statements (Cont.)

- 3) The impact of IFRSs issued by IASB but not yet endorsed by the FSC
The following summarizes the IFRSs issued by IASB but not yet endorsed by the FSC which may be relevant to the Company:

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

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

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

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

(4) Summary of significant accounting policies

The primary accounting policies adopted by the parent company only financial statements are

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD.

Notes to the Parent Company Only Financial Statements (Cont.)

explained below. Except as otherwise explained, the policies are consistently applicable in all reporting periods.

- 1) Statement of compliance

The accompanying parent company only financial statements have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers.”
- 2) Basis of preparation
 1. Basis of measurement

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

 - (a) Financial instruments at fair value through profit or loss;
 - (b) Financial assets at fair value through other comprehensive income
 2. Functional currency and presentation currency

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

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

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

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

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

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

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

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

 1. The Company expects to realize the asset, or intends to sell or consume it, in its normal operating cycle (the operating cycle of construction business is usually longer than 1 year);
 2. The Company holds the asset primarily for the purpose of trading;

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD.

Notes to the Parent Company Only Financial Statements (Cont.)

3. The Company expects to realize the asset within twelve months after reporting period;
4. The asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

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

1. The Company expects to settle the liability in normal operating cycle the operating cycle of construction business is usually longer than 1 year);
2. The Company holds the liability primarily for the purpose of trading;
3. The liability is due to be settled within twelve months after the reporting period;
4. The Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

5) Cash and cash equivalents

Cash includes cash on hand and demand deposits. Cash equivalents are highly liquid short-term time investments that are readily convertible to known amounts of cash and with maturity dates that do not present significant risks of changes in value. If time deposits meet the aforementioned definition, and the Company holds them for the purpose of short-term cash commitment, instead for investments or other purposes, they are presented as cash equivalents.

6) Financial instruments

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

1. Financial assets

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

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

(a) Financial assets at amortized cost

A financial asset is measured at amortized cost if both of the following conditions are met and not designated to be measured at fair value through profit or loss:

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

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

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Notes to the Parent Company Only Financial Statements (Cont.)

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

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

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

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

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

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

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

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

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

(d) Impairment of financial assets

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

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

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

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

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

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

The credit risk on financial assets has increased significantly when contractual payments

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are more than 121 days past due.

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

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

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

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

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

The Company shall assess whether financial assets at amortized cost and debt securities at fair value through other comprehensive income are impaired at each reporting date.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

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

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

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

(e) Derecognition of financial assets

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

If a transfer of financial asset keeps the Company having retained substantially all the

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Notes to the Parent Company Only Financial Statements (Cont.)

risks and reward of ownership of the transferred asset, the Company shall continue to recognize the transferred asset in the balance sheets.

2. Financial liabilities and equity instruments

(a) Classification of liabilities or equity

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

(b) Equity transactions

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

(c) Treasury shares

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

(d) Hybrid financial instruments •

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

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

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

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

(e) Financial liabilities

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

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

(f) Derecognition of financial liabilities

The Company shall remove a financial liability from its statement of financial position when the obligation specified in the contract is discharged or cancelled or expires. A

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Notes to the Parent Company Only Financial Statements (Cont.)

modification of the terms of an existing financial liability and there is substantially difference in cash flows shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability on the basis of fair value.

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

(g) Asset and liability offsetting

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

7) Investments in associates

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

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

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

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

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

8) Investments in subsidiaries

In preparing the parent company only financial statements, the Company accounted for investees controlled by the Company by equity method. Under the equity method, the profit or loss and other comprehensive income during the period presented in parent company only financial reports shall be the same as the allocations of profit or loss during the period and of other comprehensive income attributable to owners of the parent presented in the financial reports prepared on a consolidated basis, and the owners' equity presented in the parent company only financial reports shall be the same as the equity attributable to owners of the parent presented in the financial reports prepared on a consolidated basis.

Changes in parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are equity transactions, which are transactions with owners in their capacity as owners.

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Notes to the Consolidated Financial Statements (Cont.)

9) Property, plant and equipment

1. Recognition and measurement

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

A significant part of an item of property, plant and equipment that has a different useful life shall be treated as a separate item (main component) of property, plant and equipment. Gains or losses on disposal of property, plant and equipment shall be recognized in profit or loss.

2. Subsequent costs

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

3. Depreciation

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

Land shall not be depreciated.

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

Transportation equipment	3 ~ 5 years
Other equipment	3 ~ 10 years

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

10) Lease

At inception of a contract, the Company shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

1. Lessee

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

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

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

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

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

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Notes to the Consolidated Financial Statements (Cont.)

the lessee exercising an option to terminate the lease.

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

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

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

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

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

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

2. Lessor

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

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

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

11) Intangible assets

1. Recognition and measurement

The intangible assets with finite useful lives acquired by the Company shall be measured at cost less any accumulated amortization and any accumulated impairment losses.

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Notes to the Consolidated Financial Statements (Cont.)

2. Subsequent expenditures

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

3. Amortization

Except goodwill and intangible assets with indefinite useful lives, costs of intangible assets less estimated residual value shall be amortized by straight-line method over the useful lives and recognized in profit or loss.

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

Computer software	5 years
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The amortization method, useful lives and residual values of intangible assets shall be reviewed at each reporting date. Any adjustments shall be made if necessary.

12) Impairment of non-financial assets

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

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

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

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

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

The impairment losses of goodwill shall not be reversed. The increased carrying amount of an asset other than good will attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

13) Provisions

A provision is a present obligation arising from past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and shall be recognized when the amount of the obligation can be measured with sufficient reliability.

The amount recognized as a provision shall be discounted by the pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The amortization by discounting the provision shall be recognized as interest expenses.

1. Warranties

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

2. Onerous contracts

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

14) Revenue recognition

1. Revenue from contracts with customers

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

(a) Construction contracts

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

If the Company cannot reasonably measure the progress towards complete satisfaction of a performance obligation of a construction contract, contract revenue shall be measured only to the extent that the incurred costs are expected to be recovered.

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

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

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

(b) Operation contracts

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

15) Employee benefits

1. Defined contribution plans

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

2. Short-term employee benefits

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

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements (Cont.)

16) Share-based payment transactions

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

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

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

17) Income tax

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

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

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

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

1. the initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss);
2. temporary differences arising from investments in subsidiaries, associates, and interests in joint arrangements, the Company is able to control the timing of the reversal of the temporary differences, and it is probable that the temporary difference will not reverse in the foreseeable future; and
3. taxable temporary differences arising from the initial recognition of goodwill.

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

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

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

1. the Company has a legally enforceable right to set off current tax assets against current tax liabilities; and
2. the deferred tax assets and deferred tax liabilities related to income taxes levied by the same taxation authority on either:

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- (a) the same taxable entity; or
- (b) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

The Company declares income tax by consolidated tax returns. However, the calculation of income tax is in accordance with the aforementioned principles. The current tax assets or current tax liabilities shall be adjusted by the amount paid or received under consolidated tax returns.

18) Earnings per share

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

19) Segment information

As the Company has disclosed segment information in the consolidated financial statements, segment information will not be disclosed in the parent company only financial statements.

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

When preparing the parent company only financial statements, the management has made judgments to determine the account policies adopted, and make accounting estimates and assumptions, which affect the disclosure of reporting amount of assets, liabilities, revenue, and expenses. The actual results may be different from the estimates.

The management keeps reviewing estimates and basic assumption. Changes in accounting estimates shall be recognized in the period of the changes and the future periods that affected by the changes.

Accounting policies that involve significant judgments and have significant influence over the recognized amounts in the parent company only financial statements: None.

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

1) Construction contracts and onerous contracts

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

【Valuation processes】

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

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements (Cont.)

evidences to support the inputs provided by the external professionals, to ensure the valuation and the categorization of fair value hierarchy are in accordance with the regulations of the IFRSs.

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

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

【Policies of transfers between levels】

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

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

Please refer to the notes as follows for the assumptions adopted at measuring fair value;

- 1) Note 6.17 “Financial instruments”

(6) Explanation of significant accounts

- 1) Cash and cash equivalents

	December 31, 2022	December 31, 2021
Petty cash	\$ 7,567	6,652
Demand deposits	907,517	1,410,391
Checking deposits	26,432	48,506
Cash and cash equivalents	\$ 941,516	1,465,549

Please refer to Note 6.17 for the interest rate risk and sensitivity analysis of financial assets and liabilities.

