

**REXON INDUSTRIAL CORP., LTD. AND
SUBSIDIARIES**

Consolidated Financial Statements

**With Independent Auditors' Review Report
For the Nine Months Ended September 30, 2022 and 2021**

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The independent auditors' review report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' review report and consolidated financial statements, the Chinese version shall prevail.

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INDEPENDENT AUDITORS' REVIEW REPORT

To the Board of Directors of Rexon Industrial Corp., Ltd.:

Introduction

We have reviewed the accompanying consolidated statements of financial position of Rexon Industrial Corp., Ltd. and its subsidiaries as of September 30, 2022 and 2021, and the related consolidated statements of comprehensive income for the three months and nine months ended September 30, 2022 and 2021, as well as the changes in equity and cash flows for the nine months ended September 30, 2022 and 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies. 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 International Accounting Standard 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

Except as explained in the Basis for Qualified Conclusion paragraph, we conducted our reviews in accordance with Statement of Auditing Standards 65, "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of the consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the generally accepted auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

As stated in Note 4 (b), the consolidated financial statements included the financial statements of certain non-significant subsidiaries, which were not reviewed by independent auditors. These financial statements reflect total assets amounting to NT\$234,740 thousand and NT\$244,121 thousand, constituting 3% and 2% of consolidated total assets as of September 30, 2022 and 2021, respectively, total liabilities amounting to NT\$88,699 thousand and NT\$152,768 thousand, both constituting 2% of consolidated total liabilities as of September 30, 2022 and 2021, respectively, and total comprehensive income (loss) amounting to NT\$(18,808) thousand, NT\$(120,565) thousand, NT\$(67,165) thousand, and NT\$(349,824) thousand, constituting (63)%, (48)%, (44)% and (43)% of consolidated total comprehensive income (loss) for the three months and the nine months ended September 30, 2022 and 2021, respectively.

Furthermore, as stated in Note 6 (g), the other equity accounted investments of Rexon Industrial Corp., Ltd. and its subsidiaries in its investee company of NT\$16,531 thousand and NT\$16,623 thousand as of September 30, 2022 and 2021, respectively, and its equity in net earnings (loss) on this investee company of NT\$486 thousand, NT\$136 thousand, NT\$299 thousand, and 429 thousand for the three months and the nine months ended September 30, 2022 and 2021, respectively, were recognized solely on the financial statements prepared by this investee company, but not reviewed by independent auditors.

**Qualified Conclusion**

Except for the adjustments, if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries and equity accounted investee companies described in the Basis for Qualified Conclusion paragraph above been reviewed by independent auditors, based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of Rexon Industrial Corp., Ltd. and its subsidiaries as of September 30, 2022 and 2021, and of its consolidated financial performance for the three months and the nine months ended September 30, 2022 and 2021, as well as its consolidated cash flows for the nine months ended September 30, 2022 and 2021 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IASs 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

The engagement partners on the reviews resulting in this independent auditors' review report are Shyh-Huar Kuo and Chun-Yuan Wu.

KPMG

Taipei, Taiwan (Republic of China)
November 3, 2022

Notes to Readers

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

The independent auditors' review report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' review report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
 Reviewed only, not audited in accordance with generally accepted standards as of September 30, 2022, and 2021
REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES

Consolidated Statements of Financial Position
September 30, 2022, December 31, 2021, and September 30, 2021
 (Expressed in thousands of New Taiwan Dollar)

	September 30, 2022		December 31, 2021		September 30, 2021	
	Amount	%	Amount	%	Amount	%
Assets						
Current assets:						
1100 Cash and cash equivalents (note 6 (a))	\$ 1,778,257	22	4,574,719	36	2,684,669	25
1110 Current financial assets at fair value through profit or loss (note 6 (b))	96	-	96	-	2,471	-
1120 Current financial assets at fair value through other comprehensive income (note 6 (c))	-	-	-	-	40,085	-
1150 Notes receivable, net (note 6 (d))	317	-	2,276	-	1,721	-
1160 Notes receivable due from related parties, net (note 6 (d) and 7)	40,580	-	27,543	-	17,640	-
1170 Accounts receivable, net (note 6 (d))	958,182	12	1,717,113	14	1,877,360	17
1180 Accounts receivable due from related parties, net (note 6 (d) and 7)	4,534	-	11,078	-	10,288	-
1200 Other receivables, net (note 6 (e))	741	-	140	-	535	-
1220 Current tax assets	61,896	1	-	-	-	-
130X Inventories (note 6 (f))	1,022,047	13	1,975,275	16	2,122,062	20
1479 Other current assets (note 6 (k))	85,976	1	209,740	2	219,792	2
	<u>3,952,626</u>	<u>49</u>	<u>8,517,980</u>	<u>68</u>	<u>6,976,623</u>	<u>64</u>
Non-current assets:						
1550 Investments accounted for using equity method, net (note 6 (g))	16,531	-	16,712	-	16,623	-
1600 Property, plant and equipment (note 6 (h) and 8)	3,173,422	39	3,266,653	26	3,236,728	30
1755 Right-of-use assets (note 6 (i))	95,906	1	122,650	1	127,897	1
1780 Intangible assets (note 6 (j))	69,182	1	62,399	-	62,743	1
1840 Deferred tax assets	80,659	1	84,195	1	66,204	1
1920 Guarantee deposits paid	4,226	-	9,053	-	8,219	-
1975 Net defined benefit asset, non-current	113,165	1	90,665	1	8,546	-
1990 Other non-current assets (note 6 (k))	628,728	8	351,126	3	309,317	3
	<u>4,181,819</u>	<u>51</u>	<u>4,003,453</u>	<u>32</u>	<u>3,836,277</u>	<u>36</u>
Total assets	<u>\$ 8,134,445</u>	<u>100</u>	<u>12,521,433</u>	<u>100</u>	<u>10,812,900</u>	<u>100</u>
Liabilities and Equity						
Current liabilities:						
2100 Short-term borrowings (note 6 (l) and 8)	\$ 823,355	10	802,025	7	472,267	5
2130 Current contract liabilities (note 6 (u))	40,908	-	543,155	4	37,563	-
2150 Notes payable	1,32,706	2	1,391,468	11	1,148,523	11
2160 Notes payable to related parties (note 7)	8	-	3,799	-	2,617	-
2170 Accounts payable	641,493	8	3,509,685	28	3,525,336	33
2200 Other payables	620,640	8	754,642	6	733,797	7
2220 Other payables to related parties (note 7)	49	-	17	-	977	-
2230 Current tax liabilities	-	-	185,745	2	107,466	1
2250 Current provisions (note 6 (p))	195,820	2	162,599	1	132,054	1
2280 Current lease liabilities (note 6 (o))	14,254	-	34,261	-	34,293	-
2320 Long-term borrowing, current portion (note 6 (n) and 8)	332,500	4	93,264	1	38,150	-
2399 Other current liabilities (note 6 (m))	1,033,715	13	156,254	1	157,682	2
	<u>3,835,448</u>	<u>47</u>	<u>7,636,914</u>	<u>61</u>	<u>6,390,725</u>	<u>60</u>
Non-Current liabilities:						
2540 Long-term borrowings (note 6 (n) and 8)	710,833	9	593,333	5	460,000	4
2570 Deferred tax liabilities	6,491	-	6,491	-	6,662	-
2580 Non-current lease liabilities (note 6 (o))	26,943	-	34,292	-	39,719	-
	<u>744,267</u>	<u>9</u>	<u>634,116</u>	<u>5</u>	<u>506,381</u>	<u>4</u>
	<u>4,579,715</u>	<u>56</u>	<u>8,271,030</u>	<u>66</u>	<u>6,897,106</u>	<u>64</u>
Total liabilities	<u>1,814,735</u>	<u>23</u>	<u>1,814,735</u>	<u>14</u>	<u>1,814,735</u>	<u>17</u>
Equity attributable to owners of parent: (note 6 (s))						
Ordinary shares	586	-	586	-	586	-
Capital surplus	1,845,946	23	2,572,950	21	2,249,581	21
Retained earnings	(132,048)	(2)	(163,182)	(1)	(175,695)	(2)
Other equity	3,529,219	44	4,225,089	34	3,889,207	36
Total equity attributable to owners of parent:	<u>25,511</u>	<u>-</u>	<u>25,514</u>	<u>-</u>	<u>26,587</u>	<u>-</u>
Non-controlling interests	3,554,730	44	4,250,403	34	3,915,794	36
Total equity	<u>3,554,730</u>	<u>44</u>	<u>4,250,403</u>	<u>34</u>	<u>3,915,794</u>	<u>36</u>
Total liabilities and equity	<u>\$ 8,134,445</u>	<u>100</u>	<u>12,521,433</u>	<u>100</u>	<u>10,812,900</u>	<u>100</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted standards
REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the three months and nine months ended September 30, 2022 and 2021

