

Stock Code: 8996



KAORI HEAT TREATMENT CO., LTD

## **2023 Annual General Shareholders' Meeting**

# Agenda Handbook

Note to Readers:

If there is any discrepancy between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese version shall prevail.

Convening Method: Physical Shareholders' Meeting

Meeting Date: June 13, 2023

Location: No.5-2, Chi-Lin North Road, Chung-Li District,

Taoyuan City, Taiwan (Large conference room on 5F of the operational headquarters at the head office)

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# **KAORI HEAT TREATMENT CO., LTD**

## **Procedure for the 2023 Annual General Shareholders' Meeting**

1. Call the Meeting to Order
2. Chairman's Address
3. Report Items
4. Ratification Items
5. Discussion and Election Items
6. Extempore Motions
7. Adjournment

# **KAORI HEAT TREATMENT CO., LTD**

## **Agenda for the 2023 Annual General Shareholders' Meeting**

Time: 9:30 a.m., Tuesday, June 13, 2023

Location: No.5-2, Chi-Lin North Road, Chung-Li District, Taoyuan City,

Taiwan(Large conference room on 5F of the operational headquarters at the head office)

### **1. Call the Meeting to Order**

### **2. Chairman's Address**

### **3. Report Items:**

- (1) 2022 Business Reports.
- (2) 2022 Audit Committee's Review Reports.
- (3) 2022 Employee and Director Remuneration Distribution Reports.
- (4) 2022 Shareholders' Dividend and Bonus Distribution Reports.
- (5) Amendments to the Company's Procedure for Board of Directors Meetings.

### **4. Ratification Items:**

- (1) 2022 Business Reports and Financial Statements.

### **5. Discussion and Election Items:**

- (1) Re-election of the Company's Directors.
- (2) To Release Prohibitions on New Directors from Participation in Competitive Business.

### **6. Extempore Motions:**

### **7. Adjournment**

## Report Items

Item 1:

Proposal: To report the 2022 Business Reports for review.

Description: Please refer to page 9-11 of [Attachment 1] in this agenda handbook for the 2022 Business Reports of the company.

Item 2:

Proposal: To report the 2022 Audit Committee's Review Reports for review.

Description: Please refer to page 12 of [Attachment 2] of this agenda handbook for the 2022 Audit Committee's Review Reports.

Item 3:

Proposal: To report the 2022 Employee and Director Remuneration Distribution Reports for review.

Descriptions: 1. According to the Articles of Incorporation of the company, if the company makes profits in the year, it shall set aside not less than 2% as the remuneration for employees and not more than 5% as the remuneration for directors.

2. The company's net profit before-tax in 2022 is NT\$ 374,938,520, which is to be distributed in accordance with the Articles of Incorporation. It is suggested to distribute NT\$ 8,340,793 for employees and NT\$ 13,901,322 for directors.

Item 4:

Proposal: To report the 2022 Shareholders' Dividend and Bonus Distribution Reports for review.

Descriptions: 1. The case has been approved by the board of directors on March 22, 2023.

2. The net profit after-tax of the company in 2022 was NT\$ 301,020,393. After inclusions of Beginning Undistributed Earnings at NT\$ 60,917,677 as well as the remeasurements of the net defined benefit liability recognized as the retained surplus at NT\$ 5,690,886 and the 10% legal reserve set aside according to the laws at NT\$ 30,671,128, the total available for distribution surplus in the current period was NT \$ 336,957,828. The company intends to distribute cash dividends based on NT\$1.5 per share, without any procedure fees; the total amount is NT\$ 134,076,120.

The cash (dividend) is calculated to NT 1 dollar according to the distribution proportion; those less than NT1 will be rounded down. The total amount of fractional parts less than NT 1 is included in the company's other income.

3. Please refer to page 13 of [Attachment 3] of this agenda handbook for the 2022 Disposition of Net Surplus.

Item 5:

Proposal: Amendments to the Company's Procedure for Board of Directors Meetings for review.

Descriptions: 1. Partial articles of the Company's Procedure for Board of Directors Meetings has been amended in accordance with per 5 August 2022 Order No. Financial- Supervisory- Securities- Corporate- 1110383263 of the Financial Supervisory Commission and practices of the Company.

2. The comparison table of Procedure for Board of Directors Meetings before and after amendment is attached herein. Please refer to [Attachment 4], Page 14 of this Handbook.

## **Ratification Items**

Item 1: (Proposed by the Board)

Proposal: Propose the 2022 Business Reports and Financial Statements for ratification.

Descriptions: 1. The Company's 2022 Disposition of Net Surplus, financial statements and consolidated financial statements have been audited by accountants Chen Wenxiang and Liu Shulin of Deloitte & Touche.

2. The case has been approved by the resolution of the board of directors on March 22, 2023, and then submitted to the Audit Committee for review.

3. Please refer to page 13 of [Attachment 3] of this agenda handbook for the 2022 Disposition of Net Surplus.

4. Please refer to page 9-11 of [Attachment 1] and pages 16-35 of [Attachment 5] of this agenda handbook for the above-mentioned financial statements and CPA's audit reports.

5. Please ratify.

Resolution:

## Discussion and Election Items

Item 1: (Proposed by the Board)

Proposal: Re-election of all directors of the Company. For your election.

- Descriptions: 1. The terms of office for the existing 20<sup>th</sup> directors of the Company expires on June 16, 2023. A re-election of all directors in this shareholders' meeting is proposed. The existing directors will be dismissed from the date of inauguration of the new directors.
2. In accordance with Articles of Incorporation of the Company, a candidate nomination system has been adopted. The election of 9 directors (incl. 3 independent directors) for the Company's 21<sup>st</sup> Directors in this Annual General Shareholders' Meeting is proposed. The terms of office for the elected directors is three years starting from June 13, 2023 and ending on June 12, 2026. All Directors shall be eligible for re-election. Among all directors, Mr. CHEN FAN SHIONG and Mr. HONG HSIANG WEN are nominated as the candidates of the Company's independent directors after having assumed the role of director for three terms in consideration of Mr. Chen's relevant knowledge in the industry (e.g. mechanical engineering) and expertise in corporate governance and Mr. Hung's relevant expertise and experience in financial investment analysis and corporate governance, which shall bring about significant influence on the Company's business development and corporate governance.
3. In accordance with Article 192-1 of the Company Act, "Any shareholder holding 1% or more of the total number of outstanding shares issued by the company may submit to the company in writing a roster of director candidates."
4. The list of directors' candidates reviewed and resolved respectively on April 21 and May 2, 2023 by the Board of Directors for election is as follows:

(1) Nomination by the Board:

Title	Name	Current Role	Education	Principal Working Experience	Shares Held (Shares)
Director	HAN HSIEN SON	Currently Chairman of Kaori	Bundesinstitut für Berufsbildung (Germany)	Founder of Taiwan Society for Metal Heat Treatment	1,240,276
Director	HAN HSIEN FU	Currently Vice Chairman of Kaori	Department of Mechanical Engineering, Tatung University	General Manager of Kaori since June 2000	1,469,000
Director	WU CHIH	1. Currently a Kaori	Ph.D., Materials Science and	1. Senior Vice President, Motech	210,000

Title	Name	Current Role	Education	Principal Working Experience	Shares Held (Shares)
	HSYONG	Director 2. Currently General Manager of Kaori 3. Director of Tai-Saw Technology Co., Ltd.	Engineering, University of Illinois at Urbana Champaign	Industries Inc. 2. General Manager of Business Department, Tai-Saw Technology Co., Ltd.	
Director	WANG HSIN WU	1. Currently a Kaori Director 2. Currently Deputy General Manager of Kaori	Institute of Financial Management, National Central University	Deputy General Manager of Kaori since January 2006	290,356
Director	CHEN CHUN LIANG	1. Currently a Kaori Director 2. Vice General Manager of Corporate Affairs Dept., Leading Precision Inc. 3. Independent Director at Gigastorage Industrial Co., Ltd.	1. Institution of Economics, National Taiwan University 2. Department of Public Finance, National Taipei University	Supervisor of Kaori Heat Treatment Co., Ltd.	569,382
Director	HUANG HUNG HSING	Currently a Kaori Director	Institute of Technology Management, National Tsing Hua University	Investment Manager, International Bills Finance Corporation	219,165
Independent Director	CHEN FAN SHIONG	1. Currently a Kaori Independent Director 2. Honorary Professor at Tatung University	Department of Mechanical Engineering, Tatung University	1. Director, Tatung University 2. Professor of Department of Mechanical Engineering, Tatung University 3. Department of Material Engineering, Tatung University	0

Title	Name	Current Role	Education	Principal Working Experience	Shares Held (Shares)
				<p>4. Director, Green Energy Technology Inc.</p> <p>5. Chairman of Taiwan Society for Metal Heat Treatment</p>	
Independent Director	HONG HSIANG WEN	<p>1. Currently a Kaori Independent Director</p> <p>2. Advisor at Li-Mei-Jia Investment Company</p>	<p>1. Department of Business, National Taiwan University</p> <p>2. Institution of Business, National Taiwan University</p>	<p>1. Funds Manager, Kwanghua Securities Investment &amp; Trust Co., LTD.</p> <p>2. Associate Manager of Investment Department, Taiwan Life Insurance</p> <p>3. Associate Manager of Proprietary Business Department, KGI Securities Co. Ltd.</p> <p>4. Deputy General Manager of Proprietary Business Department, Capital Securities Corp.</p> <p>5. Advisor, Chung-Hua Institution Economic Research</p> <p>6. Advisor, TWT DIGITAL COMMUNICATION CORPORATION</p>	0
Independent Director	WEI YUE GUE	<p>1. Head of Excellence Land Administration Agents</p> <p>2. Director of Excellence CPAs</p> <p>3. Appraiser, Excellence Real Estate Joint Appraisers Firm</p> <p>4. General Manager, Excellence Assets</p>	Master's Program, Department of Finance, National Taiwan University	<p>1. General Manager of UNIONBANK FUTURES CORP.</p> <p>2. Director and Supervisor, Chinese National Futures Association</p> <p>3. Convenor of Remunerations Committee, SUNKO INK CO., LTD.</p> <p>4. Member of Valuation Guideline Committee, Accounting Research and Development</p>	0

Title	Name	Current Role	Education	Principal Working Experience	Shares Held (Shares)
		Management Consultant Corp. 5. Vice Chairman of Public Relations Committee, Real Estate Appraisal Association of Taipei City 6. Managing Supervisor, Taiwan Finance Engineers and Trader Association 7. Executive Director, Commerce Development Research Institute 8. Member of Review and Advisory Committee for Procurement Plans, CPC Corporation 9. Vice Chairman of Real Estate R&D Funds Administration Committee, ROCREAA 10. Arbitrator, Chinese Arbitration Association, Taipei		Foundation 5. Convenor of Trading Affairs Committee, Taiwan Futures Exchange 6. Chairman of Forensic Accounting Committee, National Federation of CPA Associations of ROC 7. Director, Taiwan Provincial CPA Association	

(2) Nominated by shareholders holding 1% or more of the total number of outstanding shares issued by the Company:

Title	Name	Current Role	Education	Principal Working Experience	Shares Held (Shares)
Director	A-La-Ding Investment Ltd. Legal Representative: KU HUNG DAO	1. Executive Director of IN HOUSE INDUSTRY CO., LTD. 2. Advisor, DYNACARD CO., LTD. 3. Director, ILF Taiwan	1. Bachelor of Business Administration, National Cheng Chi University 2. Master of Financial Economics, University of York (UK)	1. Director, LINKUPPER CO., LTD. 2. Executive Director, MYA SEIN YAUNG CHAI CO., LTD	301,000
Director	A-La-Ding Investment Ltd. Legal Representative: WU CHUN YING	1. Currently a Kaori Independent Director 2. Chief Business Officer, YUAN TSUN PLASTIC CO., LTD.	1. Doctor of Law, Tulane University Law School 2. Master of Laws, Duke University School of Law 3. EMBA, Université de Lausanne (Attending) 4. Completed Financial Leadership Program, Harvard Business School (US) 5. Master of Laws, Institute of Technology Law, National Chiao Tung University 6. Bachelor of Business Administration and Law, National Cheng Chi University	1. CEO, WISPRO TECHNOLOGY CONSULTING CORPORATION 2. Investment Partner, MiiCs & Partners 3. Chairman and Executive Deputy General Manager, MiiCs & Partners 4. Senior Consultant, WISPRO Commercial Law Firm	301,000
Director	A-La-Ding Investment Ltd. Legal Representative: YEY YUAN	1. General Manager, DYNACARD CO., LTD. 2. Supervisor,	1. Master, Master's Program of Electrical Engineering, National Cheng Kung University	1. Director of Digital Service Office, Taiwan Electrical and Electronic Manufacturers'	301,000