- 2) Financial liabilities at fair value through profit or loss

	December 31, 2022	December 31, 2021
Financial liabilities mandatorily measured at fair value through profit or loss:		
The redemption rights and put options of convertible corporate bonds	\$ 16,200	3,800

1. Please refer to Note 6.16 for the amounts of remeasurement of fair value recognized in profit or loss.

2. The Company has disclosed the information on the credit risk and fair value relevant to financial assets in Note 6.17.

- 3) Notes receivables and accounts receivables

	December 31, 2022	December 31, 2021
Notes receivables—arising from operation	\$ 13,951	19,664
Accounts receivables—measured at amortized cost	917,351	717,006
Less: loss allowances	-	-
	\$ 931,302	736,670

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

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Notes to the Consolidated Financial Statements (Cont.)

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

	December 31, 2022		
Aging interval	Carrying amount of receivables	Weighted-average expected credit loss rate	Allowances for lifetime expected credit loss
Undue	<u>\$ 551,089</u>	-	<u>-</u>

	December 31, 2021		
Aging interval	Carrying amount of receivables	Weighted-average expected credit loss rate	Allowances for lifetime expected credit loss
Undue	<u>\$ 386,553</u>	-	<u>-</u>

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

	December 31, 2022		
Aging interval	Carrying amount of receivables	Weighted-average expected credit loss rate	Allowances for lifetime expected credit loss
Undue	<u>\$ 93,106</u>	-	<u>-</u>

	December 31, 2021		
Aging interval	Carrying amount of receivables	Weighted-average expected credit loss rate	Allowances for lifetime expected credit loss
Undue	<u>\$ 89,865</u>	-	<u>-</u>

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

	December 31, 2022		
Aging interval	Carrying amount of receivables	Weighted-average expected credit loss rate	Allowances for lifetime expected credit loss
Undue	<u>\$ 11,559</u>	-	<u>-</u>

	December 31, 2021		
Aging interval	Carrying amount of receivables	Weighted-average expected credit loss rate	Allowances for lifetime expected credit loss
Undue	<u>\$ 2,520</u>	-	<u>-</u>

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

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

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

2. For the years ended December 31, 2022 and 2021, there is no provision or reversal of expected credit loss.

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Notes to the Consolidated Financial Statements (Cont.)

3. As of December 31, 2022 and 2021, the notes receivables and accounts receivables were not pledged as collateral.

4) Investments accounted for using equity method

The investments accounted for using equity method at the reporting date are as follows:

	December 31, 2022	December 31, 2021
Subsidiaries	\$ 6,752,083	6,728,019

Please refer to the consolidated financial statements for the years ended December 31, 2022. The goodwill generated from the acquisition of the subsidiary, Lea Lea Environmental Enterprise Co., Ltd., in 2020 amounted to NT\$9,033 thousand, which is resulting from the expected benefit of the growth in operating revenue from the company's aggregate disposal. However, as the subsidiary is affected by the event that the former chairman and former plant manager are alleged violations of Waste Disposal Act, the operation slightly stagnates. Therefore, impairment losses of goodwill recognized in 2021 amounted to NT\$9,033 thousand.

As of December 31, 2022 and 2021, the investments accounted for using equity method were not pledged as collateral.

5) Property, plant and equipment

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

	Land	Transporta tion equipment	Other equipment	Total
Costs or deemed costs:				
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	\$ 326,058	18,951	77,344	422,353
Balance as of January 1, 2021	\$ 326,058	16,801	38,807	381,666
Addition	-	2,752	10,504	13,256
Disposal	-	(292)	(289)	(581)
Balance as of December 31, 2021	\$ 326,058	19,261	49,022	394,341
Depreciation and impairment losses:				
Balance as of January 1, 2022	\$ -	12,760	20,580	33,340
Depreciation	-	1,640	8,730	10,370
Disposal	-	(516)	(319)	(835)
Balance as of December 31, 2022	\$ -	13,884	28,991	42,875
Balance as of January 1, 2021	\$ -	11,242	13,743	24,985
Depreciation	-	1,553	7,126	8,679
Disposals	-	(35)	(289)	(324)
Balance as of December 31, 2021	\$ -	12,760	20,580	33,340

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Notes to the Consolidated Financial Statements (Cont.)

	Land	Transporta tion equipment	Other equipment	Total
Carrying amount:				
December 31, 2022	\$ 326,058	5,067	48,353	379,478
December 31, 2021	\$ 326,058	6,501	28,442	361,001
January 1, 2021	\$ 326,058	5,559	25,064	356,681

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

2. Guarantee

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

6) Short-term notes payables

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

December 31, 2022			
	Guarantee or acceptance institution	Interest rate interval	Amount
Commercial paper payables	MEGA BILLS	2.120%	\$ 80,000
"	Grand Bills	2.130%	80,000
"	Ta Ching Bills	2.502%	80,000
"	Taiwan Cooperative Bills	2.100%	196,000
"	DAH CHUNG BILLS	2.450%	150,000
"	International Bills	2.297%	300,000
"	China Bills	2.140%	150,000
"	TAIWAN FINANCE	2.342%	100,000
Total			\$ 1,136,000

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

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

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Notes to the Consolidated Financial Statements (Cont.)

7) Short-term borrowings

The details of short-term borrowings are as follows:

	December 31, 2022	December 31, 2021
Unsecured bank loans	\$ 900,000	994,000
Secured bank loans	630,000	404,721
Total	<u>\$ 1,530,000</u>	<u>1,398,721</u>
Unused credit lines	<u>\$ 150,000</u>	<u>459,227</u>
Interest rate interval	<u>1.45%~2.56%</u>	<u>1.45%~1.72%</u>

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

8) Long-term borrowings

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

December 31, 2022			
	Currency	Interest rate interval	Maturity
Unsecured bank loans	NTD	1.47%~2.09%	August 8, 2023
			\$ 39,990
Less: current portion			(39,990)
Total			<u>\$ -</u>
Unused credit lines			<u>\$ -</u>
December 31, 2021			
	Currency	Interest rate interval	Maturity
Unsecured bank loans	NTD	1.47%~1.57%	August 8, 2023
			\$ 93,310
Less: current portion			(53,320)
Total			<u>\$ 39,990</u>
Unused credit lines			<u>\$ -</u>

There is no asset pledged as collateral for the long-term borrowings.

9) Corporate bonds payables

The details of corporate bonds payables are as follows:

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

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Notes to the Consolidated Financial Statements (Cont.)

	2022	2021
Embedded derivative instruments — gains or losses from remeasurement of put option at fair value (presented as losses from financial liabilities at fair value through profit or loss)	\$ 12,400	1,000
Interest expenses	\$ 15,687	15,211

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

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

Item	The second unsecured convertible corporate bonds issued in 2020
Total amount issued	NT\$1,000,000 thousand
Issue date	September 28, 2021
Issue period	September 28, 2021~ September 28, 2026
Coupon rate	0%
Trustor	MEGA Securities Co., Ltd.
Terms of repayment	Unless the bonds are converted to ordinary shares of the Company in accordance with the terms of conversion, or the Company redeems in advance in accordance with the terms of conversion, or the Company buys back from the TPEX for the cancellation, the Company shall repay in cash one lump sum by the denomination of bonds plus interest refunds (101.26% of the denomination) when the convertible

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	bonds mature.
Terms of redemption	From the day following the three-month period after the issuance of the convertible bonds (December 29, 2021) to 40 days before the expiry of the issuance period (August 19, 2026), when the closing price of the Company's ordinary shares exceeds the current conversion price by 30% (inclusive) for 30 consecutive business days, or the outstanding balance of the convertible bonds is lower than 10% of the original total issued amount, the Company may redeem the outstanding bonds in advance.
Terms of demanding pay back by bondholders	The day after three-year period after the issuance of the convertible bond (September 28, 2024), the bondholder may demand the issuer to pay back the denomination of bonds plus interest refunds by cash (100% of the denomination).
Terms of conversion	Conversion period From the day following the three-month period after the issuance of the convertible bonds (December 29, 2021) to the maturity date (September 28, 2026), the bondholders may convert the convertible corporate bonds into ordinary shares of the Company in accordance with the terms of conversion.
Conversion price	NT\$36.3

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

10) Employee benefits

1. Defined contribution plan

The defined contribution plan is based on the Labor Pension Act. The Company make monthly contributions of 6% based on each individual employee's salary or wage to employees' pension accounts for employees. After contributing the fixed amount to Bureau of Labor Insurance under the plan, the Company has no legal or constructive obligations to pay additional amount.