(Expressed in thousands of New Taiwan Dollar , except earnings per share)

	<u>For the three months ended September 30</u>				<u>For the nine months ended September 30</u>			
	<u>2022</u>		<u>2021</u>		<u>2022</u>		<u>2021</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
4000 Operating revenue, net (note 6 (u) and 7)	\$ 1,073,244	100	4,255,857	100	3,652,335	100	13,279,718	100
5000 Operating costs (note 6 (f) and (q))	1,042,915	97	3,717,899	87	3,514,222	96	11,446,422	86
Gross profit from operations	<u>30,329</u>	<u>3</u>	<u>537,958</u>	<u>13</u>	<u>138,113</u>	<u>4</u>	<u>1,833,296</u>	<u>14</u>
6000 Operating expenses (note 6 (q) and (v)):								
6100 Selling expenses	67,038	6	124,776	3	201,618	5	415,488	3
6200 Administrative expenses	44,050	4	61,589	2	141,989	4	175,624	2
6300 Research and development expenses	35,601	3	53,127	1	114,447	3	160,767	1
Total operating expenses	<u>146,689</u>	<u>13</u>	<u>239,492</u>	<u>6</u>	<u>458,054</u>	<u>12</u>	<u>751,879</u>	<u>6</u>
Net operating (loss) income	<u>(116,360)</u>	<u>(10)</u>	<u>298,466</u>	<u>7</u>	<u>(319,941)</u>	<u>(8)</u>	<u>1,081,417</u>	<u>8</u>
7000 Non-operating income and expenses:								
7100 Interest income (note 6 (w))	316	-	296	-	1,465	-	1,508	-
7010 Other income (note 6 (w))	4,095	-	3,432	-	11,834	-	10,812	-
7020 Other gains and losses, net (note 6 (w))	63,429	6	11,117	-	83,650	2	(74,241)	-
7050 Finance costs (note 6 (w))	(5,992)	(1)	(2,388)	-	(15,061)	-	(6,261)	-
7060 Shares of profit of associates accounted for using equity method (note 6 (g))	486	-	136	-	299	-	429	-
	<u>62,334</u>	<u>5</u>	<u>12,593</u>	<u>-</u>	<u>82,187</u>	<u>2</u>	<u>(67,753)</u>	<u>-</u>
7900 Profit (loss) before income tax	(54,026)	(5)	311,059	7	(237,754)	(6)	1,013,664	8
7950 Income (benefit) tax expense (note 6 (r))	(10,786)	(1)	62,311	1	(54,599)	(1)	201,321	2
8200 (Loss) Profit	<u>(43,240)</u>	<u>(4)</u>	<u>248,748</u>	<u>6</u>	<u>(183,155)</u>	<u>(5)</u>	<u>812,343</u>	<u>6</u>
8300 Other comprehensive income:								
8310 Items that may not be reclassified subsequently to profit or loss:								
8316 Unrealized loss from investments in equity instruments measured at fair value through other comprehensive income	-	-	6,775	-	-	-	10,149	-
8360 Items that may be reclassified subsequently to profit or loss:								
8361 Exchange differences on translation	16,349	1	(3,090)	-	39,686	1	(17,698)	-
8399 Income tax related to components of other comprehensive income that will be reclassified to profit or loss (note 6 (r))	(3,193)	-	618	-	(7,784)	-	2,959	-
	<u>13,156</u>	<u>1</u>	<u>(2,472)</u>	<u>-</u>	<u>31,902</u>	<u>1</u>	<u>(14,739)</u>	<u>-</u>
8300 Other comprehensive income (after tax)	<u>13,156</u>	<u>1</u>	<u>4,303</u>	<u>-</u>	<u>31,902</u>	<u>1</u>	<u>(4,590)</u>	<u>-</u>
8500 Comprehensive income	<u>\$ (30,084)</u>	<u>(3)</u>	<u>253,051</u>	<u>6</u>	<u>(151,253)</u>	<u>(4)</u>	<u>807,753</u>	<u>6</u>
Profit (loss) attributable to:								
8610 Owners of parent	\$ (43,147)	(4)	249,247	6	(182,584)	(5)	808,040	6
8620 Non-controlling interests	(93)	-	(499)	-	(571)	-	4,303	-
	<u>\$ (43,240)</u>	<u>(4)</u>	<u>248,748</u>	<u>6</u>	<u>(183,155)</u>	<u>(5)</u>	<u>812,343</u>	<u>6</u>
Comprehensive income attributable to:								
8710 Owners of parent	\$ (30,378)	(3)	253,553	6	(151,450)	(4)	806,359	6
8720 Non-controlling interests	294	-	(502)	-	197	-	1,394	-
	<u>\$ (30,084)</u>	<u>(3)</u>	<u>253,051</u>	<u>6</u>	<u>(151,253)</u>	<u>(4)</u>	<u>807,753</u>	<u>6</u>
Earnings per share (NT dollars) (note 6 (t))								
9750 Basic earnings (loss) per share	<u>\$ (0.24)</u>		<u>1.37</u>		<u>(1.01)</u>		<u>4.45</u>	
9850 Diluted earnings (loss) per share	<u>\$ (0.24)</u>		<u>1.37</u>		<u>(1.01)</u>		<u>4.43</u>	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
 Reviewed only, not audited in accordance with generally accepted standards
REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the nine months ended September 30, 2022 and 2021
(expressed in thousands of New Taiwan Dollar)