Title	Name	Current Role	Education	Principal Working Experience	Shares Held (Shares)
	SEN	AMIT SYSTEM SERVICE LTD. 3. Supervisor, Union Storage Energy System Ltd.	2. Bachelor, Department of Electrical Engineering, National Cheng Kung University	Association 2. Executive Secretary of M-Taiwan Project, TATUNG COMPANY 3. Senior Director, CRADLE TECHNOLOGY CORPORATION 4. Vice General Manager, Camtek (Israel) 5. Manager, Digital Equipment Corporation (US) 6. Manager, Wang Laboratories (US)	
Independent Director	TANG ZHIH YAO	Head of Human Resources Division, Taiwan Star Telecom Corporation Limited	Master, Business Administration Division, School of Management, National Taiwan University	1. Head of Procurement and Administration Division, Taiwan Star Telecom Corporation Limited 2. Product Manager, Corporate User Business Group, Taiwan Mobile Co Ltd. 3. Vice Auditor in Charge, Deloitte Taiwan	0
Independent Director	CHENG WEN YEN	Accounting Supervisor, Formosa Chemicals & Fibre Corp	Department of Accounting, Chinese Culture University	1. Accounting Director, Hung Nghiep Formosa Co Ltd. (Vietnam) 2. Section Manager of Accounting, Formosa Chemicals & Fibre Corp 3. Audit Team Leader, Ernst & Young 4. Auditor, Deloitte Taiwan	0
Independent Director	MAO EN GUANG	Secretary General,	Passed Group General Personnel	1. Chief at Industrial Development	0

Title	Name	Current Role	Education	Principal Working Experience	Shares Held (Shares)
		Taiwan Wind Industry Association	Exams of Special Civil Service Transfer Examination Regulations for Veterans by the Examination Yuan, 1987 (equivalent to passing of Civil Service Senior Examination and University/College Credentials)	Bureau, MoEA 2. Senior Specialist at MoEA (appointed to the Minister's Office) 3. Deputy Secretary General of Taiwan Electrical and Electronic Manufacturers' Association	

4. Submitted for election.

Election Result:

Item 2: (Proposed by the Board)

Proposal: To Release Prohibitions on New Directors from Participation in Competitive Business.

Descriptions: 1. The release of prohibitions on new directors from participation in competitive business is proposed. Where the competition occurs in Mainland China, disclosure of relevant information is required in accordance with governmental laws and regulations. This proposal is adopted through resolution by the Board of Directors on March 22, 2023 and submitted to this Annual General Shareholders' Meeting.

2. The release of prohibitions on new directors from participation in competitive business is proposed for approval in accordance with Article 209 of the Company Act.

3. Please discuss for resolution.

Resolution:

## **Extempore Motions**

## **Adjournment**

## 2022 Business Report

This year, KAORI is stepping into the 53<sup>rd</sup> anniversary. I am so grateful to all shareholders for your care and support to the company; meanwhile, I would like to thank all partners for the hard work and contribution during the past years. I hope that the company can maintain steady growth and profits in the future.

In the previous year, owing to the shortage of natural gas supply in Europe resulting from the Russo-Ukrainian War, the European Union actively sought alternative energy sources, which led to the trend of heat pump heaters as replacement of natural gas boilers, thereby driving the rapid growth of the Company's plate heat exchanger sales. With respect to the OEM of thermal energy products Hot Box for Bloom Energy, with the increase in customer demand from Q4 in conjunction with the partnership between Bloom Energy and SK Group, a steady growth momentum may be expected in the demand and orders received by the Company. It is hoped that the Company may benefit from the increased market demand of plate heat exchanger and Hot Box. Furthermore, due to the price increase effect starting from this year and introduction of acquired vacuum furnace in various phases, the Company's production capacity may proceed its increment. We are convinced that the revenue and profit this year may surpass the historic records of the Company in the midst of rosy outlook along the anticipated growth in operations. Now, I am going to report the company's operating conditions last year, as well as its prospects for this year as follows:

### 1. Results of the Implementation of 2022 Annual Business Plan:

#### (1) 2022 Individual Financial Reports

Unit: NT\$ thousands

Items	2021	2022	Increase/Decrease Amounts	Increase/Decrease Rate (%)
Operating revenue	2,087,001	2,684,398	597,397	28.63%
Net operating profit	185,372	288,905	103,533	55.85%
Net profit of the current period	149,156	301,020	151,864	101.82%
Total comprehensive income of the current period	115,129	308,234	193,105	167.73%
Basic EPS (NT\$)	1.67	3.37	1.70	101.80%

#### (2) 2022 Consolidated Financial Reports

Unit: NT\$ thousands

Items	2021	2022	Increase/Decrease Amounts	Increase/Decrease Rate (%)
Operating revenue	2,231,273	2,843,540	612,267	27.44%
Net operating profit	230,355	346,136	115,781	50.26%
Net profit of the current period	149,156	301,020	151,864	101.82%
Total comprehensive income of the current period	115,129	308,234	193,105	167.73%
Basic EPS (NT\$)	1.67	3.37	1.70	101.80%

### 2. Budget Implementation

The Company did not unveil the financial forecast for 2022. As for the implementation

of individual budgets in 2022, the operating revenue reached 108.65% of the budget amount at NT\$ 2,470,746 thousand, the net operating profit reached 114.42%, surpassing the target budget, and the Net profit after-tax reached 96.42% of the target budget. A record-breaking operation performance is expected this year due to the continued growth of plate type heat exchanger and other heat products.

3. Financial Expenditure and Profitability: Unit: NT\$ thousands

Items		2022 Individual Financial Reports	2022 Consolidated Financial Reports
Cash Flow	Net cash inflow (outflow) from operating activities	(328,111)	(287,836)
	Net cash inflow (outflow) from investing activities	(165,818)	(167,164)
	Net cash inflow (outflow) from financing activities	203,941	203,941
Financial Structure (%)	Ratio of liabilities to assets (%)	49.99	50.46
	Ratio of long-term funds to real property, plants and equipment (%)	170.75	164.91
Solvency (%)	Current Ratio (%)	141.16	152.04
	Quick Ratio (%)	52.90	60.53
Profitability (%)	Return on Assets (%)	8.30	8.24
	Return on Equity (%)	15.27	15.27
	Ratio of net profit before-tax to paid-in capital (%)	41.95	43.62
	Profit Margin (%)	11.21	10.59
	Basic EPS (NT\$)	3.37	3.37

4. R&D Status

In terms of R&D, the Company proceeded its contribution to new product development in the previous year, and was committed to the development of hydrogen storage materials, dielectric fluid 2U3KW, insulating oil 2U3KW, 4U7kW immersion cooling tank products, standard vertical cabinet 4U80kW water cooling unit, Hot Box for hydrogen production through water electrolysis and other related products. The hydrogen energy business department of the Company obtained the utility patent of "device and method for the removal and reuse of organic waste liquid" in 2022; concerning the heat exchanger, the Company obtained the PED and UL certifications on pressure vessels for its new heat exchanger models in 2022, thereby facilitating promotions of the heat pump heat exchanger with increased demand in Europe and America. R&D of the Company responds to the demands for natural refrigerants and environmentally friendly refrigerants as well as the sharp increase in heat pump units. The developed models B076/B081 may effectively reduce the volume of refrigerant filling, reduce the use of greenhouse gases, improve COP of system, and reduce carbon footprint. To tackle the heat pump market in the North America through legal compliance, the Company has successfully developed D206 heat exchanger, usable as a condenser for commercial and industrial heat pumps and equipped with unique drain channel technology preventing refrigerants from leaking to the water storage. Kaori's market competitiveness is effectively heightened through the introduction of new products.

This year, the Company will continue its contribution to R&D of energy-saving and green energy products in response to market demand. For the Heat Exchanger Department, it will engage in the heat pump domain by developing a new type of heat exchanger based on

the application of asymmetric channel technology with an expectation to expand its product lines and production capacity, generating more business opportunities. For the thermal energy business department, it will adopt the principal operations on the cloud data center solutions through continued proposal of liquid-cooled heat dissipation system for servers. In addition, the Fuel Cell Business Department will cooperate with Bloom Energy to develop high-efficiency hydrogen generators and hydrogen energy power generators, striving for the new era of hydrogen energy and net-zero emission. For hydrogen energy, its R&D focuses on the development of hydrogen storage materials and carbon sequestration devices for carbon recovery through collection of carbon dioxide. It is expected that the development of new products will generate a more explosive growth in revenue and profits for the Company.

## 5. Summary of 2023 Business Plans

### (1) Management Guideline

1. For implementing sustainable development, our company has the best policies such as enhancing the capability of manufacturing process and product design, actively developing new products or technologies in response to the demand for capacity of new products, and keeping on investing in R & D.
2. Develop corresponding products regarding the applications of special industries, grab the niche market, actively strive for the cooperation with large foreign equipment manufacturers and large agencies, and expand distribution points and sales market. Spare no effort to increase the sales in the markets at home and abroad through participation in oversea exhibitions and engagement on social media, enhance the market share, expand sales channels through alliances with dealers, actively improve online sales, and establish and enhance brand awareness.

### (2) Expected Sales Quantity and its Basis

The expected sales budget of the company is based on the existing orders according to customer demand, as well as market analysis status and the plan reports of overall situation of operation, production, and sales. We hope that the overall operation situation of the company in 2023 will remain a stable growth.

### (3) Important Production and Sales Policies

1. Improving product quality, and continued expansion of production bases and production equipment.
2. Active expansion of domestic and export markets, seeking OEM opportunities from major international players, and continued strengthening of production and sales capabilities of the Company's overseas subsidiaries.

## 6. Future Development Strategies of the Company

To achieve the goal of operation growth, the company puts emphasis on making the capacity and efficiency of overall equipment meet the needs of future shipment growth. For the company, the major key points in the future are mainly focusing on business expansion of heat exchanger products, liquid cooling module in servers, and hydrogen energy product. Following the Company's capital expenditure plan in 2022 concerning the vacuum furnace and automation equipment, the entry of the said equipment and the expansion of the production lines are expected to be completed in the next two years to yield the production capacity corresponding to the rapid growth in market demand.

The Heat Exchanger Department will put its focus on the development of applications for B076, B080, B110 and D105 and D206 heat pumps. As the era of hydrogen energy is around the corner, electrolytic hydrogen production plants and hydrogen fuel cell vehicles require high-pressure nickel welded heat exchangers. In the future, we intend to plan and organize the research and development of relevant solder, aiming at promoting the development of clean energy in the aspects of low-carbon and zero-carbon transformation. In

addition to the two types of mainstay--fuel cell and plate heat exchanger, the company will also lay its foundation in the future based on the core technology of hydrogen and heat energy, to combine with the existing metal processing skills, striding forward to the fields such as waste hydrogen purification equipment development of hydrogen furnace, 20U100kw immersed dielectric liquid cooling tank development and various heat dissipation, so as to create the next opportunity for large growth of KAORI.

#### 7. The impact caused by external competitive environment, regulatory environment, and overall business environment

In response to global warming and energy depletion, all governments around the world spare no effort to focus on energy preservation and carbon reduction as well as maintaining the ecological environment. In the midst of global efforts to achieve the goal of net zero carbon emissions by 2050, the development of hydrogen energy is one of the critical options. "Hydrogen fuel cells" boast environmentally friendly and clean energy, which undergoes electrochemical reaction for generation of electricity, producing only water as byproduct, and will not cause any pollution to the environment. Furthermore, it does not cause air pollution as it yields zero carbon emission in the power generation process. The "hydrogen energy" is the green energy development indicator in the future. Albeit the fact that the application of hydrogen energy is less extensive in Taiwan, the applications concerning power generation through fuel cell in the globe will lead to unlimited business opportunities in the future under the trend of zero carbon and carbon reduction. The Company plays an important role in Bloom Energy's supply chains for its bumper deal worth USD 4.5 Billion from the SK Group (Korea) and its upcoming launch of high-efficiency hydrogen generator and hydrogen energy power generators. It is estimated that the production value of fuel cells in 2023 will grow compared with that in 2022 owing to the certain growth in the momentum driven by demands of fuel cell parts and components. Furthermore, as developed countries in the world are actively promoting the goal of net zero carbon emissions by 2050 the EU have announced the 210-Billion-Euro REPowerEU project in 2021, various countries have expedited their transformation related to green energy in an attempt to ridding themselves off the embarrassment derived from excessive dependence on fossil fuels as soon as possible. The market demand for the green-energy-relevant heat pump industry has been elevating, bringing about a substantial increase in the overall demand for the Company's plate heat exchangers.

The company is closely correlated with political and economic laws and regulations, policy trends, external environment, overall business surroundings, and business cycles. Currently, no major impact and influence have occurred yet. However, the global economy is facing several risks and challenges, such as geopolitical tension, inflation, skyrocketing and material prices, bringing about challenges to growth momentum in the future. The risk issues have an intimate connection with the supply chain in the industry.