The pension expenses under the defined contribution plan for the year ended December 31, 2022 and 2021 amounted to NT\$18,567 thousand and NT\$17,064 thousand, which have been contributed to the Bureau of Labor Insurance.

11) Income tax

1. Income tax expenses

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

	<u>2022</u>	<u>2021</u>
Current income tax expenses		
Adjustments to current income tax of prior periods	\$ (5)	26
Deferred income tax expenses		
Origination and reversal of temporary differences	(67,720)	(8,418)
Income tax expenses (benefits)	<u>\$ (67,725)</u>	<u>(8,392)</u>

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Notes to the Consolidated Financial Statements (Cont.)

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

	<u>2022</u>	<u>2021</u>
Profit (loss) before tax	\$ (340,728)	187,481
Income tax calculated by the local domestic enacted tax rates of each entity	\$ (68,146)	37,496
Valuation losses of financial assets and liabilities	2,480	200
Non-deductible expenses	162	9,952
Consolidated tax refund—deduction of current tax income of subsidiaries	16,749	-
Current tax losses not recognized as deferred tax assets	40,387	12,047
Interest expenses of convertible corporate bonds	3,137	3,042
Impairment losses	-	1,807
(Overestimation) underestimation in prior periods	(5)	26
Investment income (loss) accounted for using equity method	(62,334)	(73,776)
Others	(155)	814
Total	<u><u>\$ (67,725)</u></u>	<u><u>(8,392)</u></u>

2. Deferred tax assets and liabilities
(a) Deferred tax assets recognized

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

	<u>Unrealized gains from constructions</u>
Deferred tax assets:	
Balance as of January 1, 2022	\$ 12,160
Debit in the statements of comprehensive income	<u>67,720</u>
Balance as of December 31, 2022	<u>\$ 79,880</u>
Balance as of January 1, 2021	\$ 3,742
Debit in the statements of comprehensive income	<u>8,418</u>
Balance as of December 31, 2021	<u>\$ 12,160</u>

3. The declaration of the profit-seeking enterprise income tax of the Company has been verified by the tax authorities until 2020.
4. The Company and Orient Forest Development Enterprise Co., Ltd. adopt consolidated tax refund to declare profit-seeking enterprise income tax and additional tax on unappropriated earnings.
- 12) Capital and Other components of equity

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

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Notes to the Consolidated Financial Statements (Cont.)

1. Capital surplus

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

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

According to the regulation of the Company Act, after offsetting losses by capital surplus, it may distribute the realized capital surplus, by issuing new shares which shall be distributable as dividend shares to its original shareholders in proportion to the number of shares being held by each of them or by cash. The aforementioned realized capital surplus includes the income derived from the issuance of new shares at a premium, and the income from endowments received by the company. Based on the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, where a company intends to capitalize the aforementioned capital surplus, the total amount per year shall not exceed 10% of paid-in capital.

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

2. Retained earnings

According to the Articles of Incorporation, if there is any net profit after closing of a fiscal year, the Company shall first pay income tax, offset losses in previous years, set aside a legal capital reserve at 10% of the profits left over, provided that no allocation of legal reserve is required if the accumulated legal reserve is equivalent to the total capital amount of the Company; and then set aside a special reserve as required in operation and in accordance with regulations. If there is still remaining balance, the Company shall set aside with accumulated retained earnings-unappropriated for shareholders' dividends. The Board of Directors shall draw up a meeting regarding the issue of profit distribution and report to the shareholders' meeting for the resolution.

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

(a) Legal reserve

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

(b) Special reserve

According to the regulations of the FSC, when distributing distributable profits, the Company shall set aside special reserve for the difference between the net debit elements of other components of equity and the balance of special reserve provided in the preceding paragraph. The debit elements of other components of equity accumulated

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Notes to the Consolidated Financial Statements (Cont.)

in prior periods shall not be distributed for the special reserve provided from unappropriated earnings in prior periods. If any of the debit elements under other components of equity is reversed, the special reserve in the amount equal to the reversal may be reversed for profits distribution.

The provision (reversal) of special reserve resolved by the regular shareholders meeting on June 14, 2022 and July 13, 2021 amounted to NT\$59,185 thousand and NT\$(87,712) thousand.

(c) Earnings distribution

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

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

13) Earnings (losses) per share

1. Basic earnings (losses) per share

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

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

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

(b) Weighted-average outstanding number of shares

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

2. Diluted earnings (losses) per share

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

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

	2022	2021
Profit (loss) attributable to owners of ordinary shares of the Company (basic)	\$ (273,003)	195,873
Effects of dilutive potential ordinary shares		
Effects after tax of interest expenses and other gains and losses of convertible corporate bonds	(Note)	13,169
Profit (loss) attributable to owners of ordinary shares of the Company (diluted)	<u>\$ (273,003)</u>	<u>209,042</u>

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(b) Weighted-average outstanding number of shares (diluted)

	2022	2021
Weighted-average outstanding number of shares (basic)	144,249	144,249
Effects of shares of employees' bonuses		
Effects of conversion of convertible corporate bonds	-	132
Weighted-average outstanding number of shares (diluted)	(Note)	16,802
Earnings (losses) per share (NTD)	144,249	161,183
Weighted-average outstanding number of shares (basic)	\$ (1.89)	1.30

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

14) Revenue from contracts with customers

1. Classification of revenue

	2022	2021
Primary regional market:		
Taiwan	\$ 2,609,244	2,328,736
Primary product/service lines:		
Revenue from contracts of water treatment engineering	\$ 1,652,634	1,442,850
Revenue from operating and maintenance of water treatment	956,610	885,886
Total	\$ 2,609,244	2,328,736
Time point of revenue recognition:		
Services rendered over time	\$ 956,610	885,886
Projects transferred over time	1,652,634	1,442,850
	\$ 2,609,244	2,328,736

2. Balances of contracts

	December 31, 2022	December 31, 2021	110.1.1
Notes and accounts receivables	\$ 931,302	736,670	825,458
Less: loss allowances	-	-	-
Total	\$ 931,302	736,670	825,458
Contract assets-amounts incurred in projects without the rights to receive payments (Note)	\$ 664,858	411,584	887,978
Contract assets-retention of contract projects	255,361	186,644	247,631
Less: loss allowances	-	-	-
Total	\$ 920,219	598,228	1,135,609
Amounts expected to be recovered after 12 months	\$ 31,800	16,053	18,133
Contract liabilities-amounts received exceeding amounts incurred in projects	\$ 121,472	200,917	504,616
Amounts expected to be repaid after 12 months	\$ -	-	-

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

3. Please refer to Note 6.3 for the disclosures on accounts receivables and the impairments.
 4. Please refer to Note 6.17 for the credit risk of contract assets.
 5. The changes in contract assets and contract liabilities primarily result from the differences between the time point of transferring goods or services to customers and satisfying the performance obligations and the time point of the payments made by the customers. Please refer to Note 9 for the disputes relevant to contract assets.
- 15) Employees' and directors' remuneration

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

The accrued employees' and directors' remuneration for the year ended December 31, 2021 amounted to both NT\$3,794 thousand, which was lower than the actual distribution amount by both NT\$107 thousand. The accrued employees' and directors' remuneration for the year ended December 31, 2020 amounted to both NT\$2,889 thousand, which was higher than the actual distribution amount by both NT\$877thousand. The relevant information is available at the Market Observation Post System website.

16) Non-operating income and expenses

1. Other gains and losses

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

	2022	2021
Losses from financial assets at fair value through profit \$ or loss	(12,400)	(1,000)
Foreign exchange losses	-	(3,639)
Miscellaneous income (expenses)	(628)	7,127
Impairment losses accounted for using equity method	-	(9,033)
Losses from disposal of property, plant and equipment	(115)	(257)
Losses from termination of leases	(324)	-
	\$ (13,467)	(6,802)

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

2. Financial costs

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

	2022	2021
Interest expenses		
Bank loans	\$ 39,788	36,555
Interest expenses of lease liabilities	188	170
Amortization of interests of convertible corporate bonds	13,175	13,340
Interest refunds of convertible corporate bonds	2,512	1,871
Financial expenditures	7,545	6,812
Interests of litigation damages	55	-
	\$ 63,263	58,748

17) Financial instruments

1. Credit risk

(a) Amount of the maximum credit risk exposure

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

(b) Credit risk concentration

The credit risk concentration is arising from construction and operation contracts with government agencies, which account for 89% and 87% of total receivables as of December 31, 2022 and 2021, respectively.

(c) Credit risk of receivables

Please refer to Note 6.3 for the information on credit risk exposure for notes receivables and accounts receivables.