	Equity attributable to owners of parent											
	Share capital	Retained earnings				Total	Exchange differences on translation of foreign financial statements	Other equity		Total equity attributable to owners of parent	Non-controlling interests	Total equity
		Ordinary share	Capital surplus	Legal reserve	Special reserve			Unappropriated retained earnings	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income			
Balance at January 1, 2021	\$ 1,814,735	433	265,379	49,668	1,783,010	2,098,057	(156,823)	(20,402)	(177,225)	3,736,000	25,193	3,761,193
Appropriation and distribution of retained earnings:												
Legal reserve	-	-	97,724	-	(97,724)	-	-	-	-	-	-	-
Special reserve	-	-	-	127,558	(127,558)	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(653,305)	(653,305)	-	-	-	(653,305)	-	(653,305)
Profit for the period	-	-	97,724	127,558	(878,587)	(653,305)	-	-	-	(653,305)	-	(653,305)
Other comprehensive income for the period	-	-	-	-	808,040	808,040	-	-	-	808,040	4,303	812,343
Comprehensive income	-	-	-	-	-	-	(11,830)	10,149	(1,681)	(1,681)	(2,909)	(4,590)
Changes in ownership interests in subsidiaries	-	-	-	-	808,040	808,040	(11,830)	10,149	(1,681)	806,359	1,394	807,753
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	153	-	-	-	-	-	-	-	153	-	153
Balance at September 30, 2021	\$ 1,814,735	586	363,103	177,226	1,709,252	2,249,581	(168,653)	(7,042)	(175,695)	3,889,207	26,587	3,915,794
Balance at January 1, 2022	\$ 1,814,735	586	363,103	177,226	2,032,621	2,572,950	(163,182)	-	(163,182)	4,225,089	25,314	4,250,403
Appropriation and distribution of retained earnings:												
Legal reserve	-	-	112,820	-	(112,820)	-	-	-	-	-	-	-
Cash dividends or ordinary share	-	-	-	-	(544,420)	(544,420)	-	-	-	(544,420)	-	(544,420)
Special reserve	-	-	-	(14,044)	14,044	-	-	-	-	-	-	-
Loss for the period	-	-	112,820	(14,044)	(643,196)	(544,420)	-	-	-	(544,420)	-	(544,420)
Other comprehensive income for the period	-	-	-	-	(182,584)	(182,584)	-	-	-	(182,584)	(571)	(183,155)
Comprehensive income	-	-	-	-	(182,584)	(182,584)	31,134	-	31,134	(151,450)	768	(151,253)
Balance at September 30, 2022	\$ 1,814,735	586	475,923	163,182	1,206,841	1,845,946	(132,048)	-	(132,048)	3,529,219	25,511	3,554,730

See accompanying notes to consolidated financial statements.

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REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the three months and nine months ended September 30, 2022 and 2021

(Expressed in thousands of New Taiwan Dollar)

	For the nine months ended September 30	
	2022	2021
Cash flows from operating activities:		
(Loss) profit before tax	\$ (237,754)	1,013,664
Adjustments:		
Adjustments to reconcile profit:		
Depreciation expenses	259,161	186,431
Amortization expenses	13,108	10,789
Interest expenses	15,061	6,261
Interest income	(1,465)	(1,508)
Shares of profit of associates accounted for using equity method	(299)	(429)
Losses on disposal of property, plant and equipment	2,832	3,698
Gain on lease modification	(40)	-
Total adjustments to reconcile profit	<u>288,358</u>	<u>205,242</u>
Changes in operating assets and liabilities:		
Changes in operating assets:		
Financial assets at fair value through profit or loss, mandatorily measured at fair value	-	15,999
Notes receivable	1,959	(1,612)
Notes receivable due from related parties	(13,037)	(11,306)
Accounts receivable	758,931	502,781
Accounts receivable due from related parties	6,544	(6,936)
Other receivables	(601)	(13)
Inventories	953,228	(1,025,868)
Other current assets	123,764	(28,284)
Net defined benefit assets	(22,500)	(8,466)
Other operating assets	1,494	(3,125)
	<u>1,809,782</u>	<u>(566,830)</u>
Changes in operating liabilities:		
Contract liabilities	(10,416)	10,109
Notes payable	(1,258,762)	359,282
Notes payable to related parties	(3,791)	1,774
Accounts payable	(2,868,192)	285,527
Other payables	(95,253)	213,700
Other payables to related parties	32	516
Other current liabilities	418,851	(9,103)
	<u>(3,817,531)</u>	<u>861,805</u>
Total changes in operating assets and liabilities	<u>(2,007,749)</u>	<u>294,975</u>
Total adjustments	<u>(1,719,391)</u>	<u>500,217</u>
Cash (outflow) inflow generated from operations	(1,957,145)	1,513,881
Interest received	1,465	1,508
Dividends received	480	800
Interest paid	(14,839)	(6,692)
Tax paid	(197,290)	(194,727)
Net cash from (used in) operating activities	<u>(2,167,329)</u>	<u>1,314,770</u>
Cash flows from (used in) investing activities:		
Changes in ownership interests in subsidiaries	-	153
Decrease in restricted assets	-	8,000
Acquisition of property, plant and equipment	(99,732)	(324,955)
Proceeds from disposal of property, plant and equipment	3,594	4,703
Decrease (increase) in refundable deposits	4,827	(3,816)
Acquisition of intangible assets	(19,805)	(10,856)
Increase in prepayments for facilities	(342,444)	(490,971)
Proceeds from disposal of financial assets at fair value through other comprehensive income	-	6,239
Net cash used in investing activities	<u>(453,560)</u>	<u>(811,503)</u>
Cash flows from (used in) financing activities:		
Increase in short-term borrowings	2,221,155	1,272,845
Decrease in short-term borrowings	(2,202,891)	(1,141,346)
Increase from long-term borrowings	500,000	651,600
Repayments of long-term borrowings	(144,396)	(534,724)
Payment of lease liabilities	(24,253)	(20,239)
Cash dividends paid	(544,420)	(653,305)
Net cash used in financing activities	<u>(194,805)</u>	<u>(425,169)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>19,232</u>	<u>(6,558)</u>
Net (decrease) increase in cash and cash equivalents	(2,796,462)	71,540
Cash and cash equivalents at the beginning of period	<u>4,574,719</u>	<u>2,613,129</u>
Cash and cash equivalents at the end of period	<u>\$ 1,778,257</u>	<u>2,684,669</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted standards as of September 30, 2022 and 2021

REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

September 30, 2022 and 2021

(expressed in thousands of New Taiwan Dollar unless otherwise specified)

(1) Overview

Rexon Industrial Corp., Ltd. (the “Company”) was incorporated on April 30, 1973 and registered under the Ministry of Economic Affairs, R.O.C. The address of the company’s registered office is No.261, Renhua Rd., Dali Dist., Taichung City 412, and Taiwan (R.O.C.). The Company’s common shares were listed on the Taiwan Stock Exchange (TWSE) on February 4, 1995. The company’s and its subsidiaries (together referred to as the “Group”) is in the business of manufacturing and selling drills, woodworking tools and fitness equipments.

(2) Financial Statements Authorization Date and Authorization process

These consolidated financial statements for the nine months ended September 30, 2022 and 2021 were authorized for issuance by the Board of Directors on November 3, 2022.

(3) New standards, Amendments and Interpretations Adopted:

- (a) The impact of the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. which have already been adopted.

The Group has initially adopted the following new amendments, which do not have a significant impact on its consolidated financial statements, from January 1, 2022:

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

- (b) The impact of IFRS issued by the FSC but not yet effective

The Group assesses that the adoption of the following new amendments, effective for annual period beginning on January 1, 2023, would not have a significant impact on its consolidated financial statements:

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

(Continued)

REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (c) The impact of IFRS issued by IASB but not yet endorsed by the FSC

The following new and amended standards, which may be relevant to the Group, have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

Standards or Interpretations	Content of amendment	Effective date per IASB
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of balance sheet, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity.	January 1, 2023

The Group is evaluating the impact of its initial adoption of the abovementioned standards or interpretations on its consolidated financial position and consolidated financial performance. The results thereof will be disclosed when the Group completes its evaluation.

The Group does not expect the following other new and amended standards, which have yet to be endorsed by the FSC, to have a significant impact on its consolidated financial statements:

- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”
- IFRS 17 “Insurance Contracts” and amendments to IFRS 17 “Insurance Contracts”
- Amendments to IFRS 17 “Initial Application of IFRS 17 and IFRS 9 – Comparative Information “

(4) Significant Accounting Policies

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as "the Regulations") and the preparation and guidelines of IAS 34 “Interim Financial Reporting” which are endorsed and issued into effect by FSC, and do not include all of the information required by the Regulations and International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed and issued into effect by the FSC (hereinafter referred to IFRS endorsed by the FSC) for a complete set of the annual consolidated financial statements.