As for legal issues, the company hires Lawyer Tian-Jen Hsieh, the former chairman of the Consumers' Foundation, as the legal adviser to serve as an important consultation source for future legal changes and reduce the operational risks thereof.

Since its establishment, KAORI has relied on its most premium core technology, abundant experiences, and excellent management in response to the changes in external competitive environment. In the future, all partners of the company will still hold to the business philosophy of "Innovation, Quality, Responsibility and Honor", endeavor to achieve every business objective of the company and maintain stable growth of the company, so that we will never let shareholders down.

Wish all shareholders

Good health and happiness.

Chairman HAN HSIEN SON

President WU CHIH HSYONG

Accounting Supervisor WANG HSIN WU

## KAORI HEAT TREATMENT CO., LTD Audit Committee's Review Reports

The board of directors is permitted hereby to submit the company's annual business reports, individual financial reports, consolidated financial reports and profit distribution proposal of 2022. The individual financial reports and consolidated financial reports have been jointly audited by two accountants, Chen Wen Xiang and Liu Shu Lin of Deloitte & Touche Firm, who were entrusted by the board of directors and who issued an audit report thereof.

The above-mentioned statements and reports prepared and submitted by the board of directors have been verified by the Audit Committee and are deemed complete. Therefore, a report is prepared in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act.

Please review these reports.

To

KAORI HEAT TREATMENT CO., LTD

2023 Annual General Shareholders' Meeting

Audit Committee

Member: CHEN FAN SHIONG

Member: HONG HSIANG WEN

Member: WU CHUN YING

March 22, 2023

KAORI HEAT TREATMENT CO., LTD  
2022 Disposition of Net Surplus

Item	Amounts
Undistributed surplus at the beginning of the period	60,917,677
Remeasurements of the net defined benefit liability recognized as the retained surplus	5,690,886
Undistributed surplus at the beginning of the adjustment period	66,608,563
Add: Net profit after-tax in 2022	301,020,393
Less: Set aside Legal Reserve	30,671,128
Distributable surplus in the current period	336,957,828
Less: Cash dividends for shareholder (NT\$1.5 per share in cash) [Note 1, 2]	134,076,120
Undistributed surplus at the end of the period	202,881,708
Notes:	
1. The distribution of shareholders' cash dividends is mainly based on the de facto distribution of the number of outstanding shares on the ex-dividend date.	
2. The amounts of this surplus distribution are prioritized mainly based on the annual surplus of 2022.	

Chairman: HAN HSIEN SON

Manager: WU CHIH HSYONG

Accounting Supervisor: WANG HSIN WU

## KAORI HEAT TREATMENT CO., LTD

## Comparison of amendments to the “Rules of Procedure for Board of Directors Meetings”

Articles before Revision	Articles after Revision	Reason for Revision
<p>Article 3 The board of directors shall meet at least quarterly.</p> <p>A notice of the reasons for convening a board meeting shall be given to each director and supervisor before 7 days before the meeting is convened. In emergency circumstances, however, a board meeting may be called on shorter notice.</p> <p>All matters set forth under Article 12, paragraph 1 of these Rule shall be specified in the notice of the reasons for convening a board meeting. None of those matters may be raised by an extraordinary motion.</p>	<p>Article 3 The board of directors shall meet at least quarterly.</p> <p>A notice of the reasons for convening a board meeting shall be given to each director and supervisor before 7 days before the meeting is convened. In emergency circumstances, however, a board meeting may be called on shorter notice.</p> <p>All matters set forth under Article 12, paragraph 1 of these Rule shall be specified in the notice of the reasons for convening a board meeting. None of those matters may be raised by an extraordinary motion <u>except in the case of an emergency or for other legitimate reason.</u></p>	Revised following amended laws and regulations
<p>Article 4 The designated unit responsible for the board meetings of the Company shall be the Finance Department <u>and the unit responsible for corporate governance.</u></p> <p>Directors of the Company shall be provided appropriate and timely information, whose form and quality shall be sufficient for directors to make decisions based on the relevant information acquired and therefore fulfill his/her duties.</p> <p>The unit responsible for board meetings shall draft agenda items and prepare sufficient meeting materials, and shall deliver them together with the notice of the meeting.</p> <p>A director who is of the opinion that the meeting materials provided are insufficient may request their supplementation by the unit responsible for board meetings, and the unit responsivle for board meetings shall supplement such information within three days. If a director is of the opinion that materials concerning any proposal are insufficient, the deliberation of such proposal may be postponed by a resolution of the board of directors.</p> <p>The unit responsivle for board meetings is responsible for handling requests by directors and shall, under the principle of providing assistance in a timely and effective to the directors in the performance of duties, handle</p>	<p>Article 4 The designated unit responsible for the board meetings of the Company shall be the Finance Department.</p> <p>Directors of the Company shall be provided appropriate and timely information, whose form and quality shall be sufficient for directors to make decisions based on the relevant information acquired and therefore fulfill his/her duties.</p> <p>The unit responsible for board meetings shall draft agenda items and prepare sufficient meeting materials, and shall deliver them together with the notice of the meeting.</p> <p>A director who is of the opinion that the meeting materials provided are insufficient may request their supplementation by the unit responsible for board meetings, and the unit responsivle for board meetings shall supplement such information within three days. If a director is of the opinion that materials concerning any proposal are insufficient, the deliberation of such proposal may be postponed by a resolution of the board of directors.</p> <p><u>As the Company does not appoint a manager of corporate governance,</u> the unit responsivle for board meetings (Finance Department) is responsible for handling requests by directors and shall, under the principle of providing</p>	Revised following Company practices

Articles before Revision	Articles after Revision	Reason for Revision
such requests within three days.	assistance in a timely and effective to the directors in the performance of duties, handle such requests within three days.	
<p>Article 12 The matters listed below as they relate to the Company shall be raised for discussion at a board meeting:</p> <ol style="list-style-type: none"> <li>1. The Company's business plan.</li> <li>2. Annual and semi-annual financial reports, with the exception of semi-annual financial reports that are not required under relevant laws and regulations to be audited and attested by a certified public accountant (CPA).</li> <li>3. Adoption or amendment of an internal control system pursuant to Article 14-1 of the Securities and Exchange Act and assessment of the effectiveness of the internal control system.</li> <li>4. Adoption or amendment, pursuant to Article 36-1 of the Securities and Exchange Act, of any handling procedures for material financial or business transactions, such as the acquisition or disposal of assets, derivatives trading, loans of funds to others, and endorsements or guarantees for others.</li> <li>5. The offering, issuance, or private placement of equity-type securities.</li> <li>6. <u>The appointment or discharge of the Chairman, where the Company does not have a managing director.</u></li> <li>7. The appointment or discharge of a financial, accounting, or internal audit officer.</li> <li>8. A donation to a related party or a major donation to a non-related party, provided that a public-interest donation of disaster relief that is made for a</li> </ol>	<p>Article 12 The matters listed below as they relate to the Company shall be raised for discussion at a board meeting:</p> <ol style="list-style-type: none"> <li>1. The Company's business plan.</li> <li>2. Annual and semi-annual financial reports, with the exception of semi-annual financial reports that are not required under relevant laws and regulations to be audited and attested by a certified public accountant (CPA).</li> <li>3. Adoption or amendment of an internal control system pursuant to Article 14-1 of the Securities and Exchange Act and assessment of the effectiveness of the internal control system.</li> <li>4. Adoption or amendment, pursuant to Article 36-1 of the Securities and Exchange Act, of any handling procedures for material financial or business transactions, such as the acquisition or disposal of assets, derivatives trading, loans of funds to others, and endorsements or guarantees for others.</li> <li>5. The offering, issuance, or private placement of equity-type securities.</li> <li>6. The appointment or discharge of a financial, accounting, or internal audit officer.</li> <li>7. A donation to a related party or a major donation to a non-related party, provided that a public-interest donation of disaster relief that is made for a</li> </ol>	Revised following amended laws and regulations

Articles before Revision	Articles after Revision	Reason for Revision
<p>major natural disaster may be submitted to the following board of directors meeting for retroactive recognition.</p> <p>9. Any matter that, under Article 14-3 of the Securities and Exchange Act or any other law, regulation, or bylaw, must be approved by resolution at a shareholders meeting or board meeting, or any material matter as may be prescribed by the competent authority.</p> <p>The term "related party" in subparagraph 8 of the preceding paragraph means a related party as defined in the Regulations Governing the Preparation of Financial Reports by Securities Issuers. The term "major donation to a non-related party" means an individual donation, or cumulative donations within a 1-year period to a single recipient, at an amount of NTD100 million or more, or at an amount equal to or greater than 1 percent of net operating revenue or 5 percent of paid-in capital as stated in the CPA-attested financial report for the most recent year.</p> <p>The term "within a 1-year period" in the preceding paragraph means a period of 1 year calculated retroactively from the date on which the current board of directors meeting is convened. Amounts already submitted to and passed by a resolution of the board are exempted from inclusion in the calculation.</p> <p>At least one independent director of the Company shall attend the meeting in person. With respect to the matters which must be approved by resolutions at a board meeting as provided in the first paragraph, any and all independent directors shall attend the meeting. Where an independent director is unable to attend the meeting, that independent director shall appoint another independent director to attend the meeting as proxy. If an independent director objects to or expresses reservations about such a matter, it shall be recorded in the board meeting minutes; if an independent</p>	<p>8. Any matter that, under Article 14-3 of the Securities and Exchange Act or any other law, regulation, or bylaw, must be approved by resolution at a shareholders meeting or board meeting, or any material matter as may be prescribed by the competent authority.</p> <p>The term "related party" in subparagraph 7 of the preceding paragraph means a related party as defined in the Regulations Governing the Preparation of Financial Reports by Securities Issuers. The term "major donation to a non-related party" means an individual donation, or cumulative donations within a 1-year period to a single recipient, at an amount of NTD100 million or more, or at an amount equal to or greater than 1 percent of net operating revenue or 5 percent of paid-in capital as stated in the CPA-attested financial report for the most recent year.</p> <p>The term "within a 1-year period" in the preceding paragraph means a period of 1 year calculated retroactively from the date on which the current board of directors meeting is convened. Amounts already submitted to and passed by a resolution of the board are exempted from inclusion in the calculation.</p> <p>At least one independent director of the Company shall attend the meeting in person. With respect to the matters which must be approved by resolutions at a board meeting as provided in the first paragraph, any and all independent directors shall attend the meeting. Where an independent director is unable to attend the meeting, that independent director shall appoint another independent director to attend the meeting as proxy. If an independent director objects to or expresses reservations about such a matter, it shall be recorded in the board meeting minutes; if an independent director intends to express an objection or reservation but is unable to attend the meeting in</p>	

Articles before Revision	Articles after Revision	Reason for Revision
<p>director intends to express an objection or reservation but is unable to attend the meeting in person, then unless there is a legitimate reason to do otherwise, that director shall issue a written opinion in advance, which shall be recorded in the board meeting minutes.</p>	<p>person, then unless there is a legitimate reason to do otherwise, that director shall issue a written opinion in advance, which shall be recorded in the board meeting minutes.</p>	
<p>Article 19 These Rules of Procedure was enacted on January 15, 2006. The 1<sup>st</sup> amendment was made on September 8, 2006. The 2<sup>nd</sup> amendment was made on January 15, 2007. The 3<sup>rd</sup> amendment was made on March 30, 2007. The 4<sup>th</sup> amendment was made on March 25, 2008. The 5<sup>th</sup> amendment was made on March 26, 2010. The 6<sup>th</sup> amendment was made on November 21, 2012. The 7<sup>th</sup> amendment was made on September 8, 2017. The 8<sup>th</sup> amendment was made on March 22, 2019. The 9<sup>th</sup> amendment was made on November 8, 2019. The 10<sup>th</sup> amendment was made on March 20, 2020. The 11<sup>th</sup> amendment was made on November 4, 2022. <u>The 12<sup>th</sup> amendment was made on March 22, 2023.</u></p>	<p>Article 19 These Rules of Procedure was enacted on January 15, 2006. The 1<sup>st</sup> amendment was made on September 8, 2006. The 2<sup>nd</sup> amendment was made on January 15, 2007. The 3<sup>rd</sup> amendment was made on March 30, 2007. The 4<sup>th</sup> amendment was made on March 25, 2008. The 5<sup>th</sup> amendment was made on March 26, 2010. The 6<sup>th</sup> amendment was made on November 21, 2012. The 7<sup>th</sup> amendment was made on September 8, 2017. The 8<sup>th</sup> amendment was made on March 22, 2019. The 9<sup>th</sup> amendment was made on November 8, 2019. The 10<sup>th</sup> amendment was made on March 20, 2020. The 11<sup>th</sup> amendment was made on November 4, 2022.</p>	<p>Added order and date of amendment</p>

**Kaori Heat Treatment Co., Ltd.**

**Financial Statements for the  
Years Ended December 31, 2022 and 2021 and  
Independent Auditors' Report**

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Shareholders  
Kaori Heat Treatment Co., Ltd.