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

As the credit risk of the aforementioned financial assets is low, the loss allowances are measured by the amount equal to 12-month expected credit loss. (Please refer to Note 4.6 for the explanations about how to determine the credit risk is low.) There was no loss allowance provided for the years ended December 31, 2022 and 2021.

(d) Contract assets

The customers of the Company concentrate in public works, and operation projects of sewage treatment. The credit risk concentration is arising from the aforementioned projects with government agencies, which account for 97% and 95% of total contract assets as of December 31, 2022 and 2021, respectively. However, as the counterparties are government agencies, there is no significant credit risk.

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

2. Liquidity risk

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

	<u>Carrying amount</u>	<u>Contract ual cash flows</u>	<u>Within 1year</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>Over 5 years</u>
December 31, 2022						
Non-derivative financial liabilities						
Liabilities without bearing interests	\$ 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
Floating interest rate instrument	1,569,990	1,588,768	1,588,768	-	-	-
Fix interest rate instruments	2,084,919	2,162,395	1,149,795	-	1,012,600	-
	\$ 4,944,215	5,041,116	3,770,676	155,155	1,112,071	3,214
December 31, 2021						
Non-derivative financial liabilities						
Liabilities without bearing interests	\$ 966,405	966,405	757,314	1,399	207,692	-
Lease liabilities	9,626	10,102	4,212	3,412	587	1,891
Floating interest rate instrument	1,492,031	1,506,808	1,466,583	40,225	-	-
Fix interest rate instruments	2,130,744	2,216,407	1,203,807	-	1,012,600	-
	\$ 4,598,806	4,699,722	3,431,916	45,036	1,220,879	1,891

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

3. Exchange rate risk: None.

4. Analysis of interests

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

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

If the interest rate had increased or decreased by 1%, the Company's profit would have decreased or increased by NT\$3,646 thousand and NT\$(918) thousand for the years ended December 31, 2022 and 2021, respectively, assuming all other variable factors remain constant. The changes primarily arise from the borrowings and deposits with floating interest rates.

5. Fair value information

(a) Types and fair value of financial instruments

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

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Notes to the Consolidated Financial Statements (Cont.)

	December 31, 2022				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial liabilities at fair value through profit or loss Financial liabilities mandatorily measured at fair value through profit or loss	\$ 16,200	-	-	16,200	16,200

	December 31, 2021				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial liabilities at fair value through profit or loss Financial liabilities mandatorily measured at fair value through profit or loss	\$ 3,800	-	-	3,800	3,800

- (b) Fair value valuation techniques of financial instruments not measured at fair value
The methods and assumptions used to estimate the instruments not measured at fair value are as follows:
- i. Financial assets and liabilities at amortized cost
The basis for fair value valuation of financial assets and liabilities with quoted price data of deals or market makers is the recent deal prices and quoted data. If there is no market price to reference, the fair value shall be estimated by valuation techniques. The estimates and assumptions used in valuation techniques are the fair value estimated by the discounted cash flows.
- (c) Fair value valuation techniques of financial instruments measured at fair value
- i. Non-derivative financial instruments
For financial instruments with quoted prices in an active market, the fair value shall be the quoted prices in an active market. The market prices in primary stock exchanges and the market prices of Central Government Bonds, which are determined to be hot bonds, declared by TPEX are the basis for fair value of TWSE- or TPEX-listed equity instruments and debt instruments with quoted prices in active markets.
A financial instrument is regarded as quoted in an active market, if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the aforementioned conditions are not met, the market is regarded as not active. Generally speaking, the indicators of a market which is not active include big bid-ask spreads, significant increases in bid-ask spread or low transaction volume.
The fair value of financial instruments held by the Company without an active market is in the scope of equity instrument without quoted price by categorization and by nature. The fair value shall be estimated by market approach. The primary assumptions shall be measured based on the market capitalization and financial data of investees' similar companies. The estimated amount has been adjusted by the effect of the discount on lack of liquidity of the equity securities.
 - ii. Derivative financial instruments
The fair value is estimated by the valuation models widely accepted by the market users, including market approach and Binomial Tree convertible bonds valuation model.
- (d) Transfers between level 1 and level 2: None.

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

(e) Table of changes in level 3

	Measured at fair value through profit or loss
	Embedded derivative financial instruments of financial liabilities held for trading
January 1, 2022	\$ 3,800
Recognized in profit or loss	12,400
December 31, 2022	\$ 16,200
January 1, 2021	\$ -
Recognized in profit or loss	1,000
Issue	2,800
December 31, 2021	\$ 3,800

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

	2022	2021
Total gains or losses		
Recognized in profit or loss (presented as “other gains and losses”)	\$ (12,400)	(1,000)

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

The financial assets held by the Company whose fair value is categorized in level 3 primarily include financial liabilities at fair value through profit or loss—derivative financial instruments.

Most of the fair value categorized in level 3 has single significant unobservable inputs. The quantitative information of significant unobservable inputs is as follows:

Item	Valuation technique	Significant unobservable inputs	Relationship between significant unobservable inputs and fair value
Financial liabilities at fair value through profit or loss — embedded derivative financial instruments	Binomial Tree convertible bonds valuation model	• Volatility (as of December 31, 2022 and December 31, 2021 are 14.95% and 20.52%, respectively)	• The higher the volatility, the higher the fair value

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Notes to the Consolidated Financial Statements (Cont.)

Name of related party	Relationship with the Group			
(g) Sensitivity analysis of fair value to reasonably possible alternative assumptions of level 3 fair value measurement				
The fair value measurement of financial instruments is reasonable. However, using different valuation model or valuation parameters may result in different results. For financial instruments categorized in level 3, the impacts on profit or loss or other comprehensive income resulting from changes in parameters are as follows:				
	Inputs	Move up or move down	Changes in fair value reflected in profit or loss	
			Favorable change	Adverse change
December 31, 2022				
Financial liabilities at fair value through profit or loss				
	Embedded derivative financial instruments	波動度	1,000	-
		波動度	-	(1,200)
December 31, 2021				
Financial liabilities at fair value through profit or loss				
	Embedded derivative financial instruments	波動度	100	-
		波動度	-	(100)

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

18) Financial risk management

1. Outline

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

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

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

2. Risk management framework

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

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

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Notes to the Consolidated Financial Statements (Cont.)

Name of related party	Relationship with the Group
3. Credit risk	<p>Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial losses to the Company, which is primarily arising from receivables from customers.</p> <p>(a) Accounts receivables and other receivables As the customers of the Company concentrate in government agencies, there shall be not significant credit risk. The Company assesses the possibility of recovering accounts receivables and provides loss allowances on a regular basis, and the loss assessment result is in the scope of management's expectations.</p> <p>(b) Investments The credit risk arising from bank deposits, fixed income investments and other financial instruments is measured and monitored by the financial department of the Company. As the counterparties of transactions are reputable banks and investment grade financial institutions, companies, and government agencies, there is no significant concern over the performance of contracts; thus, there is no material credit risk.</p> <p>(c) Guarantees Please refer to Note 7.3 for the endorsements and guarantees provided to subsidiaries for borrowings based on regulations in the contracts, as of December 31, 2022.</p>
4. Liquidity risk	<p>Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company manages liquidity to guarantee the Company has sufficient working capital to cope with liabilities due under general circumstances or circumstances with pressure, and avoid the occurrence of unacceptable losses or the damage to the Company's reputation.</p>
5. Market risk	<p>Market risk is the risk that the return of fair value of a financial instrument will fluctuate because of changes in market prices, including changes in exchange rate, interest rate, and prices of equity instruments. The objectives of market risk management are to control the market risk into the tolerable scope, and optimize returns on investments. The Company is not exposed to significant market risk.</p> <p>(a) Interest rate risk The interest rate risk primarily results from bank loans. The loans with floating interest rate results in cash flow risk, and the loans with fixed interest rate results in fair value risk. As the Company assesses that the interest rate level in the operating environment is stable in recent years, there is no significant interest rate risk.</p>
19) Capital management	<p>The primary objectives of the Company's capital management is to ensure that it operates continuously, keep providing returns to shareholders and interests to other stakeholders and maintains optimal capital structure to decrease the cost of capital. The Company manages and adjusts the capital structure, probably by adjusting dividend payment, returning of capital, issuing new shares, or disposing assets to decrease liabilities.</p>