(Continued)

REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Except the following accounting policies mentioned below, the significant accounting policies adopted in the consolidated financial statements are the same as those in the consolidated financial statement for the year ended December 31, 2021. For the related information, please refer to note 4 of the consolidated financial statements for the year ended December 31, 2021.

(b) Basis of consolidation

(i) List of subsidiaries in the consolidated financial statements:

Name of investor	Name of subsidiary	Principal activity	Shareholding			Note
			September 30, 2022	December 31, 2021	September 30, 2021	
The Company	Power Tool Specialists Inc. (P.T.S.)	Merchandise trading	96%	96%	96%	Note 1
"	Gold Item Group Ltd.(Gold Item)	Investing and holding	100%	100%	100%	
"	Rexon Technology Corp., Ltd. (Rexon Tech)	Manufacture and sale of electric components	82.87%	82.87%	82.87%	Note 1
Gold Item	Gold Tech Group Ltd.	Investing and holding	100%	100%	100%	
Gold Tech Group Ltd.	Tongxiang Rexon Industrial Co., Ltd.(Tongxiang Rexon)	Manufacture of drills, woodworking tools and fitness equipment	100%	100%	100%	

Note 1: The subsidiaries, P.T.S. and Rexon Tech, are non-significant subsidiaries and their financial statements have not been reviewed.

(ii) List of subsidiaries which are not included in the consolidated financial statements: None.

(c) Income taxes

The income tax expenses have been prepared and disclosed in accordance with paragraph B12 of International Financial Reporting Standards 34, Interim Reporting.

Income tax expenses for the period are best estimated by multiplying pre-tax income for the interim reporting period using the effective annual tax rate as forecasted by the management. This should be recognized fully as tax expense for the current period and allocated to current and deferred taxes based on its proportionate size.

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases shall be measured based on the tax rates that have been enacted or substantively enacted at the time of the asset or liability is recovered or settled, and be recognized directly in equity or other comprehensive income as tax expense.

(d) Employee benefits

The pension cost in the interim period was calculated and disclosed on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior fiscal year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events.

(Continued)

REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(5) Major Sources of Accounting Assumptions, Judgements and Estimation Uncertainties:

The preparation of the consolidated financial statements in conformity with the Regulations and IFRSs (in accordance with IAS 34 “Interim Financial Reporting” and endorsed by the FSC) requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In the preparation of the consolidated financial statements, the major sources of significant accounting judgments and estimation uncertainty are consistent with Note (5) of the consolidated financial statements for the year ended December 31, 2021.

The accounting policies involved significant judgments and the information that have significant effect on the amounts recognized in the consolidated financial statements are as follows:

(a) Judgment of whether the Group has substantive control over its investees

The Group holds 16% of the outstanding voting shares of Fine Clear Corp., Ltd. and is the single largest shareholder of the investee. Although the remaining 84% of Fine Clear Corp., Ltd.’s shares are not concentrated within specific shareholders, the Group still cannot obtain more than half of the total number of Fine Clear Corp., Ltd.’s directors, and it also cannot obtain more than half of the voting rights at a shareholders’ meeting. Therefore, it is determined that the Group has significant influence on Fine Clear Corp., Ltd.

(6) Explanation of Significant Accounts:

Except for the following disclosures, there were no material differences in the disclosures of significant accounts between the interim consolidated financial statements for the current period and the 2021 consolidated financial statements. Please refer to Note 6 of the 2021 annual consolidated financial statements.

(a) **Cash and cash equivalents**

	September 30, 2022	December 31, 2021	September 30, 2021
Petty cash and cash on hand	\$ 1,041	1,051	1,167
Checking and demand deposits	<u>1,777,216</u>	<u>4,573,668</u>	<u>2,683,502</u>
Cash and cash equivalents in the consolidated statement of cash flows	<u><u>\$ 1,778,257</u></u>	<u><u>4,574,719</u></u>	<u><u>2,684,669</u></u>

(b) **Financial assets at fair value through profit or loss**

	September 30, 2022	December 31, 2021	September 30, 2021
Mandatorily measured at fair value through profit or loss:			
Non-derivative financial assets			
Stocks listed on domestic markets	\$ -	-	2,375
Stocks unlisted on domestic markets	<u>96</u>	<u>96</u>	<u>96</u>
Total	<u><u>\$ 96</u></u>	<u><u>96</u></u>	<u><u>2,471</u></u>

(Continued)

REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (i) For the gain or loss arising from the revaluation to market value, please refer to Note 6(w).
- (ii) As of September 30, 2022, December 31, 2021 and September 30, 2021, the financial assets at fair value through profit or loss of the Group were not pledged as collateral.

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

	September 30, 2022	December 31, 2021	September 30, 2021
Equity investments at fair value through other comprehensive income			
Domestic Company - FALCON MACHINE TOOLS CO.,LTD	\$ <u>-</u>	<u>-</u>	<u>40,085</u>

- (i) Equity investments at fair value through other comprehensive income.

The Group designated the investments shown above as equity securities at fair value through other comprehensive income because these equity securities represent those investments that the Group intends to hold for long-term for strategic purposes instead of holding for trading.

- (ii) During the period from January 1, 2021 to September 30, 2021, the Group has sold its equity instrument investment measured at fair value through other comprehensive income for strategic purposes. The shares sold had a fair value of \$6,239 thousand wherein the Group realized a loss of \$3,211 thousand which was transferred from other comprehensive income to retained earnings.
- (iii) For credit risk and market risk, please refer to Note 6(x).
- (iv) As of September 30, 2022, December 31, 2021 and September 30, 2021, the financial assets at fair value through other comprehensive income were not pledged as collateral.

(d) Notes and accounts receivables (include related party)

	September 30, 2022	December 31, 2021	September 30, 2021
Notes receivable from operating activities	\$ 317	2,276	1,721
Notes receivable from operating activities-related parties	40,580	27,543	17,640
Less: Loss allowance	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 40,897</u>	<u>29,819</u>	<u>19,361</u>
Accounts receivable-measured at amortized cost	\$ 959,785	1,718,716	1,878,963
Accounts receivable from related parties-measured at amortized cost	4,534	11,078	10,288
Less: Loss allowance	<u>(1,603)</u>	<u>(1,603)</u>	<u>(1,603)</u>
Total	<u>\$ 962,716</u>	<u>1,728,191</u>	<u>1,887,648</u>

(Continued)

REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (i) The Group applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables. To measure the expected credit losses, accounts receivables have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward looking information, including macroeconomic and relevant industry information. The loss allowance provisions were determined as follows:

	September 30, 2022		
	Gross carrying amount	Weighted- average loss rate	Loss allowance provision
Current	\$ 784,509	0.13%	988
1 to 90 days past due	220,218	0.13%	288
91 to 180 days past due	488	66.87%	326
181 to 360 days past due	-	-%	-
Over 360 days past due	1	100%	1
Total	\$ 1,005,216		1,603

	December 31, 2021		
	Gross carrying amount	Weighted- average loss rate	Loss allowance provision
Current	\$ 885,675	0.02%	184
1 to 90 days past due	872,018	0.02%	184
91 to 180 days past due	1,370	50%	685
181 to 360 days past due	549	100%	549
Over 360 days past due	1	100%	1
Total	\$ 1,759,613		1,603

	September 30, 2021		
	Gross carrying amount	Weighted- average loss rate	Loss allowance provision
Current	\$ 1,384,391	0.07%	932
1 to 90 days past due	523,619	0.07%	369
91 to 180 days past due	601	50%	301
181 to 360 days past due	1	100%	1
Total	\$ 1,908,612		1,603

(Continued)

REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) The movement in the allowance for notes and accounts receivables were as follows:

	2022	2021
Balance at January 1 (which is balance at September 30)	\$ 1,603	1,603

(iii) None of the receivables was pledged as collateral as of September 30, 2022, December 31, 2021, and September 30, 2021.