### **Opinion**

We have audited the accompanying financial statements of Kaori Heat Treatment Co., Ltd. (the "Company"), which comprise the balance sheets as of December 31, 2022 and 2021, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying 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 the Standards on Auditing of the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the 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 consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter identified in the Company's financial statements for the year ended December 31, 2022 is stated as follows:

The Company mainly exports thermal energy products, and one of the main sales types is customer-supplied warehouse sales. The Company places the thermal energy products inventory in the customer supply warehouse designated by the sales customer according to the needs of the sales customers of thermal energy products.

The accuracy of the revenue recognition described above has a significant impact on the financial statements and is closely related to operational performance. As a result, it was identified as a key audit matter.

The key audit procedures that we performed in respect of revenue derived from specific products included the following:

1. We tested and obtained an understanding of the appropriateness of the design and implementation of internal control system related to revenue recognition.
2. We sampled the sales from customer supply warehouse in 2022, and verified related vouchers to test the occurrence of sales revenue.

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

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 the audit committee, are responsible for overseeing the Company's financial reporting process.

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Standards on Auditing of the Republic of China

will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the 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 financial statements for the year ended December 31, 2022 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audits resulting in this independent auditors' report are Wen-Hsiang Chen and Shu-Lin Liu.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 22, 2023

Notice to Readers

*The accompanying financial statements are intended only to present the financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally applied in the Republic of China.*

*For the convenience of readers, the independent auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and financial statements shall prevail.*

# KAORI HEAT TREATMENT CO., LTD.

## BALANCE SHEETS DECEMBER 31, 2022 AND 2021 (In Thousands of New Taiwan Dollars)

ASSETS	2022		2021	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 6 and 26)	\$ 165,217	4	\$ 455,205	14
Financial assets at fair value through profit or loss - current (Notes 7 and 26)	42,214	1	41,676	1
Notes receivable (Notes 10 and 26)	20,849	-	16,167	1
Trade receivables (Notes 10 and 26)	517,729	13	282,081	8
Trade receivables from related parties (Notes 26 and 27)	13,534	-	14,276	-
Other receivables (Notes 10 and 26)	99	-	10,943	-
Inventories (Note 11)	1,098,545	27	530,145	16
Other current assets	<u>170,681</u>	<u>4</u>	<u>63,077</u>	<u>2</u>
Total current assets	<u>2,028,868</u>	<u>49</u>	<u>1,413,570</u>	<u>42</u>
<b>NON-CURRENT ASSETS</b>				
Financial assets at fair value through other comprehensive income - non-current (Notes 8 and 26)	86,225	2	88,432	3
Financial assets at amortized cost - noncurrent (Note 9)	10,256	-	35,816	1
Investments accounted for using equity method (Note 12)	262,142	7	216,108	6
Property, plant and equipment (Notes 13 and 28)	1,569,386	38	1,565,526	46
Right-of-use assets (Note 14)	3,363	-	6,085	-
Investment properties (Notes 15 and 28)	23,325	1	24,424	1
Deferred tax assets (Note 23)	12,314	-	14,463	-
Other non-current assets	110,484	3	24,410	1
Net defined benefit assets - non-current (Notes 4 and 19)	<u>10,628</u>	<u>-</u>	<u>461</u>	<u>-</u>
Total non-current assets	<u>2,088,123</u>	<u>51</u>	<u>1,975,725</u>	<u>58</u>
<b>TOTAL</b>	<u>\$ 4,116,991</u>	<u>100</u>	<u>\$ 3,389,295</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term loans (Notes 16 and 26)	\$ 750,000	18	\$ 620,000	18
Notes payable (Note 26)	1,301	-	959	-
Trade payables (Note 26)	241,696	6	183,578	6
Trade payables from related parties (Notes 26 and 27)	1,149	-	-	-
Other payables (Notes 17 and 26)	230,114	6	155,361	5
Current tax liabilities (Notes 4 and 23)	54,357	1	13,143	-
Lease liabilities - current (Note 14)	2,262	-	2,715	-
Current portion of long-term borrowings (Notes 16 and 26)	88,050	2	78,125	2
Other current liabilities	<u>68,350</u>	<u>2</u>	<u>40,294</u>	<u>1</u>
Total current liabilities	<u>1,437,279</u>	<u>35</u>	<u>1,094,175</u>	<u>32</u>
<b>NON-CURRENT LIABILITIES</b>				
Long-term borrowings (Notes 16, 26 and 28)	594,665	14	393,827	12
Provisions - non-current (Note 18)	-	-	1,248	-
Deferred income tax liabilities (Note 23)	24,701	1	11,564	-
Lease liabilities - non-current (Note 14)	1,136	-	3,398	-
Guarantee deposits received	<u>213</u>	<u>-</u>	<u>244</u>	<u>-</u>
Total non-current liabilities	<u>620,715</u>	<u>15</u>	<u>410,281</u>	<u>12</u>
Total liabilities	<u>2,057,994</u>	<u>50</u>	<u>1,504,456</u>	<u>44</u>
<b>EQUITY (Note 20)</b>				
Share capital				
Ordinary shares	<u>893,841</u>	<u>22</u>	<u>893,841</u>	<u>27</u>
Capital surplus	<u>593,414</u>	<u>14</u>	<u>593,414</u>	<u>18</u>
Retained earnings				
Legal reserve	190,165	5	175,303	5
Unappropriated earnings	<u>367,629</u>	<u>9</u>	<u>209,856</u>	<u>6</u>
Total retained earnings	<u>557,794</u>	<u>14</u>	<u>385,159</u>	<u>11</u>
Other equity				
Unrealized gain on financial assets at fair value through other comprehensive income	8,330	-	9,896	-
Exchange differences on translating the financial statements of foreign operations	<u>5,618</u>	<u>-</u>	<u>2,529</u>	<u>-</u>
Total other equity	<u>13,948</u>	<u>-</u>	<u>12,425</u>	<u>-</u>
Total equity	<u>2,058,997</u>	<u>50</u>	<u>1,884,839</u>	<u>56</u>
<b>TOTAL</b>	<u>\$ 4,116,991</u>	<u>100</u>	<u>\$ 3,389,295</u>	<u>100</u>

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

## KAORI HEAT TREATMENT CO., LTD.

### STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2022		2021	
	Amount	%	Amount	%
REVENUE (Notes 4, 21 and 27)	\$ 2,684,398	100	\$ 2,087,001	100
COST OF GOODS SOLD (Notes 11, 22 and 27)	<u>1,990,218</u>	<u>74</u>	<u>1,570,171</u>	<u>75</u>
GROSS PROFIT	694,180	26	516,830	25
UNREALIZED GAIN ON ASSOCIATES/ AND JOINT VENTURES	(4,473)	-	(2,549)	-
REALIZED GAIN ON TRANSACTIONS WITH ASSOCIATES/ AND JOINT VENTURES	<u>2,549</u>	<u>-</u>	<u>3,882</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>692,256</u>	<u>26</u>	<u>518,163</u>	<u>25</u>
OPERATING EXPENSES (Notes 19 and 22)				
Selling and marketing expenses	118,082	4	99,568	5
General and administrative expenses	200,795	8	165,519	8
Research and development expenses	80,561	3	68,481	3
Expected credit loss (reversal)	<u>3,913</u>	<u>-</u>	<u>(777)</u>	<u>-</u>
Total operating expenses	<u>403,351</u>	<u>15</u>	<u>332,791</u>	<u>16</u>
PROFIT FROM OPERATIONS	<u>288,905</u>	<u>11</u>	<u>185,372</u>	<u>9</u>
NON-OPERATING INCOME AND EXPENSES (Note 22)				
Interest income	893	-	520	-
Other income	4,684	-	4,983	-
Other gains and losses	48,931	2	(33,749)	(2)
Finance costs	(13,344)	(1)	(10,330)	-
Share of profit of subsidiaries	<u>44,869</u>	<u>2</u>	<u>36,564</u>	<u>2</u>
Total non-operating income and expenses	<u>86,033</u>	<u>3</u>	<u>(2,012)</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	374,938	14	183,360	9
INCOME TAX EXPENSE (Notes 4 and 23)	<u>73,918</u>	<u>3</u>	<u>34,204</u>	<u>2</u>
NET PROFIT FOR THE YEAR	<u>301,020</u>	<u>11</u>	<u>149,156</u>	<u>7</u>

(Continued)

# KAORI HEAT TREATMENT CO., LTD.

## STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2022		2021	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	\$ 7,114	-	\$ (665)	-
Unrealized loss on investments in equity instruments at fair value through other comprehensive income	(2,207)	-	(36,414)	(2)
Income tax related to items that will not be reclassified subsequently to profit or loss	(782)	-	5,905	1
	<u>4,125</u>	-	<u>(31,174)</u>	<u>(1)</u>
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations	<u>3,089</u>	-	<u>(2,853)</u>	-
Other comprehensive income (loss) for the year, net of income tax	<u>7,214</u>	-	<u>(34,027)</u>	<u>(1)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 308,234</u>	<u>11</u>	<u>\$ 115,129</u>	<u>6</u>
EARNINGS PER SHARE (Note 24)				
From continuing operations				
Basic	<u>\$ 3.37</u>		<u>\$ 1.67</u>	
Diluted	<u>\$ 3.37</u>		<u>\$ 1.67</u>	

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

(Concluded)

KAORI HEAT TREATMENT CO., LTD.  
STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021  
(In Thousands of New Taiwan Dollars)

	Shares (In Thousands)	Share Capital	Capital Surplus	Retained Earnings			Others		Total Equity
				Legal Reserve	Special Reserve	Unappropriate Earnings	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensiv e Income	Exchange Differences on Translating the Financial Statements of Foreign Exchange	
BALANCE AT JANUARY 1, 2021	89,384	\$ 893,841	\$ 593,414	\$ 158,653	\$ 63,254	\$ 166,581	\$ 40,538	\$ 5,382	\$ 1,921,663
Appropriation of 2020 earnings									
Legal reserve	-	-	-	16,650	-	(16,650)	-	-	-
Special reserve	-	-	-	-	(63,254)	63,254	-	-	-
Cash dividends distributed by the Company	-	-	-	-	-	(151,953)	-	-	(151,953)
Net profit for the year ended December 31, 2021	-	-	-	-	-	149,156	-	-	149,156
Other comprehensive income (loss) for the year ended December 31, 2021, net of income tax	-	-	-	-	-	(532)	(30,642)	(2,853)	(34,027)
Total comprehensive income (loss) for the year ended December 31, 2021	-	-	-	-	-	148,624	(30,642)	(2,853)	115,129
BALANCE AT DECEMBER 31, 2021	89,384	893,841	593,414	175,303	-	209,856	9,896	2,529	1,884,839
Appropriation of 2021 earnings									
Legal reserve	-	-	-	14,862	-	(14,862)	-	-	-
Cash dividends distributed by the Company	-	-	-	-	-	(134,076)	-	-	(134,076)
Net profit for the year ended December 31, 2022	-	-	-	-	-	301,020	-	-	301,020
Other comprehensive income (loss) for the year ended December 31, 2022, net of income tax	-	-	-	-	-	5,691	(1,566)	3,089	7,214
Total comprehensive income for the year ended December 31, 2022	-	-	-	-	-	306,711	(1,566)	3,089	308,234
BALANCE AT DECEMBER 31, 2022	89,384	\$ 893,841	\$ 593,414	\$ 190,165	\$ -	\$ 367,629	\$ 8,330	\$ 5,618	\$ 2,058,997

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

**KAORI HEAT TREATMENT CO., LTD.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**  
**(In Thousands of New Taiwan Dollars)**

	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 374,938	\$ 183,360
Adjustments for:		
Depreciation expense	101,325	102,101
Amortization expense	4,833	4,161
Expected credit loss (reversal)	3,913	(777)
Net loss (gain) on fair value change of financial assets and liabilities at fair value through profit or loss	6,233	(1,000)
Finance costs	13,344	10,330
Interest income	(893)	(520)
Share of gain of subsidiaries	(44,869)	(36,564)
Gain on disposal of property, plant and equipment	-	(76)
(Reversed of) write-down of inventories	(1,274)	3,734
Unrealized gain on the transactions with subsidiaries	4,473	2,549
Realized gain on the transactions with subsidiaries	(2,549)	(3,882)
Gain on lease modification	-	(7)
Changes in operating assets and liabilities:		
Financial assets mandatorily classified as at fair value through profit or loss	(6,771)	3,586
Notes receivable	(4,706)	(2,681)
Trade receivables	(239,537)	56,489
Trade receivables from related parties	742	655
Other receivables	10,844	(10,859)
Inventories	(567,126)	24,902
Other current assets	(107,604)	(38,375)
Net defined benefit assets	(3,053)	(461)
Notes payable	342	(123,915)
Trade payables	58,118	146,681
Trade payables to related parties	1,149	-
Other payables	74,302	21,014
Provisions	(1,248)	(1,752)
Other current liabilities	28,056	26,801
Defined benefit liabilities - non-current	-	(24,002)
Cash (used in) generated from operations	(297,018)	341,492
Interest paid	(12,893)	(10,220)
Income tax paid	(18,200)	(55,293)
Net cash generated from operating activities	<u>(328,111)</u>	<u>275,979</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease (increase) of financial assets at amortized cost	25,560	(35,816)
Payments for property, plant and equipment	(98,230)	(97,863)
Proceeds from disposal of property, plant and equipment	-	420