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

Name of related party	Relationship with the Group	
The Company monitors the capital structure by both debt to capital ratio and cash flows. The debt-to-equity ratios at the reporting dates are as follows:		
	December 31, 2022	December 31, 2021
Total liabilities	\$ 5,373,939	4,883,661
Less: cash and cash equivalents	(941,516)	(1,465,549)
Net debt	4,432,423	3,418,112
Total equity	5,300,919	5,725,802
Adjusted capital	\$ 9,733,342	9,143,914
Debt to capital ratio	45.54%	37.38%

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

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

(7) Related party transactions

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

- 2) Names of related parties and relationships
The subsidiaries and the related parties that have transactions with the Company in the period covered by the parent company only financial statements are as follows:

Name of related party	Relationship with the Group
RICH DEVELOPMENT CO., LTD. (“RICH DEVELOPMENT”)	The ultimate parent company of the Company
Orient Forest Development Enterprise Co., Ltd. (“Orient Forest”)	Subsidiary of the Company
Green Forest Development Enterprise Co., Ltd. (“Green Forest”)	Subsidiary of the Company
Perfection Forest Development Enterprise Co., Ltd. (“Perfection Forest”)	Subsidiary of the Company
Grain Forest Green Energy Co., Ltd. (“Grain Forest”)	Subsidiary of the Company
Easy Development Co., Ltd. (“Easy Development”)	Subsidiary of the Company
Re-use Environmental Co., Ltd. (“Re-use”)	Subsidiary of the Company
Eastern Forest Environmental Technology Co., Ltd. (“Eastern Forest”)	Subsidiary of the Company
Rising Environmental Co., Ltd. (“Rising Environmental”)	Subsidiary of the Company
Modern Rich Investment Limited (“Modern Rich”)	Subsidiary of the Company
Lea Lea Environmental Enterprise Co., Ltd. (“Lea Lea Environmental”)	Subsidiary of the Company
Zhi Mei International Co., Ltd	The chairman of the company is the chairman of the Company
Zhi Mao International Co., Ltd (“Zhi Mao International”)	The chairman of the company is the chairman of the Company
Artblooming Co., Ltd (“Artblooming”)	The chairman of the company is the chairman of the Company
LEA GREEN CARE	The chairman of the company is the director of the Company
Recreation Co., Ltd., (“Recreation”)	The chairman of the company is the

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

<u>Name of related party</u>	<u>Relationship with the Group</u>
GIANTFOREST SOLUTIONS CO.,LTD(“GIANTFOREST SOLUTIONS”)	director of the Company
HOWSLER FOODS CO., LTD.(“HOWSLER”)	The chairman of the company is the director of the Company
QING SHAN LIN LIMITED(“QING SHAN LIN LIMITED”)	The chairman of the company is the director of the Company
Yilan Lealea Development Holdings Co., Ltd.(“Yilan Lealea”)	The chairman of the company is the director of the Company
ITT MANAGEMENT CO.,LTD.(“ITT MANAGEMENT”)	The chairman of the company is the director of the Company
LEA LEA LONG--TERM CARE	The chairman of the company is the director of the Company
Jia Ruei International Development Co., Ltd (“ia Ruei International Development”)	The chairman of the company is the director of the Company
DYX CONSTRUCTION CO., LTD. (“DYX CONSTRUCTION”)	The chairman is the second degree relative of the director of the Company
HON LIN HEAVY INDUSTRIES CO., LTD. (“HON LIN HEAVY INDUSTRIES”)	The director is the second degree relative of the chairman of the Company
LEALEA HOTELS & RESORTS CO., LTD.(“LEALEA HOTELS”)	The director is the second degree relative of the director of the Company
Sea Mild Biotechnology Co., Ltd. (“Sea Mild”)	The director is the second degree relative of the director of the Company (Note 1)
Teamphon Energy Co., Ltd.	The director of the company is the director of the Company
LEAD U Education	The director of the company is the director of the Company
LEALEA EAGLE TRAVELING CO.,LTD. (“LEALEA EAGLE”)	The director of the company is the director of the Company
BUY CHOW FOODS CO., LTD. (“BUY CHOW FOODS”)	The director of the company is the director of the Company
Garden Hotels Co., Ltd (“Garden”)	The director of the company is the director of the Company
Nengbang Engineering Co., Ltd. (“Nengbang”)	The director of the company is the director of the Company
LEALEA HOTELS & RESORTS CO., LTD. (“LEALEA HOTELS & RESORTS”)	The director of the company is the chairman of the Company
Yi Lea Hotels Co., Ltd (“Yi Lea Hotels”)	The supervisor of the company is the director of the Company
GEC Electric (“GEC Electric”)	Substantive related party
Li Yang Electric Development Co., Ltd. (“Li Yang Electric Development”)	Substantive related party
LIBOLON ENTERPRISE CO., LTD.(“LIBOLON”)	Substantive related party
Lealea Mingchih Resort Co., Ltd. (“Lealea Mingchih”)	Substantive related party
Lili Development Co., Ltd.(“Lili Development”)	Substantive related party
FOREST WATER SUSTAINABILITY TECH EP ENG’G CO., LTD.(“FOREST WATER SUSTAINABILITY”)	Substantive related party
BHL TAIPEI LIMITED	Substantive related party
THE RICHFOREST HOTEL CO., LTD.(“THE RICHFOREST”)	Substantive related party
STEELS CO., LTD.(“STEELS”)	Substantive related party

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Notes to the Consolidated Financial Statements (Cont.)

Name of related party	Relationship with the Group
Qing Yi Development Co., Ltd (“Qing Yi Development”)	Substantive related party
HOPE JET ENGINEERING CO., LTD.(“HOPE JET ENGINEERING”)	Substantive related party
Richforest Garden Hotels Kentin Co., Ltd	Substantive related party

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

3) Significant transactions with related parties

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

Type of related party	Account	2022	2021
Subsidiary – Orient Forest	Operation and treatment revenue	\$ 84,369	72,489
Subsidiary – Green Forest	Operation and treatment revenue	118,539	117,294
		\$ 202,908	189,783

The aforementioned transaction prices with related parties are negotiated by both parties. The subsidiaries may request payments of operation and treatment after receiving payments from the owners, and receive the payments at 10 days after noticing the Company to issue invoices.

2. Contracting constructions

The amounts of contracting constructions and pricing from related parties are as follows:

	Contract amount		Sales (pricing in the current period)	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Subsidiary – Grain Forest	\$ 6,474	23,289	-	21,666
Subsidiary – Green Forest	92,000	-	47,748	-
	\$ 98,474	23,289	47,748	21,666

3. Subcontracting contracts

The amounts of subcontracting contracts and pricing with related parties are as follows:

	Contract amount		Purchases (pricing in the current period)	
	December 31, 2022	December 31, 2021	2022	2021
Subsidiary – Eastern Forest	\$ -	5,000	-	420
GEC Electric	154,060	180,627	50,445	47,372
HON LIN HEAVY INDUSTRIES	34,810	40,950	791	33,208
FOREST WATER SUSTAINABILITY	192,381	192,383	56,613	2,671
QING SHAN LIN STEELS	-	18,651	-	9,680
Others	22,054	-	22,054	-
	13,353	5,041	4,570	4,230
	\$ 416,658	442,652	134,473	97,581

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

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

4. Receivables from related parties

The receivables from related parties are as follows:

<u>Account</u>	<u>Type of related party</u>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Notes and accounts receivables	Subsidiary— Grain Forest	\$ -	22,749
Notes and accounts receivables	Subsidiary— Orient Forest	27,19	21,836
Notes and accounts receivables	Subsidiary— Green Forest	65,88	45,280
Notes and accounts receivables	Other related parties	2	-
Other receivables	Subsidiaries— others	95	458
Other receivables	Other related parties	10	178
		<u>\$ 94,16</u>	<u>90,501</u>

5. Prepayments

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

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
GEC Electric	\$ -	8,412
HON LIN HEAVY INDUSTRIES	2,520	2,658
FOREST WATER SUSTAINABILITY	26,620	37,942
	<u>\$ 29,140</u>	<u>49,012</u>

6. Payables to related parties

The payables to related parties are as follows:

<u>Account</u>	<u>Type of related party</u>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Notes and accounts payables	Ultimate parent company	\$ 63	-
Notes and accounts payables	Subsidiary—Green Forest	1,202	-
Notes and accounts payables	Other related party—QING SHAN LIN	530	10,963
Notes and accounts payables	Other related party—GEC Electric	16,348	13,267
Notes and accounts payables	Other related party—HOPE JET ENGINEERING	-	5,403
Notes and accounts payables	Other related party—FOREST WATER SUSTAINABILITY	11,401	3,034
Notes and accounts payables	Other related party—others	6,231	4,843
Other payables	Subsidiary—Orient Forest	12	-
Other payables	Other related parties	329	696
		<u>\$ 36,116</u>	<u>38,206</u>

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

7. Lease (rent)

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

8. The amounts of guarantees provided for related parties based on regulations in the loan contracts are as follows:

	December 31, 2022	December 31, 2021
Subsidiary—Grain Forest	\$ 407,000	500,000

9. Others

(a) The software maintenance expenses and payments for information equipment paid to other related parties amounted to NT\$7,082 thousand and NT\$6,604 thousand for the years ended December 31, 2022 and 2021, respectively.