(e) **Other receivables**

	September 30, 2022	December 31, 2021	September 30, 2021
Other receivables	\$ 11,988	11,387	11,782
Less: Loss allowance	(11,247)	(11,247)	(11,247)
	\$ 741	140	535

(i) As of September 30, 2022, December 31, 2021 and September 30, 2021, there are no other receivables which are past due but not impaired.

(ii) The movement in the allowance for other receivables was as follows:

	2022	2021
Balance on January 1 (which is balance at September 30)	\$ 11,247	11,247

(f) **Inventories**

	September 30, 2022	December 31, 2021	September 30, 2021
Finished goods	\$ 196,280	756,447	865,128
Work in progress	171,028	220,523	293,631
Materials	192,551	240,165	229,393
Parts	455,596	725,566	724,879
Merchandise	6,592	32,574	9,031
	\$ 1,022,047	1,975,275	2,122,062

Details of inventory related losses (profit) were as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2022	2021	2022	2021
Inventory scrap loss	\$ 1,230	5,632	4,225	10,371
Inventory shortage	-	-	-	150
Revenue from sale of scraps	(643)	(6,182)	(2,373)	(17,812)
	\$ 587	(550)	1,852	(7,291)

As of September 30, 2022, December 31, 2021 and September 30, 2021, inventories were not pledged as collateral.

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REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(g) **Investments accounted for using equity method**

A summary of the Group's financial information for investments accounted for using equity method at the reporting date is as follows:

	<u>September 30, 2022</u>	<u>December 31, 2021</u>	<u>September 30, 2021</u>
Associates	<u>\$ 16,531</u>	<u>16,712</u>	<u>16,623</u>

(i) Associates

Affiliated company's information:

<u>Name of Associates</u>	<u>Nature of relationship with the Group</u>	<u>Main operating location/ Registered Country of the Company</u>	<u>Proportion of shareholding and voting rights</u>		
			<u>September 30, 2022</u>	<u>December 31, 2021</u>	<u>September 30, 2021</u>
Fine Clear Corp., Ltd.	Sale of pneumatic nail gun and accessories, which is the Group's investment	Taiwan	16%	16%	16%

The Group's financial information for investments accounted for using the equity method that are individually insignificant was as follows:

	<u>September 30, 2022</u>	<u>December 31, 2021</u>	<u>September 30, 2021</u>
Carrying amount of individually insignificant associates' equity	<u>\$ 16,531</u>	<u>16,712</u>	<u>16,623</u>

	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Attributable to the Group:				
Profit from continuing operation	\$ 486	136	299	429
Other comprehensive income	-	-	-	-
Comprehensive income	<u>\$ 486</u>	<u>136</u>	<u>299</u>	<u>429</u>

(ii) As of September 30, 2022, December 31, 2021 and September 30, 2021, the Group did not provide any investments accounted for using the equity method as collateral for its loans.

(iii) Investments were accounted for by using the equity method and the share of profit or loss and other comprehensive income of those investments were calculated based on the financial statements that have not been reviewed.

(Continued)

REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(h) **Property, plant and equipment**

The cost, depreciation, and impairment loss of the property, plant and equipment of the Group for the nine months ended September 30, 2022, December 31, 2021 and September 30, 2021, were as follows:

	<u>Land</u>	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Tooling equipment</u>	<u>Office equipment and other facilities</u>	<u>Construction in Progress</u>	<u>Total</u>
Cost or deemed cost:							
Balance on January 1, 2022	\$ 1,139,930	2,165,757	811,116	791,094	177,288	-	5,085,185
Additions	-	9,538	7,453	41,042	2,727	-	60,760
Disposal	-	-	(8,957)	(6,120)	(13,691)	-	(28,768)
Reclassification	-	4,624	33,671	23,176	1,877	-	63,348
Effect of movements in exchange rates	387	26,062	4,427	2,688	1,565	-	35,129
Balance on September 30, 2022	<u>\$ 1,140,317</u>	<u>2,205,981</u>	<u>847,710</u>	<u>851,880</u>	<u>169,766</u>	<u>-</u>	<u>5,215,654</u>
Balance on January 1, 2021	\$ 946,564	2,068,956	725,055	866,514	154,644	79	4,761,812
Additions	193,443	41,305	44,820	53,082	20,511	-	353,161
Disposal	-	-	(156,112)	(210,345)	(8,016)	-	(374,473)
Reclassification	-	39,357	130,269	44,879	852	(79)	215,278
Effect of movements in exchange rates	(60)	(12,150)	(2,325)	(1,319)	(442)	-	(16,296)
Balance on September 30, 2021	<u>\$ 1,139,947</u>	<u>2,137,468</u>	<u>741,707</u>	<u>752,811</u>	<u>167,549</u>	<u>-</u>	<u>4,939,482</u>
Depreciation and impairment loss:							
Balance on January 1, 2022	\$ -	866,637	305,252	528,974	117,669	-	1,818,532
Depreciation	-	80,870	76,767	65,561	10,648	-	233,846
Disposal	-	-	(7,637)	(5,153)	(9,552)	-	(22,342)
Effect of movements in exchange rates	-	7,139	2,192	1,373	1,492	-	12,196
Balance on September 30, 2022	<u>\$ -</u>	<u>954,646</u>	<u>376,574</u>	<u>590,755</u>	<u>120,257</u>	<u>-</u>	<u>2,042,232</u>
Balance on January 1, 2021	\$ -	778,946	385,480	625,001	119,512	-	1,908,939
Depreciation	-	65,776	50,918	40,570	7,457	-	164,721
Disposal	-	-	(152,898)	(206,473)	(6,701)	-	(366,072)
Effect of movements in exchange rates	-	(2,822)	(1,001)	(627)	(384)	-	(4,834)
Balance on September 30, 2021	<u>\$ -</u>	<u>841,900</u>	<u>282,499</u>	<u>458,471</u>	<u>119,884</u>	<u>-</u>	<u>1,702,754</u>
Carrying amounts:							
Balance on January 1, 2022	<u>\$ 1,139,930</u>	<u>1,299,120</u>	<u>505,864</u>	<u>262,120</u>	<u>59,619</u>	<u>-</u>	<u>3,266,653</u>
Balance on September 30, 2022	<u>\$ 1,140,317</u>	<u>1,251,335</u>	<u>471,136</u>	<u>261,125</u>	<u>49,509</u>	<u>-</u>	<u>3,173,422</u>
Balance on January 1, 2021	<u>\$ 946,564</u>	<u>1,290,010</u>	<u>339,575</u>	<u>241,513</u>	<u>35,132</u>	<u>79</u>	<u>2,852,873</u>
Balance on September 30, 2021	<u>\$ 1,139,947</u>	<u>1,295,568</u>	<u>459,208</u>	<u>294,340</u>	<u>47,665</u>	<u>-</u>	<u>3,236,728</u>

- (i) In response to the need for expansion in the future, the Group bought the farmland near to its factory, costing \$315,131 thousand, but the ownership of the land is temporarily not allowed to be transferred to the Group because the farmland is legally for agricultural purpose. Therefore, the farmland now is registered in the name of a shareholder who has the identity of natural person and has been pledged to the Group for security concerns.
- (ii) Gain or losses of disposal, please refer to Note 6(w).