(Continued)

# KAORI HEAT TREATMENT CO., LTD.

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021 (In Thousands of New Taiwan Dollars)

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	2022	2021
Dividends received from subsidiaries	\$ -	\$ 86,483
Increase in other non-current assets	(94,041)	(18,616)
Interest received	<u>893</u>	<u>520</u>
Net cash used in investing activities	<u>(165,818)</u>	<u>(64,872)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	130,000	150,000
Decrease in short-term notes payable	-	(120,277)
Proceeds from long-term borrowings	297,300	-
Repayments of long-term borrowings	(86,537)	(79,536)
Proceeds from guarantee deposits received	(31)	-
Repayment of the principal portion of lease liabilities	(2,715)	(3,086)
Dividends paid to owners of the Company	<u>(134,076)</u>	<u>(151,953)</u>
Net cash generated from (used in) financing activities	<u>203,941</u>	<u>(204,852)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(289,988)	6,255
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>455,205</u>	<u>448,950</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 165,217</u>	<u>\$ 455,205</u>

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

(Concluded)

**Kaori Heat Treatment Co., Ltd. and  
Subsidiaries**

**Consolidated Financial Statements for the  
Years Ended December 31, 2022 and 2021 and  
Independent Auditors' Report**

## **DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES**

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

Very truly yours,

KAORI HEAT TREATMENT CO., LTD.

By

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HSIEN-SOU, HAN  
Chairman

March 22, 2023

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Shareholders  
Kaori Heat Treatment Co., Ltd.

### **Opinion**

We have audited the accompanying consolidated financial statements of Kaori Heat Treatment Co., Ltd. and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements").

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

### **Basis for Opinion**

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

### **Key Audit Matters**

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

The key audit matter identified in the Group's consolidated financial statements for the year ended December 31, 2022 is stated as follows:

Kaori Heat Treatment Industry Co., Ltd. and its subsidiaries mainly export thermal energy products, and one of the main sales types is customer-supplied warehouse sales. Kaori Heat Treatment Industry Co., Ltd. and its subsidiaries place the thermal energy products inventory in the customer supply warehouse designated by the sales customer according to the needs of the sales customers of thermal energy products.

The accuracy of the revenue recognition described above has a significant impact on the financial statements and is closely related to operational performance. As a result, it was identified it as a key audit matter.

The key audit procedures that we performed in respect of revenue derived from specific products included the following:

1. We tested and obtained an understanding of the appropriateness of the design and implementation of internal control system related to revenue recognition.
2. We sampled the sales from customer supply warehouse in 2022, and verified related vouchers to test the occurrence of sales revenue.

#### **Other Matter**

We have audited the separate financial statements of Kaori Heat Treatment Co., Ltd. as of and for the years ended December 31, 2022 and 2021 on which we have issued an unmodified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and IFRS, IAS, IFRIC, and SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including the audit committee, are responsible for overseeing the Group's financial reporting process.

## **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Standards on Auditing of the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

manner that achieves fair presentation.

6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Wen-Hsiang Chen and Shu-lin Liu.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 22, 2023

Notice to Readers

*The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally applied in the Republic of China.*

*For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail.*

**KAORI HEAT TREATMENT CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2022 AND 2021**  
**(In Thousands of New Taiwan Dollars)**

ASSETS	2022		2021	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 6 and 26)	\$ 249,034	6	\$ 498,574	15
Financial assets at fair value through profit or loss - current (Notes 7 and 26)	42,214	1	41,676	1
Financial assets at amortized cost - current (Notes 9 and 26)	22,040	1	47,784	1
Notes receivable (Notes 10 and 26)	20,849	1	16,167	1
Trade receivables (Notes 10 and 26)	558,798	13	334,955	10
Other receivables (Notes 10 and 26)	99	-	10,943	-
Inventories (Note 11)	1,179,812	28	575,506	17
Other current assets	<u>171,813</u>	<u>4</u>	<u>63,449</u>	<u>2</u>
Total current assets	<u>2,244,659</u>	<u>54</u>	<u>1,589,054</u>	<u>47</u>
<b>NON-CURRENT ASSETS</b>				
Financial assets at fair value through other comprehensive income - non-current (Notes 8 and 26)	86,225	2	88,432	2
Financial assets at amortized cost - non-current (Notes 9 and 26)	36,704	1	35,816	1
Property, plant and equipment (Notes 13 and 28)	1,624,956	39	1,625,843	48
Right-of-use assets (Note 14)	5,335	-	8,114	-
Investment properties (Notes 15 and 28)	23,325	1	24,424	1
Deferred tax assets (Notes 4 and 23)	12,314	-	14,463	-
Other non-current assets	111,919	3	25,648	1
Net defined benefit assets - non-current (Notes 4 and 19)	<u>10,628</u>	<u>-</u>	<u>461</u>	<u>-</u>
Total non-current assets	<u>1,911,406</u>	<u>46</u>	<u>1,823,201</u>	<u>53</u>
<b>TOTAL</b>	<u>\$ 4,156,065</u>	<u>100</u>	<u>\$ 3,412,255</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term loans (Notes 16, 26 and 28)	\$ 750,000	18	\$ 620,000	18
Notes payable (Note 26)	1,301	-	959	-
Trade payables (Note 26)	253,879	6	190,308	6
Other payables (Notes 17 and 26)	237,932	6	160,615	5
Current tax liabilities (Notes 4 and 23)	64,730	1	18,058	1
Lease liabilities - current (Note 14)	2,262	-	2,715	-
Current portion of long-term borrowings (Notes 16, 26 and 28)	88,050	2	78,125	2
Other current liabilities	<u>78,199</u>	<u>2</u>	<u>46,355</u>	<u>1</u>
Total current liabilities	<u>1,476,353</u>	<u>35</u>	<u>1,117,135</u>	<u>33</u>
<b>NON-CURRENT LIABILITIES</b>				
Long-term borrowings (Notes 16, 26 and 28)	594,665	14	393,827	12
Provisions - non-current (Note 18)	-	-	1,248	-
Deferred income tax liabilities (Notes 4 and 23)	24,701	1	11,564	-
Lease liabilities - non-current (Note 14)	1,136	-	3,398	-
Guarantee deposits received	<u>213</u>	<u>-</u>	<u>244</u>	<u>-</u>
Total non-current liabilities	<u>620,715</u>	<u>15</u>	<u>410,281</u>	<u>12</u>
Total liabilities	<u>2,097,068</u>	<u>50</u>	<u>1,527,416</u>	<u>45</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Note 20)</b>				
Share capital				
Ordinary shares	<u>893,841</u>	<u>22</u>	<u>893,841</u>	<u>26</u>
Capital surplus	<u>593,414</u>	<u>14</u>	<u>593,414</u>	<u>18</u>
Retained earnings				
Legal reserve	190,165	5	175,303	5
Unappropriated earnings	<u>367,629</u>	<u>9</u>	<u>209,856</u>	<u>6</u>
Total retained earnings	<u>557,794</u>	<u>14</u>	<u>385,159</u>	<u>11</u>
Other equity				
Unrealized gain on financial assets at fair value through other comprehensive income	8,330	-	9,896	-
Exchange differences on translating the financial statements of foreign operations	<u>5,618</u>	<u>-</u>	<u>2,529</u>	<u>-</u>
Total other equity	<u>13,948</u>	<u>-</u>	<u>12,425</u>	<u>-</u>
Total equity	<u>2,058,997</u>	<u>50</u>	<u>1,884,839</u>	<u>55</u>
<b>Total</b>	<u>\$ 4,156,065</u>	<u>100</u>	<u>\$ 3,412,255</u>	<u>100</u>

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

## KAORI HEAT TREATMENT CO., LTD. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2022		2021	
	Amount	%	Amount	%
REVENUE (Notes 4 and 21)	\$ 2,843,540	100	\$ 2,231,273	100
COST OF GOODS SOLD (Notes 11 and 22)	<u>2,057,910</u>	<u>72</u>	<u>1,637,670</u>	<u>74</u>
GROSS PROFIT	<u>785,630</u>	<u>28</u>	<u>593,603</u>	<u>26</u>
OPERATING EXPENSES (Note 22)				
Selling and marketing expenses	131,574	5	111,261	5
General and administrative expenses	223,387	8	184,580	8
Research and development expenses	80,506	3	68,481	3
Expected credit loss (reversal)	<u>4,027</u>	<u>-</u>	<u>(1,074)</u>	<u>-</u>
Total operating expenses	<u>439,494</u>	<u>16</u>	<u>363,248</u>	<u>16</u>
PROFIT FROM OPERATIONS	<u>346,136</u>	<u>12</u>	<u>230,355</u>	<u>10</u>
NON-OPERATING INCOME AND EXPENSES (Note 22)				
Interest income	1,734	-	2,574	-
Other income	7,340	-	6,192	-
Other gains and losses	47,987	2	(33,271)	(1)
Finance costs	<u>(13,344)</u>	<u>-</u>	<u>(10,330)</u>	<u>-</u>
Total non-operating income and expenses	<u>43,717</u>	<u>2</u>	<u>(34,835)</u>	<u>(1)</u>
PROFIT BEFORE INCOME TAX	389,853	14	195,520	9
INCOME TAX EXPENSE (Notes 4 and 23)	<u>(88,833)</u>	<u>(3)</u>	<u>(46,364)</u>	<u>(2)</u>
NET PROFIT FOR THE YEAR	<u>301,020</u>	<u>11</u>	<u>149,156</u>	<u>7</u>

(Continued)

KAORI HEAT TREATMENT CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021  
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2022		2021	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS)				
Item that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	\$ 7,114	-	\$ (665)	-
Unrealized loss on investments in equity instruments at fair value through other comprehensive income	(2,207)	-	(36,414)	(2)
Income tax related to items that will not be reclassified subsequently to profit or loss	(782)	-	5,905	-
Item that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations	<u>3,089</u>	<u>-</u>	<u>(2,853)</u>	<u>-</u>
Other comprehensive income (loss) for the year, net of income tax	<u>7,214</u>	<u>-</u>	<u>(34,027)</u>	<u>(2)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 308,234</u>	<u>11</u>	<u>\$ 115,129</u>	<u>5</u>
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Company	\$ 301,020	11	\$ 149,156	7
Non-controlling interests	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 301,020</u>	<u>11</u>	<u>\$ 149,156</u>	<u>7</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Company	\$ 308,234	11	\$ 115,129	5
Non-controlling interests	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 308,234</u>	<u>11</u>	<u>\$ 115,129</u>	<u>5</u>
EARNINGS PER SHARE (Note 24)				
From continuing operations				
Basic	<u>\$ 3.37</u>		<u>\$ 1.67</u>	
Diluted	<u>\$ 3.37</u>		<u>\$ 1.67</u>	

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

**KAORI HEAT TREATMENT CO., LTD. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021  
(In Thousands of New Taiwan Dollars)**

	Equity Attributable to Owners of the Company								Total Equity
	Shares (In Thousands)	Share Capital	Capital Surplus	Retained Earnings			Others		
				Legal Reserve	Special Reserve	Unappropriate d Earnings	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensiv e Income	Exchange Differences on Translating the Financial Statements of Foreign Exchange	
BALANCE AT JANUARY 1, 2021	89,384	\$ 893,841	\$ 593,414	\$ 158,653	\$ 63,254	\$ 166,581	\$ 40,538	\$ 5,382	\$ 1,921,663
Appropriation of 2020 earnings									
Legal reserve	-	-	-	16,650	-	(16,650)	-	-	-
Special reserve	-	-	-	-	(63,254)	63,254	-	-	-
Cash dividends distributed by the Company	-	-	-	-	-	(151,953)	-	-	(151,953)
Net profit for the year ended December 31, 2021	-	-	-	-	-	149,156	-	-	149,156
Other comprehensive income (loss) for the year ended December 31, 2021, net of income tax	-	-	-	-	-	(532)	(30,642)	(2,853)	(34,027)
Total comprehensive income (loss) for the year ended December 31, 2021	-	-	-	-	-	148,624	(30,642)	(2,853)	115,129
BALANCE AT DECEMBER 31, 2021	89,384	893,841	593,414	175,303	-	209,856	9,896	2,529	1,884,839
Appropriation of 2021 earnings									
Legal reserve	-	-	-	14,862	-	(14,862)	-	-	-
Cash dividends distributed by the Company	-	-	-	-	-	(134,076)	-	-	(134,076)
Net profit for the year ended December 31, 2022	-	-	-	-	-	301,020	-	-	301,020
Other comprehensive income (loss) for the year ended December 31, 2022, net of income tax	-	-	-	-	-	5,691	(1,566)	3,089	7,214
Total comprehensive income for the year ended December 31, 2022	-	-	-	-	-	306,711	(1,566)	3,089	308,234
BALANCE AT DECEMBER 31, 2022	89,384	\$ 893,841	\$ 593,414	\$ 190,165	\$ -	\$ 367,629	\$ 8,330	\$ 5,618	\$ 2,058,997