(b) The amounts donated to other related parties are NT\$3,112 thousand and NT\$870 thousand for the years ended December 31, 2022 and 2021, respectively.

(c) The entertainment fees and company trip fees paid to other related parties for operating demands amounted to NT\$3,650 thousand and NT\$2,094 thousand for the years ended December 31, 2022 and 2021, respectively.

(d) The services expenses received for providing services, including HR, etc., to subsidiaries amounted to both NT\$11,388 thousand for the years ended December 31, 2022 and 2021, respectively.

(e) The guaranteed notes submitted issued for borrowing, endorsements and guarantees, and warranty bonds of constructions amounted both NT\$713,445 thousand and NT\$6,445 thousand for the years ended December 31, 2022 and 2021, respectively.

4) Transactions with key management

Key management's remunerations include:

	2022	2021
Short-term employee benefits	\$ 18,169	14,433

(8) Pledged assets

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

Name of asset	Pledge guarantee object	December 31, 2022	December 31, 2021
Property, plant and equipment	Short-term notes payables	\$ 326,058	326,058
Other current financial assets	Performance bonds and bank loans	206,773	196,367
		\$ 532,831	522,425

(9) Significant contingencies and unrecognized contract commitments

1) Significant unrecognized contract commitments:

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

	December 31, 2022	December 31, 2021
Considerations with contracts that are not received (pre-tax)	\$ 5,357,545	4,589,476
Considerations with contracts that are not paid (pre-tax)	\$ 2,211,777	3,120,377

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

2. The significant operation contracts contracted by the Company are as follows:
 Calculated by the monthly quantity of sewage treatment

<u>Owner</u>	<u>Project</u>	<u>Performance period</u>
Green Forest Development Enterprise Co., Ltd.	Operation and maintenance of sewage treatment plant in Nanzih area	April, 2006~April, 2041
Orient Forest Development Enterprise Co., Ltd.	Operation and maintenance of sewage treatment plant in Luodong area	December, 2005~December, 2040

Part of the amount is fixed revenue, and part of the amount is requested based on the amount incurred monthly. However, the total amount requested in a year shall not exceed the upper limit regulated in the contract.

<u>Owner</u>	<u>Project</u>	<u>Performance period</u>
Yilan County Government	Operation and maintenance of water resources recycling center in Yilan area	June, 2019~November, 2023
Central Taiwan Science Park Bureau	Operation and maintenance of sewage system of Central Taiwan Science Park	January, 2020~December, 2024
Water Resource Bureau, Taichung City Government	Entrusted operation and maintenance of Futien water resources recycling center, Taichung City	January, 2022~July, 2023
Environmental Protection Bureau, Taichung City Government	Entrusted operation and maintenance of night soil treatment center of Taichung City	January, 2022~December, 2023
Export Processing Zone Administration	Operation and maintenance of sewage system of Taichung Port Technology Industrial Park	January, 2022~December, 2024
Public Works Department, Taipei City Government	Entrusted operation and maintenance of Dihua Sewage Treatment Plant	July, 2020~June, 2023
Chiayi City Government	The first phase turnkey project of water resources recycling center of Chiayi City	May, 2019~October, 2022 November, 2022~December, 2025
Tainan City Government	Entrusted operation and maintenance of Yongkang water recycling center and water reclamation plant of Tainan City	December, 2022~June, 2037
Southern Taiwan Science Park Bureau	Entrusted operation and maintenance of Yongkang advanced management facilities, distribution reservoir, and water distribution network of Tainan City	December, 2022~June, 2037

2) Contingencies:

1. The guaranteed notes submitted issued for contracting contracts and borrowing demands amounted to NT\$713,445 thousand and NT\$6,445 thousand for the years ended December 31, 2022 and 2021, respectively. Please refer to Note 7.3 for the endorsements and guarantees provided for subsidiary's borrowing demands.
2. The unused credit lines of L/C issued for purchasing raw materials and equipment amounted to NT\$0 and NT\$48,465 thousand as of December 31, 2022 and 2021, respectively.
3. The Company has signed the contracts of "the turnkey project of building Yongkang water recycling center and water reclamation plant of Tainan City" and "the turnkey project of Yongkang advanced management facilities, distribution reservoir, and water distribution network of Tainan City" with Construction and Planning Agency, MOI on January 19, 2019. The amount deducted by the owner due to overdue of the progress of the constructions was NT\$342,329 thousand as of December 31, 2022 (recognized as accounts receivables). However, the progress of the construction was affected by the constructions in the neighborhood, the Covid-19 pandemic, the inconsistency of the GIS map data provided by the Southern Taiwan Science Park Bureau with the actual condition resulting in cumbersome auditing procedures, and administrative factors, etc. Therefore, the Company is actively striving for extension of work period due to reasons not attributable to the Company. In addition, as the construction has exceeded the time-limit of contract performance, after considering the aforementioned reasons not attributable to the Company, the penalty is estimated to be NT\$79,156 thousand (recognized as the deduction to operating revenue). Based on the assessment by the lawyers and the explanations in the letter sent to competent authorities, the request of extension of work period is reasonable, not without evidence. Although the Company has accomplished the case to mediation on January 5, 2023, the final result is determined by the subsequent relief result.

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

4. As of December 31, 2022, the penalty arising from breaching agreements in the contracts because the equipment and water quality do not meet the standards of the Water Pollution Control Act in “the sixth phase of entrusted operation and maintenance of Dihua Sewage Treatment Plant project” amounted to NT\$24,750 thousand. However, as the penalty determination criteria are controversial, the Company accrued the penalty of NT\$12,375 thousand (recognized as the deduction to operating revenue) by the relief result in previous similar penalty determination. The Company will apply for mediation subsequently, but the final result is determined by the subsequent relief result.

(10) **Losses due to major disasters: None.**

(11) **Significant subsequent events: None.**

(12) **Others**

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

By nature	2022			2021		
	Recognized in operating costs	Recognized in operating expenses	By nature	Recognized in operating costs	Recognized in operating expenses	By nature
Employee benefits						
Payroll expenses	275,026	51,163	326,189	258,112	48,925	307,037
Labor and health insurance expenses	32,569	6,118	38,687	29,921	5,838	35,759
Pension expenses	15,027	3,540	18,567	13,776	3,288	17,064
Directors’ remuneration	-	12,130	12,130	-	9,192	9,192
Other employee benefits expenses	17,235	7,344	24,579	13,805	5,565	19,370
Depreciation expenses	10,905	4,624	15,529	7,946	4,572	12,518
Amortization expenses	-	-	-	-	102	102

The additional information on numbers of employees and employee benefits expenses for the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Number of employees	<u>718</u>	<u>678</u>
Number of directors not serving as employees	<u>7</u>	<u>7</u>
Average employees benefits expenses	<u>\$ 574</u>	<u>\$ 565</u>
Average payroll expenses	<u>\$ 459</u>	<u>\$ 458</u>
Average adjustment to payroll expenses	<u>0.22%</u>	<u>0.65%</u>
Supervisors’ remuneration	<u>\$ -</u>	<u>\$ -</u>

The information on payroll and remuneration policies (including directors, supervisors, managers and employees) of the Company are as follows:

- 1) The payroll and remuneration policies of directors and supervisors is that, no matter the Company incurs gains or loss, the Company may paid remuneration, and the remuneration is authorized to the board of directors to implement based on the level in the same industry and relevant regulations. Please refer to Note 6.15 for the regulations of directors’ and supervisors’ remuneration.
- 2) The payroll and remuneration policies of employees is that, the payroll, annual bonus and adjustment of payroll refer to the information on market price of the employment market, and the entire operating performance, and are based on comprehensive consideration of positions, years of experiences, and performance evaluation results. Please refer to Note 6.15 for the regulations of employees’ remuneration.

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

(13) Other disclosures

1) Information on significant transactions

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

1.Loans to others: None.