(Continued)

REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) As of September 30, 2022, December 31, 2021 and September 30, 2021, property, plant and equipment of the Group had been pledged as collateral for bank loans; please refer to note 8.

(i) **Right-of-use assets**

The Group leases many assets including land, buildings and vehicles. Information about leases for which the Group as a lessee was presented below:

	<u>Land</u>	<u>Buildings</u>	<u>Vehicles</u>	<u>Total</u>
Cost:				
Balance at January 1, 2022	\$ 86,329	51,627	20,899	158,855
Additions	-	-	4,229	4,229
Redutions	-	(15,440)	(5,050)	(20,490)
Effect of movement in exchange rates	1,754	-	-	1,754
Balance at September 30, 2022	<u>\$ 88,083</u>	<u>36,187</u>	<u>20,078</u>	<u>144,348</u>
Balance at January 1, 2021	\$ 58,663	21,388	5,142	85,193
Additions	27,981	30,239	12,412	70,632
Effect of movement in exchange rates	(949)	-	-	(949)
Balance at September 30, 2021	<u>\$ 85,695</u>	<u>51,627</u>	<u>17,554</u>	<u>154,876</u>
Accumulated depreciation and impairment losses: :				
Balance at January 1, 2022	\$ 6,076	22,898	7,231	36,205
Depreciation for the period	3,124	17,430	4,761	25,315
Redutions	-	(9,007)	(4,191)	(13,198)
Effect of movement in exchange rates	120	-	-	120
Balance at September 30, 2022	<u>\$ 9,320</u>	<u>31,321</u>	<u>7,801</u>	<u>48,442</u>
Balance at January 1, 2021	\$ 2,667	594	2,062	5,323
Depreciation for the period	2,392	15,851	3,467	21,710
Effect of movement in exchange rates	(54)	-	-	(54)
Balance at September 30, 2021	<u>\$ 5,005</u>	<u>16,445</u>	<u>5,529</u>	<u>26,979</u>
Carrying amount:				
Balance at January 1, 2022	<u>\$ 80,253</u>	<u>28,729</u>	<u>13,668</u>	<u>122,650</u>
Balance at September 30, 2022	<u>\$ 78,763</u>	<u>4,866</u>	<u>12,277</u>	<u>95,906</u>
Balance at January 1, 2021	<u>\$ 55,996</u>	<u>20,794</u>	<u>3,080</u>	<u>79,870</u>
Balance at September 30, 2021	<u>\$ 80,690</u>	<u>35,182</u>	<u>12,025</u>	<u>127,897</u>

(j) **Intangible assets**

The costs, amortization and impairment loss of the intangible assets of the Group for the nine months ended September 30, 2022 and 2021, were as follows:

	<u>Goodwill</u>	<u>Computer Software</u>	<u>Total</u>
Costs:			
Balance at January 1, 2022	\$ 43,293	141,692	184,985
Additions	-	19,805	19,805
Reductions	-	(1,949)	(1,949)
Effect of movement in exchange rates	-	220	220
Balance at September 30, 2022	<u>\$ 43,293</u>	<u>159,768</u>	<u>203,061</u>

(Continued)

REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>Goodwill</u>	<u>Computer Software</u>	<u>Total</u>
Balance at January 1, 2021	\$ 43,293	127,372	170,665
Additions	-	10,856	10,856
Effect of movement in exchange rates	-	(114)	(114)
Balance at September 30, 2021	<u>\$ 43,293</u>	<u>138,114</u>	<u>181,407</u>
Amortization and impairment Loss:			
Balance at January 1, 2022	\$ -	122,586	122,586
Amortization for the period	-	13,108	13,108
Reductions	-	(1,949)	(1,949)
Effect of movement in exchange rates	-	134	134
Balance at September 30, 2022	<u>\$ -</u>	<u>133,879</u>	<u>133,879</u>
Balance at January 1, 2021	\$ -	107,937	107,937
Amortization for the period	-	10,789	10,789
Effect of movement in exchange rates	-	(62)	(62)
Balance at September 30, 2021	<u>\$ -</u>	<u>118,664</u>	<u>118,664</u>
Carrying value:			
Balance at January 1, 2022	<u>\$ 43,293</u>	<u>19,106</u>	<u>62,399</u>
Balance at September 30, 2022	<u>\$ 43,293</u>	<u>25,889</u>	<u>69,182</u>
Balance at January 1, 2021	<u>\$ 43,293</u>	<u>19,435</u>	<u>62,728</u>
Balance at September 30, 2021	<u>\$ 43,293</u>	<u>19,450</u>	<u>62,743</u>

As of September 30, 2022, December 31, 2021 and September 30, 2021, the intangible assets of the Group were not pledged as collateral.

(k) **Other current assets and other non-current assets**

The details of other current assets and other non-current assets were as follows:

	<u>September 30, 2022</u>	<u>December 31, 2021</u>	<u>September 30, 2021</u>
Other current assets:			
Prepayments	\$ 47,535	58,328	72,106
Business tax receivables	24,194	136,889	133,282
Temporary payments and payment on behalf of others	14,247	14,523	14,404
	<u>\$ 85,976</u>	<u>209,740</u>	<u>219,792</u>
Other non-current assets:			
Prepayments for equipment	\$ 623,605	344,509	302,893
Others	5,123	6,617	6,424
	<u>\$ 628,728</u>	<u>351,126</u>	<u>309,317</u>

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REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(l) **Short-term borrowings**

The short-term borrowings were as follows:

	<u>September 30, 2022</u>	<u>December 31, 2021</u>	<u>September 30, 2021</u>
Unsecured bank loans	\$ 704,000	700,000	402,500
Secured bank loans	119,355	102,025	69,767
Total	<u>\$ 823,355</u>	<u>802,025</u>	<u>472,267</u>
Unused credit lines	<u>\$ 3,369,192</u>	<u>3,386,903</u>	<u>3,325,150</u>
Range of interest rate	<u>1.24%~4.785%</u>	<u>0.67%~4.785%</u>	<u>0.8%~4.785%</u>

(i) Additional short-term borrowings and repayments

For the nine months ended September 30, 2022 and 2021, the Group had the additional short-term borrowings amounting to \$2,221,155 thousand and \$1,272,845 thousand, with a range of interest rate 0.85%~4.785% and 0.8%~4.785%, maturing in a range from October, 2022 to September, 2023 and May, 2021 to September, 2022, and the repayments were \$2,202,891 thousand and \$1,141,346 thousand, respectively.

(ii) Collateral for short-term borrowings

For the collateral for short-term borrowings, please refer to note 8.

(m) Other current liabilities

The details of other current liabilities were summarized as follows:

	<u>September 30, 2022</u>	<u>December 31, 2021</u>	<u>September 30, 2021</u>
Advance receipts	\$ 3,566	3,572	3,571
Temporary receipt	1,002,939	147,005	147,572
Others	27,210	5,677	6,539
	<u>\$ 1,033,715</u>	<u>156,254</u>	<u>157,682</u>

Temporary receipt is mainly received from mold sharing payment.

The cancellation payment of temporary receipts is because the customer has reached an agreement with the Group and had paid \$995,427 thousand (USD\$32,701 thousand) to cancel the contractual rights and obligations of both parties due to the cancellation of the order, of which \$491,831 thousand, the Group had received it in November, 2021, and was transferred from contract liabilities to temporary receipts. Please refer to at note 6 (u). Remaining payments has been received in July 2022. The Group will then transfer the part of the payment to the supplier in the form of payment on behalf of others or receipts under custody with the agreement. As of September 30, 2022, the remaining balance of temporary receipts for the cancellation payment is \$843,862 thousand.