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

# KAORI HEAT TREATMENT CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021 (In Thousands of New Taiwan Dollars)

	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 389,853	\$ 195,520
Adjustments for:		
Depreciation expense	108,016	108,300
Amortization expense	5,826	4,333
Expected credit loss (reversal)	4,027	(1,074)
Net loss (gain) on fair value change of financial assets and liabilities at fair value through profit or loss	6,233	(1,000)
Finance costs	13,344	10,330
Interest income	(1,734)	(2,574)
Loss on disposal of property, plant and equipment	63	33
(Reversal of) write-down of inventories	(1,274)	3,734
Gain on lease modification	-	(7)
Changes in operating assets and liabilities		
Financial assets mandatorily classified as at fair value through profit or loss	(6,771)	3,586
Notes receivable	(4,706)	(2,681)
Trade receivables	(227,874)	32,547
Other receivables	10,844	(10,815)
Inventories	(603,032)	20,195
Other current assets	(108,364)	(36,921)
Net defined benefit assets	(3,053)	(461)
Notes payable	342	(123,915)
Trade payables	63,571	148,702
Other payables	76,866	21,414
Provisions	(1,248)	(1,752)
Other current liabilities	31,844	27,343
Net defined benefit liabilities	-	(24,002)
Cash generated from operations	(247,227)	370,835
Interest paid	(12,893)	(10,220)
Income tax paid	(27,716)	(64,216)
Net cash (used in) generated from operating activities	<u>(287,836)</u>	<u>296,399</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease (increase) in financial assets at amortized cost	25,560	(13,931)
Payments for property, plant and equipment	(99,245)	(100,621)
Proceeds from disposal of property, plant and equipment	-	420
Increase in other non-current assets	(95,213)	(19,960)
Interest received	1,734	2,574
Net cash used in investing activities	<u>(167,164)</u>	<u>(131,518)</u>

(Continued)

# KAORI HEAT TREATMENT CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021 (In Thousands of New Taiwan Dollars)

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	2022	2021
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	\$ 130,000	\$ 150,000
Decrease in short-term notes payable	-	(120,277)
Proceeds from long-term borrowings	297,300	-
Repayments of long-term borrowings	(86,537)	(79,536)
Proceeds from guarantee deposits received	(31)	-
Repayment of the principal portion of lease liabilities	(2,715)	(3,086)
Dividends paid to owners of the Company	<u>(134,076)</u>	<u>(151,953)</u>
Net cash generated from (used in) financing activities	<u>203,941</u>	<u>(204,852)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>1,519</u>	<u>(2,017)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(249,540)	(41,988)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>498,574</u>	<u>540,562</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 249,034</u>	<u>\$ 498,574</u>

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

## KAORI HEAT TREATMENT CO., LTD

## Articles of Incorporation

## Chapter I General Principles

Article 1: The Company is incorporated in accordance with the provisions regarding Company Limited by Shares stipulated in the Company Act, and its name is “Kaori Heat Treatment Co., Ltd.”

Article 2: The business scope of the company is listed as follows:

- (1) CA02010 Manufacture of Metal Structure and Architectural Components.
- (2) CA02090 Metal Wire Products Manufacturing.
- (3) CA02990 Other Fabricated Metal Products Manufacturing Not Elsewhere Classified.
- (4) CA03010 Heat Treatment.
- (5) CB01010 Mechanical Equipment Manufacturing.
- (6) CB01990 Other Machinery Manufacturing.
- (7) CC01030 Electrical Appliances and Audiovisual Electronic Products Manufacturing.
- (8) CC01990 Other Electrical Engineering and Electronic Machinery Equipment Manufacturing.
- (9) CD01020 Tramway Cars Manufacturing.
- (10) CD01060 Aircraft and Parts Manufacturing.
- (11) CP01010 Hand Tools Manufacturing.
- (12) F106010 Wholesale of Hardware.
- (13) F113990 Wholesale of Other Machinery and Tools.
- (14) F401010 International Trade.
- (15) E599010 Piping Engineering.
- (16) E601010 Electric Appliance Construction.
- (17) E601020 Electric Appliance Installation.
- (18) E604010 Machinery Installation.
- (19) IG03010 Energy Technical Services.
- (20) ZZ99999 All business activities that are not prohibited or restricted by law, except those that are subject to special approval.

Article 3: The head office of the company is situated in Taoyuan City. The company may, upon any resolution adopted by its board of directors, set up branch offices at home and abroad in accordance with the laws.

Article 4: The public announcements about the company shall appear in a prominent part of any daily newspaper in the city/county or city/province where the company is located, unless otherwise provided by other laws and regulations.

Article 4-1: For business needs, the company may act as guarantor, and its operations shall be handled in accordance with the company's Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees.

## Chapter II Shares

Article 5: The company holds a total capital of NT\$1.5 billion, which is divided into 150 million shares, with NT\$10 per share. The foregoing unissued shares shall be issued in installments upon the issuance conditions stipulated by the board of directors according to business needs. Five million shares of the foregoing total capital shall

be reserved for issuing employee stock warrants, which may be issued in installments in accordance with the resolution adopted by the board of directors.

Article 5-1: In accordance with Article 56-1 of the “Regulations Governing the Offering and Issuance of Securities by Securities Issuers” and Article 10-1 of the “Regulations Governing Share Repurchase by Exchange-Listed and OTC Listed Companies”, the company shall obtain the consent of at least two-thirds of the voting rights represented at a shareholders’ meeting attended by shareholders representing a majority of the issued shares, so as to issue employee stock warrants at a price less than the closing price of the company's common shares on the issue date and transfer the shares to employees at a price less than the average actual shares repurchase price.

Article 5-2: As for the treasury shares bought back by the company, the persons/parties entitled to such transfer include the employees of the parent company or its subsidiaries that meet certain specific requirements.

The persons/parties entitled to receiving the company's employee stock warrants include the employees of the parent company or its subsidiaries that meet certain specific requirements.

When the company issues new shares, the employees who subscribe for shares include the employees of the parent company or its subsidiaries that meet certain specific requirements.

The persons/parties entitled to receiving the restricted stocks for employees issued by the company include the employees of the parent company or its subsidiaries that meet certain specific requirements.

The board of directors should be authorized to stipulate those certain specific requirements.

Article 6: The shares of the company shall be affixed with the signatures or personal seals of three directors or more, and then issued after being certified by the competent authority or any approved issuance registration agency according to the laws. The company may be exempted from printing any share certificate for the shares issued.

Article 7: The regulations governing the company’s stock affairs shall be all handled in accordance with relevant laws and regulations as well as the provisions enacted by the competent authority.

Article 8: The share transfer registration shall be suspended within 60 days prior to the convening date of a regular meeting of shareholders or within 30 days prior to the convening date of a special meeting of shareholders, or within 5 days prior to the target date fixed by the issuing company for distribution of dividends, bonus, or other benefits.

### Chapter III Shareholders' Meeting

Article 9: Shareholders' meeting shall be of two kinds: Regular Meeting of Shareholders, and Special Meeting of Shareholders. Regular Meeting of Shareholders shall be convened once every year within six months after the close of each fiscal year. Special Meeting of Shareholders shall be convened according to the laws when necessary. A notice to convene a Regular Meeting of Shareholders shall be given to each shareholder no later than 30 days prior to the scheduled meeting date. A notice to convene a Special Meeting of Shareholders shall be given to each shareholder no later than 15 days prior to the scheduled meeting date. The shareholders' meeting

can be held by means of video conference or other methods promulgated by the competent authority upon the resolution adopted by the board of directors. The operating procedures and other matters to be followed shall be handled in accordance with the provisions stipulated by the competent authority.

Article 10: In accordance with Article 177 of the Company Act, if a shareholder is unable to attend the shareholders' meeting for any reason, he/she may appoint a proxy to attend the meeting by executing a power of attorney.

Article 11: The chairman of the board of directors shall preside the shareholders' meeting. In case the chairman of the board of directors is on leave or absent, the chairman of the board of directors shall designate one of the directors to act on his/her behalf. In the absence of such a designation, the directors shall elect from among themselves to act on his/her behalf. When the meeting is called by a convener other than the board of directors, the convener shall preside. If there are more than two conveners, one shall be elected from among themselves.

Article 12: A shareholder of the company shall have one voting power in respect of each share in his/her/its possession, except for those who have been restricted or those who have no voting right as listed in Paragraph 2 of Article 179 of the Company Act.

Article 13: Resolutions at a shareholders' meeting shall, unless otherwise provided by the Company Act, be adopted by a majority vote of the shareholders present, who represent more than one-half of the total number of voting shares.

Article 14: Resolutions adopted at the shareholders' meeting shall be recorded in the minutes of the meeting, which shall be affixed with the signature or seal of the chairman of the meeting and shall be distributed to all shareholders of the company within twenty (20) days after the close of the meeting. The distribution of the minutes of shareholders' meeting may be effected by means of a public notice. The minutes of shareholders' meeting shall record a summary of the essential points of the proceedings and the results of the meeting. The minutes of the meeting, together with the attendance list bearing the signatures of shareholders present at the meeting as well as the powers of attorney of the proxies, shall be kept by the company.

#### Chapter IV Directors and Audit Committee

Article 15: The Company shall have nine directors. A candidate nomination system is adopted. Shareholders shall elect the directors from among the nominees listed in the roster of director candidates. The term of office shall be three years. The elected directors may be eligible for re-election next time. The company may obtain liability insurance for directors in accordance with the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies", while the board of directors is authorized to make any resolution regarding the insurance coverage.

Article 15-1: The directors of the company shall include at least two independent directors, which shall not account for less than one-fifth of the total number of directors. The professional qualifications, shareholding, part-time job limitations, nomination and election modes of independent directors, as well as other matters for compliance, shall be handled in accordance with relevant regulations enacted by the competent authority in charge of securities affairs.

Article 15-2: In accordance with Article 14-4 of the Securities and Exchange Act, the company shall establish an Audit Committee which shall be composed of the entire number

of independent directors. The Audit Committee and its members shall exercise their power and matters related thereto, in accordance with the Securities and Exchange Act and other relevant laws and regulations.

Article 16: When the number of vacancies in the board of directors equals to one-third of the total number of directors, the board of directors shall call a special meeting of shareholders within 60 days, to elect succeeding directors to fill the vacancies.

Article 17: In case no election of new directors is effected after expiration of the term of office of existing directors, the term of office of out-going directors shall be extended until the time when new directors have been elected and assumed their office.

Article 18: The directors organize the board of directors and shall elect a chairman of the board directors from among the directors by a majority vote at a meeting attended by over two-thirds of the directors, and may also elect in the same manner a vice chairman of the board, to handle all the affairs of the company in accordance with laws and regulations, the Articles of Incorporation, the resolutions adopted by the shareholders' meetings and the meetings of the board of directors.

Article 19: The Company's business policies and other major matters shall be handled according to the resolutions adopted by the board of directors. Other than the first meeting of the board of directors convened each year in accordance with Article 203 of the Company Act, the rest meetings of the board of directors shall be called and presided by the chairman of the board of directors. In case the chairman of the board of directors can not exercise his/her power and authority for any cause, the vice chairman shall act on his/her behalf. In case the vice chairman is also on leave or absent or unable to exercise his power and authority for any cause, the chairman of the board of directors shall designate one of the directors to act on his/her behalf. In the absence of such designation, the directors shall elect from among themselves an acting chairman of the board of directors.

Article 20: The meeting of the board of directors shall be convened once every three months. In calling a meeting of the board of directors, a notice shall set forth therein the subject(s) to be discussed at the meeting and then be sent to each director no more than seven days prior to the scheduled meeting. However, in the case of emergency, a meeting of the board of directors may be convened at any time. The notice may be effected by means of writing, e-mail or fax.

Article 20-1: When a director performs his/her power, he/she may get remuneration regardless of the company's profits and losses. The board of directors is authorized to determine the payment standards that limit the amount to be within the total amount of NT\$ 1 million per person per month.