2.Provision of endorsements and guarantees to others:

Expressed in thousands of New Taiwan Dollars

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

Note 1:0 represents the Company.

Note 2:There are 6 types of relationships between the endorser/guarantor and the endorsee/guarantee.

Only numbers of types shall be indicated:

- (1) Entities have business relations with the Company.
- (2) The Company directly or indirectly holds more than 50% of voting shares of the entity.
- (3) The entity directly or indirectly owns more than 50% of voting shares of the Company.
- (4) The Company directly or indirectly holds 90% of voting shares of the entities.
- (5) The Company fulfills its contractual obligations by providing mutual endorsements/guarantees for another company in the same industry or for joint builders for purposes of undertaking a construction project
- (6) All capital contributing shareholders make endorsements/ guarantees for their jointly invested company in proportion to their shareholding percentages.

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

- (1) The total amount available for endorsements and guarantees provided to others shall not exceed 50% of the Company's net worth in the current period.
- (2) The amount for endorsement provided to one entity shall not exceed 20% of the Company's net worth in the current period.

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

Expressed in thousands of New Taiwan Dollars

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

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

4. Acquisition or sale of the same security with the accumulated cost exceeding NT\$300 million or 20% of the Company's paid-in capital or more: None.
5. Acquisition of real estate reaching NT\$300 million or 20% of the Company's paid-in capital or more: None.
6. Disposal of real estate reaching NT\$300 million or 20% of the Company's paid-in capital or more: None.
7. Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more:

Expressed in thousands of New Taiwan Dollars

The purchase (sales) company	Counterparty	Relationship	Transaction details				The details and reasons for transaction terms and conditions different from ordinary transaction terms and conditions		Notes and accounts receivables (payables)		Note
			Purchase (sales)	Amount	Percentage accounting for total purchase (sales)	Credit period	Unit price	Credit period	Balance	Percentage accounting for total notes and accounts receivables (payables)	
Forest Water Environmental Engineering Ltd.	Green Forest Development Enterprise Co., Ltd.	Parent-sub subsidiary	Sales	166,2	6.37 %	Pricing monthly	-	-	65,880	7.07%	

8. Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more: None.

9. Trading in derivative instruments: None.

2) Information on investees:

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

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

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

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

Investor company	Investee company	Location	Main business	Original investment amount		Percentage of ownership as of December 31, 2022			Profit (loss) of investees in the current period	Investment gain (loss) recognized in the current period	Note
				December 31, 2022	December 31, 2021	Number of shares	Percentage	Carrying amount			
Rising Investment	Forest Water	Samoa	Investments in various production and finance business	15,662(Note) (USD510,000)	15,662(Note) (USD510,000)	510,000	100.00%	3,542	(1,100)	(1,100)	
Mordern Rich	Faith Honest	"	"	88,314(Note) (USD5,000) (RMB20,000,000)	88,314(Note) (USD5,000) (RMB20,000,000)	2,963,730	100.00%	116,794	(4,791)	(4,791)	
Faith Honest	Loyal Sheen	"	"	88,160(Note) (RMB20,000,000)	88,160(Note) (RMB20,000,000)	40	40.00%	116,775	(8,745)	(4,781)	Associate

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

3) Information on investees in Mainland China:

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

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

Investee in Mainland China	Main business	Paid-in capital	Method of investment	Accumulated outward remittance for investment from Taiwan as of January 1, 2022	Remittance of funds in current period		Accumulated outward remittance for investment from Taiwan as of December 31, 2022	Profit (loss) of investees in current period	Percentage of ownership of direct or indirect investments	Investment gain (loss) recognized in the current period	Carrying amount of investments as of December 31, 2022	Accumulated repatriation of gain on investment as of December 31, 2022
					Outward	Inward						
ANNING BEWU HAUYUAN LIMITED (Note 3)	Water treatment engineering, and wastewater (sewage) treatment, etc.	103,588 (RMB23,500,000)	(Note 1)	88,160(Note2) (RMB20,000,000)	-	-	88,160(Note 2) (RMB20,000,000)	(8,633) (RMB(1,972,775))	40.00%	(3,454) (RMB(789,110))	90,645 (RMB20,563,795)	-
Beijing Forest Water Environmental Engineering Ltd. (Note 3)	Soil remediation engineering and relevant treatment, etc.	19,655 (RMB4,459,000)	(Note 1)	14,284(Note2) (RMB3,240,415)	-	-	14,284(Note 2) (RMB3,240,415)	(RMB(383,89))	49.00%	(823) (RMB(188,108))	2,475 (RMB561,568)	-

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

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

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

2. Upper limit of investments in Mainland China:

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

Note 1: Calculation of the upper limit: net worth of equity in the current period $\times 60\% = \text{NTD}5,300,919$ thousand $\times 60\% = \text{NTD}3,180,551$ thousand.

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

4) Information on major shareholders:

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

(14) Segment information

Please refer to the consolidated financial statements for the year ended December 31, 2022.

**FOREST WATER ENVIRONMENTAL
ENGINEERING CO., LTD.**

Statements of cash and cash equivalents

December 31, 2022

Expressed in thousands of New Taiwan Dollars

Item	Summary	Amount
Cash on hand and petty cash		\$ 7,567
Bank deposits		
Checking deposits		26,432
Demand deposits	Including USD363 and EURO3,617, which are translated into NT\$135 thousand.	<u>907,517</u>
		<u>\$ 941,516</u>

Statements of contract assets

Name of customer	Summary	Amount	Note
Construction and Planning Agency, MOI	Yongkang water resources engineering	\$ 301,641	
Taiwan Sugar Corporation	Yuemei plant of Taiwan Sugar project	376,554	
Changhua County Government	Sewage engineering in Lukang Fuxing	71,790	
Taiwan Water Corporation	Sea water desalination project in Magong	45,047	
Others		<u>125,187</u>	The balance of each item under others does not exceed 5% of balance of the item.
Net		<u>\$ 920,219</u>	

**FOREST WATER ENVIRONMENTAL
ENGINEERING CO., LTD.**
Statements of accounts receivables
December 31, 2022

**Expressed in
thousands of New
Taiwan Dollars**

<u>Name of customer</u>	<u>Summary</u>	<u>Amount</u>	<u>Note</u>
Non-related parties			
Construction and Planning Agency,	Construction	\$ 287,349	
MOI	revenue		
Taipei City Government	//	161,371	
Taiwan Sugar Corporation	//	84,594	
Tainan City Government	//	53,365	
Central Taiwan Science Park	//	43,690	
Bureau, National Science and Technology Council			
Others	//	203,355	The balance of each item under others does not exceed 5% of balance of the item.
Related parties			
Green Forest Development Enterprise Co., Ltd.	Operation revenue	65,880	
Others	//	<u>17,747</u>	The balance of each item under others does not exceed 5% of balance of the item.
Net		<u>\$ 917,351</u>	

FOREST WATER ENVIRONMENTAL ENGINEERING CO., LTD.
Statements of changes in investments accounted for using equity method
For the Year Ended December 31, 2022

Expressed in thousands of New Taiwan Dollars

Company name	Beginning balance		Additions		Deductions		Ending balance			Market price or net worth of equity		Collateral or guarantee provided
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Percentage of ownership	Amount	Unit price (NTD)	Total amount	
Orient Forest Development Enterprise Co., Ltd.	217,999,980	\$ 2,851,884	5,014,000 (Note)	150,088	-	87,200	223,013,980	100.00%	2,914,772	13.07	2,914,772	
Green Forest Development Enterprise Co., Ltd.	204,115,527	2,807,486	14,288,092 (Note)	221,452	-	163,293	218,403,619	70.00%	2,865,645	13.12	2,865,645	
Perfection Forest Development Enterprise Co., Ltd.	19,000,000	138,984	-	-	-	35,837	19,000,000	100.00%	103,147	5.43	103,147	
Grain Forest Green Energy Co., Ltd.	28,350,000	149,300	3,500,000	35,000	-	17,115	31,850,000	70.00%	167,185	5.25	167,185	
Easy Development Co., Ltd.	11,000,000	12,758	-	-	-	3,171	11,000,000	100.00%	9,587	0.87	9,587	
Eastern Forest Environmental Technology Co., Ltd.	3,500,000	17,949	-	31	-	359	3,500,000	70.00%	17,621	5.03	17,621	
Mordern Rich Investment Limited	8,568,730	238,683	-	1,454	-	35,791	8,568,730	100.00%	204,346	23.85	204,346	
Re-use Environmental Co., Ltd.	3,427,710	360,439	-	18,631	-	42,846	3,427,710	50.41%	336,224	37.56	128,729	
Rising Environmental Co., Ltd.	50,000	455	-	-	-	-	50,000	100.00%	455	9.10	455	
Lea Lea Environmental Enterprise Co., Ltd.	4,142,000	150,081	-	-	-	16,980	4,142,000	95.00%	133,101	4.54	18,809	
		<u>\$ 6,728,019</u>		<u>426,656</u>		<u>402,592</u>			<u>6,752,083</u>		<u>6,430,296</u>	

Note: The additions are resulting from distribution of stock dividends.