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REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES
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(n) **Long-term borrowings**

The details of long-term borrowings were as follows:

	September 30, 2022	December 31, 2021	September 30, 2021
Unsecured bank loans	\$ 183,333	26,597	38,150
Secured bank loans	860,000	660,000	460,000
Less: current portion	<u>(332,500)</u>	<u>(93,264)</u>	<u>(38,150)</u>
Total	<u>\$ 710,833</u>	<u>593,333</u>	<u>460,000</u>
Unused long-term credit lines	<u>\$ 170,000</u>	<u>470,000</u>	<u>170,000</u>
Range of interest rate	<u>0.85%~1.46%</u>	<u>0.45%~2.3%</u>	<u>0.45%~2.3%</u>

(i) Additional long-term borrowings and repayments

For the nine months ended September 30, 2022 and 2021, the Group had the additional long-term borrowings amounting to \$500,000 thousand and \$651,600 thousand, with a range of interest rate 1.03%~1.3% and 0.45%~1.05%, maturing in range from January, 2025 to May, 2026 and from February, 2024 to April, 2025 and the repayments were \$144,396 thousand and \$534,724 thousand, respectively.

(ii) Collateral for long-term borrowings

For the collateral for long-term borrowings, please refer to note 8.

(o) **Lease liabilities**

	September 30, 2022	December 31, 2021	September 30, 2021
Current	<u>\$ 14,254</u>	<u>34,261</u>	<u>34,293</u>
Non-current	<u>\$ 26,943</u>	<u>34,292</u>	<u>39,719</u>

For the maturity analysis, please refer to note 6(x).

The amount recognized in profit or loss was as follows:

	For the nine months ended September 30	
	2022	2021
Interest expense on lease liabilities	<u>\$ 406</u>	<u>480</u>

The amount recognized in the statement of cash flows for the Group was as follows:

	For the nine months ended September 30	
	2022	2021
Total cash outflow for leases	<u>\$ 24,659</u>	<u>20,719</u>

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REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES
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The lease period for the Group's lease of land, buildings and vehicles are two to ten years.

(p) **Provisions**

	Warranties
Balance at January 1, 2022	\$ 162,599
Provisions made during the period	64,181
Provisions used during the period	(30,960)
Balance at September 30, 2022	\$ 195,820
Balance at January 1, 2021	\$ 165,973
Provisions made during the period	120,212
Provisions used during the period	(154,131)
Balance at September 30, 2021	\$ 132,054

The provision for warranties relates mainly to automatic facilities and fitness equipments sold for the period ended September 30, 2022 and 2021. The provision is based on estimates made from historical defect rate associated with similar products and services. The Group expects to settle the liability over the next two quarters.

(q) **Employee benefits**

(i) Defined benefit plans

In prior fiscal year, there was no material volatility of the market, reimbursement and settlement or other material one-time events. As a result, pension cost in the accompanying interim financial statements is measured and disclosed as of December 31, 2021 and 2020.

The details of the Group's expenses were as follows:

	For the three months ended		For the nine months ended	
	September 30		September 30	
	2022	2021	2022	2021
Operating costs	\$ 607	969	2,292	3,007
Selling expenses	35	210	260	530
Administrative expenses	215	330	815	985
Research and development expenses	151	260	590	668
	\$ 1,008	1,769	3,957	5,190

(Continued)

REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES
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(ii) Defined contribution plans

The Group's pension expenses under the pension plan cost to the Bureau of Labor Insurance were as follows:

	For the three months ended		For the nine months ended	
	September 30		September 30	
	2022	2021	2022	2021
Operating costs	\$ 3,402	7,169	13,498	19,347
Selling expenses	266	316	831	885
Administrative expenses	706	779	2,292	2,208
Research and development expenses	889	1,023	2,920	2,705
	<u>\$ 5,263</u>	<u>9,287</u>	<u>19,541</u>	<u>25,145</u>

Except for the Company and Rexon Technology Corp., Ltd., other subsidiaries adopted the defined contribution method under their local law, and accordingly, the pension costs were \$1,269 thousand, \$1,339 thousand, \$4,072 thousand and \$3,964 thousand for the three months ended September 30, 2022 and 2021, and for the nine months ended September 30, 2022 and 2021.

(r) **Income taxes**

The details of the Group's income tax expense were as follows:

	For the three months ended		For the nine months ended	
	September 30		September 30	
	2022	2021	2022	2021
Current tax expenses				
Current period	\$ (2,320)	65,534	(43,188)	206,938
Adjustment for prior periods	-	(1)	(7,163)	(517)
Deferred tax expenses				
Origination and reversal of temporary differences	(8,466)	(3,222)	(4,248)	(5,100)
Income tax expenses from continuing operations	<u>\$ (10,786)</u>	<u>62,311</u>	<u>(54,599)</u>	<u>201,321</u>

The amounts of income tax recognized in other comprehensive income for the three months and the nine months ended September 30, 2022 and 2021 were as follows:

	For the three months ended		For the nine months ended	
	September 30		September 30	
	2022	2021	2022	2021
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of foreign financial statements	<u>\$ (3,193)</u>	<u>618</u>	<u>(7,784)</u>	<u>2,959</u>

The income tax returns of the Company for the years through 2019 were assessed and approved by the tax authorities. The income tax returns of Rexon Tech for the years through 2020 were assessed and approved by the tax authorities.

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REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES
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(s) **Capital and other equity**

Except for the following disclosure, there was no significant change in capital and other equity for the periods from January 1 to September 30, 2022 and 2021. For the related information, please refer to note 6 (s) of the consolidated financial statements for the year ended December 31, 2021.

(i) **Retained earnings**

According to the Articles of Association, the Company is required to appropriate earnings every accounting year. The after-tax earnings are initially used to offset cumulative losses, and 10% of the remainder is set aside as a legal reserve, except when the legal reserve of the Company reaches paid-in capital of the Company. Special reserve may be appropriated if necessary, and then any remaining profit together with any undistributed retained earnings shall be distributed according to the distribution plan proposed by the Board of Directors and submitted to the shareholders' meeting for approval. The Company's dividend policy is in concert with current and future development plans, investment environments, capital demands, domestic and foreign competition, and benefits of shareholders. The Company is able to distribute cash or share dividends of at least 20% of such remaining earnings every year, and the cash dividends shall not be less than 20% of the total amount dividends.

1) **Special reserve**

In accordance with the requirement of Financial Supervisory Commission, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as special earnings reserve during earnings distribution. (When earnings of 2019 were distributed in 2020, the special earnings reserve was distributed from the current profit and loss and undistributed earnings of prior period. When earnings of 2020 were distributed in 2021, the special earnings reserve was distributed from the current undistributed earnings, which was income after income tax plus other items, and undistributed earnings of prior period.) A portion of undistributed prior-period earnings shall be reclassified as special earnings reserve (and does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

As of September 30, 2022, December 31, 2021 and September 30, 2021, the amounts of such special reserves were \$163,182 thousand, \$177,226 thousand and \$177,226 thousand, respectively.