Article 21: Unless otherwise provided for in the Company Act, a meeting of the board of directors shall be attended by more than half of the directors at the meeting attended by more than half of the directors. If a director is unable to attend the meeting for any cause, he/she may appoint another director to attend a meeting of the board of directors on his/her behalf and he/she shall issue a written proxy and state therein the scope of authority with reference to the subjects to be discussed at the meeting. A director may accept the appointment to act as the proxy of one other director only.

Article 22: Resolutions adopted at a board of directors' meeting shall be recorded in the minutes of the meeting, which shall be affixed with the signature or seal of the chairman of

the meeting and shall be distributed to all directors of the company within 15 days after the close of the meeting. The minutes of the meeting shall record a summary of the essential points of the proceedings and the results of the meeting. The minutes, together with the attendance list bearing the signatures of the directors present at the meeting as well as the powers of attorney of the of proxies, shall be kept by company.

Article 23: The company authorizes the board of directors to make a flexible decision on the amount of reinvestment according to the de facto actual situation, and the total amount of its reinvestment is not subject to the percentage restriction as provided in Article 13 of the Company Act that the total amount of reinvestment shall not exceed 40% of the company's paid-in capital.

#### Chapter V Managers and Staff

Article 24: The Company may have one or more General Managers, whose appointment, dismissal, and remuneration shall be decided by more than half of voting shares of all the board of directors.

Article 25: Upon the resolution adopted by the board of directors in accordance with Article 21 of the Articles of Incorporation, the company may hire consultants and major staff.

Article 26: General Manager may authorize a department head to appoint or dismiss other employees in the company.

#### Chapter VI Final Accounts

Article 27: The fiscal accounting year of the company starts from January 1 to December 31 of each year. At the close of each fiscal accounting year, the board of directors shall prepare the following statements and records, submit them to the Audit Committee for auditing not later than 30 days prior to the meeting date of the regular meeting of shareholders, and then forward them to the regular meeting of shareholders for recognition.

- (1) Business reports.
- (2) Financial statements.
- (3) Proposals concerning surplus earning distribution or loss off-setting

Article 28: If the company makes profits each year, it shall set aside not less than 2% of profits of the current year distributable as employees' remuneration and not more than 5% of profits of the current year distributable as directors' remuneration. The company may, by a resolution adopted at a meeting of board of directors, have the profit distributable as employees' compensation distributed in the form of shares or in cash. The employees entitled to receiving such shares or cash include the employees of subsidiaries of the company meeting certain specific requirements. However, the company's accumulated losses shall have been covered first by means of certain amounts reserved, and then the remuneration for employees and directors shall be set aside according to the foregoing ratios.

Article 29: If there is any surplus in the company's annual final accounts after income tax are paid according to the laws, the cumulative annual losses shall be covered first. Then, the company should set aside ten percent of the surplus of said profits as legal reserve. Where such legal reserve amounts to the total paid-in capital, this provision shall not apply. Aside from the aforesaid legal reserve, the company may, in accordance with relevant laws and regulations or the provisions enacted by the competent authority, set aside or reverse another sums as special reserve. If there is

still any surplus profit, plus the undistributed surplus at the beginning of the year, the board of directors can formulate a proposal on the distribution of dividends, as well as the bonuses to shareholders, based on the range of 10% to 100% of such surplus, according to the company's industrial development situation. If such a distribution is done by means of issuing new shares, a proposal shall be submitted to the shareholders' meeting for having a resolution before such a distribution. In accordance with Paragraph 5 of Article 240 of the Company Act, the company can authorize the distributable dividends and bonuses to be paid in cash after a resolution has been adopted by a majority vote at a meeting of the board of directors attended by two-thirds of the total number of directors; or according to Paragraph 1 of Article 241 of the Company Act, the company can distribute its legal reserve and capital reserve by cash, in whole or in part. Such distribution shall be submitted to the shareholders' meeting. When the company sets aside special reserve according to the laws, as for the insufficient amount in "the cumulative net amount of other deductions from equity in a preceding period(s) ", an amount of special reserve should be set aside prior to the distribution of surplus, and such an amount should be equal to the amount allocated to the undistributed surplus for the preceding period. If there is still any insufficiency, set aside it from the amount of the after-tax net profit for that period, plus the items other than after-tax net profit for that period, which are included in the undistributed surplus of the period.

Article 29-1: The Company may distribute cash dividends at no less than 10% of the total dividends paid to shareholders, by considering the company's environment and growth stage, responding to future capital demand and long-term financial planning, and considering both shareholder interests and Balancing Dividends Policy.

#### Chapter VII Supplementary Provisions

Article 30: The organizational rules and bylaws of the company can be stipulated by the board of directors otherwise.

Article 31: Regarding the matters not stipulated in the Articles of Incorporation, the Company Act and other laws and regulations shall govern.

Article 32: The Articles of Incorporation was enacted on October 12, 1970. The first amendment was made on November 15, 1970. The second amendment was made on May 23, 1971. The third amendment was made on August 20, 1973. The fourth amendment was on made on August 20, 1981. The fifth amendment was made on May 22, 1983. The sixth amendment was made on August 7, 1984. The seventh amendment was made on November 1, 1986. The eighth amendment was made on November 30, 1987. The ninth amendment was made on July 16, 1988. The tenth amendment was made on February 28, 1989. The eleventh amendment was made on August 20, 1989. The twelfth amendment was made on November 20, 1989. The thirteenth amendment was made on February 12, 1990. The fourteenth amendment was made on March 21, 1990. The fifteenth amendment was made on June 12, 1991. The sixteenth amendment was made on June 6, 1993. The seventeenth amendment was made on July 25, 1994. The eighteenth amendment was made on June 22, 1997. The nineteenth amendment was made on May 3, 1998. The twentieth amendment was made on July 16, 1998. The 21st amendment was made on June 13, 1999. The 22nd amendment was made on June 29, 2002. The 23rd amendment was made on June 25, 2004. The 24th amendment was made on

June 22, 2005. The 25th amendment was made on June 21, 2006. The 26th amendment was made on June 21, 2007. The 27th amendment was made on June 25, 2009. The 28th amendment was made on June 25, 2010. The 29th amendment was made on June 28, 2011. The 30th amendment was made on June 20, 2012. The 31st amendment was made on June 20, 2014. The 32nd amendment was made on June 23, 2016. The 33rd amendment was made on June 23, 2017. The 34th amendment was made on June 20, 2019. The 35th amendment was made on June 17, 2020. The 36th amendment was made on June 16, 2022.

KAORI HEAT TREATMENT CO., LTD

Chairman: HAN HSIEN SON

KAORI HEAT TREATMENT CO., LTD  
Rules of Procedure for Shareholders' Meetings

Article 1: The procedures for shareholders' meetings of the company shall be conducted in accordance with these rules.

Article 2: The shareholders' meeting can be held by means of video conference or other methods promulgated by the competent authority upon the resolution adopted by the board of directors. The operating procedures and other matters to be followed shall be handled in accordance with the provisions stipulated by the competent authority. When a shareholders' meeting is convened by video conference, shareholders who want to attend the meeting online shall register their names in the company two days prior to the meeting date.

When a shareholders' meeting is convened by video conference, the company shall upload the agenda handbook, annual reports and other relevant materials to the video conference platform at least 30 minutes prior to the commencement of the meeting; such reports and materials will continue to be disclosed until the end of the meeting.

When convening a shareholders' meeting by video conference, the company shall specify the matters in the shareholders' meeting notice as follows:

1. The methods for shareholders to attend the video conference and exercise their rights.
2. When the video conference platform or the participation via video conference is disrupted due to natural disasters, accidents or other force majeure, the handling methods should include at least the following matters:
  - A. The date and time when the meeting is postponed or the date and time when the meeting is scheduled to resume in case that the above-mentioned disruption continues and cannot be removed
  - B. Shareholders who fail to register to attend the original shareholders' meeting by video conference shall not attend the postponed or resumed meeting.
  - C. When a hybrid shareholders' meetings assisted by video conference is called, if the video conference cannot be continued, after the number of shares held by the shareholders attending the meeting via video conference is deducted, if the remaining total number of shares represented at the meeting meets the minimum quorum for a shareholder meeting, the shareholders' meeting shall go on. The shares represented by the attending shareholders via video conference shall be counted in the total number of shares represented by shareholders present at the meeting, and the attending shareholders via video conference shall be deemed abstaining from voting on all proposals in the shareholders' meeting.
  - D. The handling method will be taken if the results of all proposals have been declared and there is no extempore motion.

When convening a shareholders' meeting via video conference, appropriate alternative measures should be specified and available to shareholders who have difficulties in attending the video conference.

As for the shareholders' meeting convened via video conference, shareholders shall report and register their arrivals on the meeting platform 30 minutes prior to the commencement of meeting. Shareholders completing their registration will be deemed as attending the shareholders' meeting in person. Shareholders or their proxies attending the meeting shall wear their attendance cards and hand in their sign-in cards in lieu of signing in, and then calculate the stock equity accordingly.

Article 2-1: Every time when a shareholders' meeting is held, a shareholder may designate a

proxy to attend the meeting by providing a copy of power of attorney issued by the company and specify the authorization scope.

A shareholder shall provide only one copy of power of attorney and designate only one proxy. The power of attorney shall be sent to the company within five days prior to the date of the shareholders' meeting. When more than two copies of the same power of attorney are sent, is the one that has been sent first shall prevail, unless the previous one is revoked by an application.

After the power of attorney has been sent to the company, if the shareholder wants to attend the meeting in person or exercises voting rights in writing or electronically, a written notice of revocation shall be submitted to the company two days before the date of the meeting. If the notice fails to be submitted before the deadline, votes cast at the meeting by the proxy shall prevail.

After the power of attorney has been sent to the company, if the shareholder wants to attend the meeting via video conference, a written notice of revocation shall be submitted to the company two days before the date of the meeting. If the notice fails to be submitted before the deadline, votes cast at the meeting by the proxy shall prevail.

Article 3: When the total number of shares attended by representatives and the number of shares reported on the video conference platform has reached more than half of the total issued shares, the chairman shall call meeting to order.

On the same day of a shareholders' meeting, the company shall compile a statistical statement of the number of shares obtained by solicitors through solicitation, the number of shares represented by proxies and the number of shares represented by shareholders attending the meeting in writing or electronically in the stipulated format, and then expressly disclose them at the venue the shareholders' meeting. When a shareholders' meeting is convened via video conference, the company shall upload the foregoing materials to the video conference platform at least 30 minutes prior to the meeting; such reports and materials will continue to be disclosed until the end of the meeting.

When the company's shareholders' meeting convened via video conference is called to order, the total number of shares represented at the meeting shall be disclosed on the video conference platform. If the total number of shares represented at the meeting and the voting rights are additionally counted during the meeting, the same manner shall apply.

When the company convenes the shareholders' meeting via video conference, the chairman and the note taker shall be in the same location within the country, and the chairman shall announce the address of the location when the meeting is called to order.

When convening a shareholders' meeting via video conference, the company shall provide appropriate alternative measures available to shareholders who have difficulties in attending the shareholders' meeting online.

Article 4: The agenda of the shareholders' meeting shall be stipulated by the board of directors, and all the meetings shall be held in accordance with the procedures arranged in the agenda. It may not be changed without a resolution adopted by the shareholders' meeting.

When a shareholders' meeting is called by a convener other than the board of directors, the preceding paragraph applies *mutatis mutandis*.

Before the conclusion of the agenda arranged in the preceding two paragraphs (including *extempore* motions), the chairman shall not declare the adjournment of the meeting without any resolution. After the adjournment of the meeting, the shareholders shall not elect another chairman of the meeting to resume the meeting at the original or other venue. However, if the chairman violates these rules of

procedures and then declares the meeting adjourned, other members of the board of directors shall immediately help the shareholders who attend the meeting elect one person as the new chairman with the consent of more than half of the voting rights of the shareholders attending the meeting, to continue the meeting according to the statutory procedure.

The company shall provide the agenda handbook and additional materials regarding the shareholders' meeting to shareholders for review, by the following means on the date of the shareholders' meeting:

1. When convening a physical shareholders' meeting, they shall be distributed on-site at the meeting.
2. When convening a hybrid shareholders' meetings assisted by video conference, they shall be distributed on-site at the meeting and be shared on the video conference platform by means of electronic file.
3. When convening a shareholders' meeting, electronic files shall be shared on the video conference platform.

Article 5: In addition to the proposals listed on the agenda, when it comes to other proposals proposed by shareholders or amendment/alternatives to the original proposal, the chairman of the meeting shall present the amended or alternative proposal together with the original proposal, and then decide the voting order. When any one of such proposals is passed, the other proposals shall be deemed as veto, and there is no need to proceed with further voting.

When the shareholders' meeting is convened via video conference, the company shall keep records of materials such as shareholder's registration, sign-in, check-in, questions, votes and results of votes counted by the company, and keep audio and video records of the proceedings of the meeting from the beginning to the end.