The details of increase and decrease in long-term investments accounted for using equity method are as follows:

Name of investee	Investment gains recognized by equity method		Purchase	Exchange difference arising on translation of foreign operations	Unrealized valuation losses from other comprehensive income of subsidiaries accounted for using equity method and investments in equity instruments at fair value through other comprehensive income	Total
	Cash dividend					
Orient Forest Development Enterprise Co., Ltd.	\$ 150,088	(87,200)	-	-	-	62,888
Green Forest Development Enterprise Co., Ltd.	221,452	(163,293)	-	-	-	58,159
Perfection Forest Development Enterprise Co., Ltd.	(35,837)	-	-	-	-	(35,837)
Grain Forest Green Energy Co., Ltd.	(17,115)	-	35,000	-	-	17,885
Easy Development Co., Ltd.	(3,171)	-	-	-	-	(3,171)
Eastern Forest Environmental Technology Co., Ltd.	(359)	-	-	31	-	(328)
Mordern Rich Investment Limited	(4,806)	-	-	1,454	(30,985)	(34,337)
Re-use Environmental Co., Ltd.	18,399	(42,846)	-	-	232	(24,215)
Rising Environmental Co., Ltd.	-	-	-	-	-	-
Lea Lea Environmental Enterprise Co., Ltd.	(16,980)	-	-	-	-	(16,980)
	<u>\$ 311,671</u>	<u>(293,339)</u>	<u>35,000</u>	<u>1,485</u>	<u>(30,753)</u>	<u>24,064</u>

**FOREST WATER ENVIRONMENTAL
ENGINEERING CO., LTD.**

**Statements of short-term borrowings
December 31, 2022**

Expressed in thousands
of New Taiwan Dollars

Type of borrowing	Explanation	Ending balance	Contract period	Interest rate interval	Credit line	Collateral or guarantee
Secured loan	First Commercial Bank	\$ 30,000	2022.11.17~2023.02.17	2.23%	30,000	Other current financial assets
Secured loan	Hua Nan Commercial Bank	150,000	2022.12.23~2023.01.07	2.54%	150,000	Other current financial assets
Secured loan	Entie Commercial Bank	180,000	2022.12.09~2023.01.09	2.19%	180,000	Other current financial assets
Secured loan	TAICHUNG COMMERCIAL BANK	50,000	2022.12.20~2023.03.20	2.20%	50,000	Other current financial assets
Secured loan	King's Town Bank	120,000	2022.10.03~2023.10.03	2.13%	120,000	Other current financial assets
Secured loan	Bank of East Asia	100,000	2022.12.02~2023.03.02	2.35%	100,000	Other current financial assets
Unsecured loan	Land Bank of Taiwan	50,000	2022.12.05~2023.03.11	2.10%	100,000	None
Unsecured loan	Bank of Kaohsiung	80,000	2022.11.04~2023.05.04	2.13%	80,000	None
Unsecured loan	CHANG HWA COMMERCIAL BANK	200,000	2022.08.26~2023.08.26	2.40%	200,000	None
Unsecured loan	CHANG HWA COMMERCIAL BANK	120,000	2022.11.18~2023.05.18	2.15%	120,000	None
Unsecured loan	Shanghai Commercial Bank	50,000	2022.06.24~2023.06.24	2.34%	50,000	None
Unsecured loan	Yuanta Commercial Bank	150,000	2022.12.12~2023.03.10	2.15%	150,000	None
Unsecured loan	Taishin International Bank	100,000	2022.11.18~2023.01.18	2.56%	200,000	None
Unsecured loan	JihSun International Commercial Bank	150,000	2022.09.20~2023.03.20	2.13%	150,000	None
	Total	<u>\$ 1,530,000</u>				

Statements of short-term notes payables

Item	Guarantee or acceptance institution	Contract period	Interest rate interval	Amount		Note
				Issue amount (carrying amount)	Unamortized discounts on short-term notes payables	
Short-term notes payables	MEGA BILLS	November 4, 2022~January 3, 2023	2.120%	\$ 80,000	7	
Short-term notes payables	Grand Bills	December 23, 2022~February 21, 2023	2.130%	80,000	171	
Short-term notes payables	Ta Ching Bills	November 29, 2022~January 17, 2023	2.502%	80,000	73	
Short-term notes payables	Taiwan Cooperative Bills	December 15, 2022~February 13, 2023	2.100%	196,000	402	
Short-term notes payables	DAH CHUNG BILLS	December 9, 2022~February 3, 2023	2.450%	150,000	289	
Short-term notes payables	International Bills	December 6, 2022~February 3, 2023	2.297%	300,000	406	
Short-term notes payables	China Bills	December 2, 2022~February 17, 2023	2.140%	150,000	193	
Short-term notes payables	TAIWAN FINANCE	November 7, 2022~January 6, 2023	2.342%	100,000	25	
	Total			<u>\$ 1,136,000</u>	<u>(Note) 1,566</u>	

Note: Recognized under other current assets — others

**FOREST WATER ENVIRONMENTAL
ENGINEERING CO., LTD.
Statements of accounts payables
December 31, 2022**

Expressed in thousands of New Taiwan Dollars

<u>Name of customer</u>	<u>Summary</u>	<u>Amount</u>	<u>Note</u>
KAO HUI CONSTRUCTION CO., LTD.	Payments for constructions	\$ 121,354	
AGCO Australia Limited, Taiwan Branch (Australia)	//	68,150	
CHEN WEI DEVELOPMENT CO., LTD.	//	47,151	
Sinotech Environmental Technology Ltd.	//	40,202	
Others	//	<u>491,504</u>	Each account balance does not account for at least 10% of the total amount.
Net		<u><u>\$ 768,361</u></u>	

Statements of corporate bonds payables

Please refer to Note 6.9 for relevant information.

**FOREST WATER ENVIRONMENTAL
ENGINEERING CO., LTD.
Statements of operating revenue
For the Year Ended December 31, 2022**

Item	Summary	Expressed in thousands of New Taiwan Dollars Amount
Water treatment engineering contract revenue	DD241-0	\$ 746,078
	DD242	165,729
	DD248	139,420
	Others (Each individual amount does not account for at least 10% of the total amount.)	<u>601,407</u>
	Subtotal	<u>1,652,634</u>
Water treatment operations and maintenance revenue	DD016	118,539
	DD024	178,131
	DD033	134,612
	Others (Each individual amount does not account for at least 10% of the total amount.)	<u>525,328</u>
	Subtotal	<u>956,610</u>
Total		<u><u>\$ 2,609,244</u></u>

Statements of operating costs

Item	Summary	Amount
Water treatment engineering contract costs	DD241-0	\$ 879,594
	DD242	144,425
	DD248	237,517
	Others (Each individual amount does not account for at least 10% of the total amount.)	<u>704,460</u>
	Subtotal	<u>1,965,996</u>
Water treatment operations and maintenance costs	DD016	57,986
	DD024	151,338
	DD033	203,073
	Others (Each individual amount does not account for at least 5% of the total amount.)	<u>473,900</u>
	Subtotal	<u>886,297</u>
Add: estimated losses on onerous contracts		200,175
Others		(605)
Total		<u><u>\$ 3,051,863</u></u>

**FOREST WATER ENVIRONMEN
ENGINEERING CO., LTD.**

**Statements of operating expenses
For the Year Ended December 31, 2022**

**Expressed in
thousands of New
Taiwan Dollars**

Item	Administrative expenses	Research expenses	Total	Note
Payroll expenses	\$ 63,293	-	63,293	Note 1
Insurance expenses	6,118	-	6,118	
Service expenses	22,675	453	23,128	
Miscellaneous expense	6,708	-	6,708	
Other expenses	35,701	30	35,731	Note 2
Total	\$ 134,495	483	134,978	

Note 1: Including payroll expenses—year-end bonuses, overtime pay, employees' and directors' remuneration.

Note 2: Each individual amount does not account for at least 5% of the total amount.

Statements of non-operating income and expenses

Please refer to Note 6.16 for relevant information.