The materials and audio and video recording referred to in the preceding paragraph shall be properly kept by the company during the period of its existence, and the audio and video recording shall be provided to the person who is entrusted with handling the matters of video conference for safekeeping.

When the shareholders' meeting is convened via video conference, it is advised that the company shall record the audio and video on back-end operation interface of the meeting platform.

Article 6: The matters other than any proposal shall not be discussed or voted. When a proposal is being discussed, the chairman may declare the conclusion of the discussion at appropriate timing, and then may declare the discussion to be terminated if necessary.

Article 7: When the discussion of an issue is declared to be concluded or terminated, the chairman shall suggest that such an issue should be put to vote.

Article 8: Except as otherwise provided in the Company Act, the voting of a proposal shall be undertaken upon the consent from more than half of the voting rights represented by the attending shareholders. When voting, for each proposal, the chairman or the person designated by the chairman shall announce the total number of voting rights represented by the attending shareholders, and then the shareholders should make decisions by voting on each proposal. On the same day when the meeting is adjourned, the results regarding the numbers of shareholders' consent, objection and abstentions shall be entered into the Market Observation Post System (MOPS) at the same day.

When the company convenes a shareholders' meeting via video conference, after the chairman calls the meeting to order, shareholders attending the meeting online shall cast votes on proposals and elections on the video conference platform before the chairman declares the end of voting; otherwise, it is deemed abstained from voting.

When a shareholders' meeting is convened via video conference, votes shall be counted once after the chairman declares the end of voting, and the results of votes

and elections shall be announced then.

When the company convenes a hybrid shareholders' meeting assisted by video conference, if shareholders who have registered to attend the meeting online in accordance with Article 2 want to attend the physical shareholders' meeting in person, their registration shall be revoked two days before the shareholders' meeting in the same way as they registered. If the registration is not revoked before the deadline, they may only attend the shareholders' meeting online. When the shareholders exercise voting rights in writing or electronically, if the expression of intent is not revoked and the shareholders' meeting is attended online, except for extempore motions, they shall not exercise voting rights on the original proposals or any amendments to the original proposals or exercise voting rights on the amendments to the original proposal. When convening a shareholders' meeting via video conference, the company shall disclose results of votes and election immediately after the end of voting on the video conference platform according to the rules, which shall be kept disclosed at least 15 minutes after the chairman has announced the meeting adjourned.

Article 9: If a shareholder present at the meeting wants to deliver a speech, he/she should fill in a speaker's slip to specify the number of his/her attendance card, name and the number of his/her shares held. The chairman of the meeting shall list the sequence of these shareholders' speeches.

Article 10: As for shareholder's speech, each person (including natural person and legal person) shall finish delivering his/her speech within five minutes. However, such a timeframe may be extended once if the chairman agrees. On the same proposal, each person (including natural person and legal person) shall not deliver his/her speech more than twice.

When convening a shareholders' meeting via video conference, shareholders attending the meeting online may raise questions in writing at the video conference platform from the chairman calling the meeting to order until the chairman declaring the meeting adjourned. No more than two questions for the same proposal may be raised. Each question shall be limited in 200 words.

If the questions referred to in the preceding paragraph are not raised in violation of the rules or beyond the scope of a proposal, it is suggested that questions be disclosed to the public at the video conference platform.

Article 11: If a shareholder's speech exceeds the time limit or the scope of the proposal, the chairman may terminate his/her speech. If anyone disagrees with the correction made by the chairman or interferes with the order of the meeting, the chairman may suspend his/her attendance.

Article 12: During the session period of the meeting, the chairman may declare that everyone can take a break depending on the meeting hours.

Article 13: During the session period of the meeting, if any force majeure event occurs, the chairman may decide that the meeting should be suspended, and then announce the time for resuming the meeting depending on the circumstance.

Before all the agendas of the shareholders' meeting (including extempore motions) have been addressed, if the venue of the meeting is no longer available at that time for continued use, the shareholders' meeting may adopt a resolution to resume the meeting at another venue.

The shareholders' meeting may, in accordance with Article 182 of the Company Act, adopt a resolution to defer or resume the meeting within five days.

Article 13-1: Matters relating to the resolutions of a shareholders' meeting shall be recorded in the minutes of the meeting, which shall be signed or sealed by the chairman of the meeting and then distributed to each shareholder within 20 days after the close of

the meeting. The minutes may be recorded and distributed electronically.

The company may distribute the minutes referred to in the preceding paragraph by a public announcement and entered them into the MOPS.

The minutes shall precisely record the year, month, day, and location of the meeting, the chairman's name, the methods of adopting the resolutions, and a summary of the essential points of the proceeding and their voting results (including the number of voting rights) and disclose the number of voting rights won by each candidate if there is an election of directors or supervisors. The minutes shall be kept permanently for the period of the existence of the company.

When convening a shareholders' meeting via video conference, in addition to those which shall be recorded in the minutes as stipulated in the preceding paragraph, the time when the meeting is called to order and adjourned, how the meeting is convened, the chairman's and note taker's name, and measures to be taken when the video conference platform or participation in the meeting online is interrupted due to natural disasters, accidents or other majeure force, and handling measures shall also be included in the minutes.

When convening a shareholders' meeting via video conference, in addition to handling according to the preceding paragraph, the company shall specify in the minutes regarding the alternative measures available to shareholders who have difficulties in attending a shareholders' meeting online.

Article 13-2: When convening a shareholders' meeting via video conference, the company may offer a simple connection test to shareholders prior to the meeting, and then provide relevant real-time services before and during the meeting to help resolve communication technical issues.

When convening a shareholders' meeting via video conference, once the meeting to order is called, the chairman shall also declare the accidents or other majeure force before the chairman has announced the meeting adjourned, if the video conference platform or participation in the meeting on line is disrupted due to natural disasters, unless under a circumstance where a meeting is not required to be postponed to or resumed at another time under Article 44-20, paragraph 4 of the Regulations Governing the Administration of Shareholder Services of Public Companies. If the disruption continues for more than 30 minutes, the meeting shall be postponed to or resumed on another date within five days, and Article 182 of the Company Act shall not apply.

When a meeting shall be postponed or resumed as stipulated in the preceding paragraph, shareholders who have not registered to participate in the shareholders' meeting online shall not attend the postponed or resumed meeting.

When a meeting shall be postponed or resumed according to paragraph 2, the number of shares represented by and the voting rights and election rights exercised by the shareholders who have registered to participate in the shareholders' meeting and have already signed in the meeting, but do not attend the postpone or resumed one, at the original shareholders' meeting, shall be counted in the total number of shares, number of voting rights and number of election rights represented at the postponed or resumed meeting.

During a postponed or resumed meeting held in accordance with paragraph 2, proposals for which votes have been cast and counted and results have been announced, or list of elected directors and supervisors, further discussion and resolution are not necessary.

When the company convenes a hybrid shareholders' meeting assisted by video conference, and the meeting cannot continue as described in paragraph 2, after those represented by shareholders attending the video conference online are deducted, if the total number of shares represented at the meeting still meets the

minimum quorum for a shareholder meeting, then the shareholders' meeting shall continue, and does not need to be postponed or resumed according to paragraph 2.

When a meeting should continue as stipulated in the preceding paragraph, the shares represented by shareholders attending the meeting online shall be counted in the total number of shares represented by shareholders present at the meeting; however, these shareholders shall be deemed abstaining from voting on all proposals on the meeting agenda of that shareholders' meeting.

When postponing or resuming a meeting according to paragraph 2, the company shall handle the pre-processing based on the date of the original shareholders' meeting in accordance with Article 44-20, paragraph 7 of the Regulations Governing the Administration of Shareholder Services of Public Companies.

For dates or period set forth under Article 12, second half, and Article 13, paragraph 3 of Regulations Governing the Use of Proxies for Attendance at Shareholder Meetings of Public Companies, and Article 44-5, paragraph 2, Article 44-15, and Article 44-17, paragraph 1 of the Regulations Governing the Administration of Shareholder Services of Public Companies, the company shall handle the matter based on the date of the shareholders' meeting that is postponed or resumed under paragraph 2.

Article 14: Matters not specified in the Rules shall all be handled in accordance with the Company Act, the Articles of Incorporation and the relevant standards and norms stipulated by the competent authority.

Article 15: These Rules shall take effect after being approved by the shareholders' meeting; the same manner should also apply to any amendment.

KAORI HEAT TREATMENT CO., LTD  
Regulations Governing Election of Directors

- Article 1: Elections of directors of the company shall be conducted in accordance with these Regulations.
- Article 2: Elections of directors of the company shall be held at its shareholders' meetings.
- Article 3: Any shareholder of the company with legal capacity may be elected as a director of the company in accordance with these Regulations.
- Article 4: Elections of directors of the company shall adopt a candidate nomination system, which the list of nominees are to be elected as directors by the shareholders' meeting. Furthermore, the cumulative voting method shall be used for election of the directors at the company. Attendance card numbers printed on the ballots may be used instead of recording the names of voting shareholders. Each share will have voting rights in number equal to the directors to be elected, and may be cast for a single candidate or split among multiple candidates.
- Article 5: The number of directors will be as specified in the company's articles of incorporation. Those receiving ballots representing the highest numbers of voting rights will be elected sequentially according to their respective numbers of votes. When two or more persons receive the same number of votes, thus exceeding the specified number of positions, they shall draw lots to determine the winner, with the chair drawing lots on behalf of any person not in attendance.
- Article 6: The board of directors shall print the ballots, on which the shareholder account number and voting rights of the candidate shall be entered in addition to affixation of company seals.
- Article 7: Before the election begins, the chair shall appoint a number of persons with shareholder status to perform the respective duties of vote monitoring and counting personnel.
- Article 8: The ballot boxes shall be prepared by the board of directors and publicly checked by the vote monitoring personnel before voting commences.
- Article 9: If a candidate is a shareholder, a voter must enter the candidate's account name and shareholder account number in the "candidate" column of the ballot; for a non-shareholder, the voter shall enter the candidate's full name and identity card number. However, when the candidate is a governmental organization or juristic-person shareholder, the name of the governmental organization or juristic-person shareholder shall be entered in the column for the candidate's account name in the ballot paper, or both the name of the governmental organization or juristic-person shareholder and the name of its representative may be entered. When there are multiple representatives, the names of each respective representative shall be entered.
- Article 10: A ballot is invalid under any of the following circumstances:
- (1) The ballot was not prepared in accordance with these Regulations.
  - (2) A blank ballot is placed in the ballot box.
  - (3) The writing is unclear and indecipherable.
  - (4) Any of the entries relating to the candidate including the name, shareholder account number or number of voting rights allotted has been altered.
  - (5) The candidate whose name is entered in the ballot does not conform to the director candidate list.
  - (6) The name of the candidate entered in the ballot is identical to that of another shareholder, but no shareholder account number or identity card number is provided in the ballot to identify such individual.
  - (7) Other words or marks are entered in addition to the number of voting rights allotted.

(8) The number of candidates entered exceeds the number of directors to be elected.

(9) The total of voting rights allotted exceeds the number of voting rights held by a candidate.

Article 11: Where the total number of voting rights allotted is fewer than that held by a candidate, the numbers of voting rights decreased are deemed as abstained.

Article 12: The voting rights shall be calculated on site immediately after the end of the poll, and the results of the calculation shall be announced by the chair on the site and recorded in meeting minutes.

Article 13: Any matters unspecified under these Regulations shall be handled in accordance with the Company Act and the company's articles of incorporation.

Article 14: These Regulations and any amendments hereto, shall be implemented after approval by a shareholders meeting.

## KAORI HEAT TREATMENT CO., LTD

## Shareholding of all Directors

1. As of April 15, 2023, namely the book close date of share transfer for this annual general shareholders' meeting, the paid-in capital of the company is NT\$ 893,840,800, and the total number of issued shares is 89,384,080.
2. According to Article 26 of the Securities and Exchange Act, the statutory minimum number of shares to be held by all directors is 7,150,726 shares (since there are two independent directors, the shareholding ratio of all directors other than the independent directors is decreased to be 80%).
3. Shareholding Details of Directors:

Title	Full Name	Shares held by (including trust holdings) as of April 15, 2023	
		Number of Shares	Ratio %
Chairman	HAN HSIEN SON	3,240,276	3.63 %
Director (also Vice Chairman of Board)	HAN HSIEN FU	2,669,000	2.99 %
Director (also General Manager)	WU CHIH HSYONG	210,000	0.24 %
Director	CHEN CHUN LIANG	569,382	0.64 %
Director (also Deputy General Manager)	WANG HSIN WU	290,356	0.33 %
Director	HUANG HUNG HSING	219,165	0.25 %
Independent Director	CHEN FAN SHIONG	0	0.00 %
Independent Director	HONG HSIANG WEN	0	0.00 %
Independent Director	WU CHUN YING	0	0.00 %
Total		7,198,179	8.05 %