2) **Earnings distribution**

The amount of cash dividends on appropriations of earnings for 2021 and 2020 had been approved in the board meeting on March 15, 2022 and March 15, 2021, respectively. These earnings were appropriated as follows:

	<u>2021</u>	<u>2020</u>
Dividends distributed to ordinary shareholders		
Cash	<u>\$ 544,420</u>	<u>653,305</u>

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REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES
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(ii) Other equity, net of tax

	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Total
Balance at January 1, 2022	\$ (163,182)	-	(163,182)
Exchange differences on foreign operations	31,134	-	31,134
Balance at September 30, 2022	<u>\$ (132,048)</u>	<u>-</u>	<u>(132,048)</u>
Balance at January 1, 2021	\$ (156,823)	(20,402)	(177,225)
Exchange differences on foreign operations	(11,830)	-	(11,830)
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	-	10,149	10,149
Disposal of investments in equity instruments designed at fair value through other comprehensive income	-	3,211	3,211
Balance at September 30, 2021	<u>\$ (168,653)</u>	<u>(7,042)</u>	<u>(175,695)</u>

(t) **Earnings per share**

The details on the calculation of basic earnings per share and diluted earnings per share were as follows:

	For the three months ended September 30		For the nine months ended September 30	
	2022	2021	2022	2021
Basic earnings (loss) per share				
Profit (loss) attributable to ordinary shareholders of the Company	\$ <u>(43,147)</u>	<u>249,247</u>	<u>(182,584)</u>	<u>808,040</u>
Weighted-average number of ordinary shares	<u>181,473</u>	<u>181,473</u>	<u>181,473</u>	<u>181,473</u>
Basic earnings per share	<u>\$ (0.24)</u>	<u>1.37</u>	<u>(1.01)</u>	<u>4.45</u>
Diluted earnings (loss) per share				
Profit (loss) attributable to ordinary shareholders of the Company	\$ <u>(43,147)</u>	<u>249,247</u>	<u>(182,584)</u>	<u>808,040</u>
Weighted-average number of ordinary shares (basic)	181,473	181,473	181,473	181,473
Effect of dilutive potential ordinary shares				
Effect of employee share bonus	-	238	-	934
Weighted-average number of ordinary shares (diluted)	<u>181,473</u>	<u>181,711</u>	<u>181,473</u>	<u>182,407</u>
Diluted earnings per share	<u>\$ (0.24)</u>	<u>1.37</u>	<u>(1.01)</u>	<u>4.43</u>

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REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES
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(u) **Revenue from contracts with customers**

(i) Details of revenue

	<u>For the three months ended</u> <u>September 30</u>		<u>For the nine months ended</u> <u>September 30</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
<u>Primary geographical markets</u>				
America	\$ 1,004,195	3,975,918	3,334,602	12,851,707
Europe	23,244	233,075	170,001	332,957
Asia	40,497	25,994	140,602	65,006
Other	5,308	20,870	7,130	30,048
	<u>\$ 1,073,244</u>	<u>4,255,857</u>	<u>3,652,335</u>	<u>13,279,718</u>
<u>Major products/services lines</u>				
Woodworking tools	\$ 435,274	313,145	1,076,643	1,271,580
Fitness equipment	584,061	3,825,452	2,399,336	11,749,171
Other	53,909	117,260	176,356	258,967
	<u>\$ 1,073,244</u>	<u>4,255,857</u>	<u>3,652,335</u>	<u>13,279,718</u>

(ii) Contract balances

	<u>September</u> <u>30, 2022</u>	<u>December</u> <u>31, 2021</u>	<u>September</u> <u>30, 2021</u>
Contract liabilities	<u>\$ 40,908</u>	<u>543,155</u>	<u>37,563</u>

For details on trade receivables and allowance for impairment, please refer to note 6(d).

The amounts of revenue recognized for the three months and the nine months ended September 30, 2022 and 2021 that were included in the contract liability balance at the beginning of the period were \$1,335 thousand, \$2,918 thousand, \$6,635 thousand and \$9,661 thousand, respectively.

The opening balance of contract liabilities was adjusted due to contract modification for the nine months ended September 30, 2022, the adjustment was \$491,831 thousand, which has been transferred to other current liabilities account. Please refer to note 6 (m) .

(v) **Remunerations to employees, directors and supervisors**

According to the Articles of Association, once the Company has annual profit, it should at least appropriate 5% of the profit to its employees and 5% or less to its directors and supervisors as remuneration. However, if the Company has accumulated deficits, the profit should be reserved to offset the deficit. The pervading target given via cash or shares includes those dependent employees of the Company's subsidiaries under certain requirements.

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The remunerations to employees amounted to \$0, \$16,572 thousand, \$0 and \$53,680 thousand, respectively, for the three months and the nine months ended September 30, 2022 and 2021. The remunerations to directors and supervisors amounted to \$0, \$3,314 thousand, \$0 and \$10,736 thousand, respectively, for the three months and the nine months ended September 30, 2022 and 2021. These amounts were calculated using the Company's net income before tax without the remunerations to employees and directors for each period, multiplied by the proposed percentage which is stated under the Company's proposed Article of Association. These remunerations were expensed under operating costs or expenses for each period. If there are any subsequent adjustments to the actual remuneration amounts after the annual shareholder' meeting, the adjustment will be regarded as changes in accounting estimates and will be reflected in profit or loss in the following year.

For the years ended December 31, 2021 and 2020, the remunerations to employees amounted to \$69,327 thousand and \$55,693 thousand and the remunerations to directors and supervisors amounted to \$7,000 thousand and \$11,139 thousand, respectively. There were no differences between the estimated amounts and the actual remuneration paid, and the information is available on the Market Observation Post System website.

(w) **Non-operating income and expenses**

(i) Interest income

The details of interest income were as follows:

	For the three months ended		For the nine months ended	
	September 30		September 30	
	2022	2021	2022	2021
Interest income from bank deposits	\$ <u>316</u>	<u>296</u>	<u>1,465</u>	<u>1,508</u>

(ii) Other income

The details of other income were as follows:

	For the three months ended		For the nine months ended	
	September 30		September 30	
	2022	2021	2022	2021
Rent income	\$ 1,397	1,444	4,191	2,138
Other	<u>2,698</u>	<u>1,988</u>	<u>7,643</u>	<u>8,674</u>
	<u>\$ 4,095</u>	<u>3,432</u>	<u>11,834</u>	<u>10,812</u>

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(iii) Other gains and losses

The details of other gains and losses were as follows:

	<u>For the three months ended</u> <u>September 30</u>		<u>For the nine months ended</u> <u>September 30</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Net foreign exchange gain (losses)	\$ 64,492	12,262	91,215	(76,136)
Gain on lease modification	-	-	40	-
Net losses on disposal of property, plant and equipment	(999)	(772)	(2,832)	(3,698)
(Losses) gains on measurement of financial assets measured at fair value through profit or loss	-	(317)	-	5,756
Other	(64)	(56)	(4,773)	(163)
	<u>\$ 63,429</u>	<u>11,117</u>	<u>83,650</u>	<u>(74,241)</u>

(iv) Finance costs

The details of finance expenses were as follows:

	<u>For the three months ended</u> <u>September 30</u>		<u>For the nine months ended</u> <u>September 30</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Interest expenses	\$ (6,862)	(2,788)	(17,831)	(6,961)
Less: capitalization of interest	870	400	2,770	700
	<u>\$ (5,992)</u>	<u>(2,388)</u>	<u>(15,061)</u>	<u>(6,261)</u>

(x) **Financial Instruments**

Except for the contention mentioned below, there was no significant change in the fair value of the Group's financial instruments and degree of exposure to credit risk, liquidity risk and market risk arising from financial instruments. For related information, please refer to note 6(x) of the consolidated financial statements for the year ended December 31, 2021.

(i) Credit risk

1) Concentration of credit risk

As of September 30, 2022, December 31, 2021 and September 30, 2021, the Group reviewed the concentrations of credit risk arising from major customer at percentages below 14%、71% and 64%, respectively, of the total trade receivables. The other top five clients contributed no more than 57%, 17% and 22%, respectively, of the total receivables.

2) Receivables and debt securities

For credit risk exposure of notes and trade receivables, please refer to note 6(d). For the details and loss allowance of other financial assets at amortized cost including other receivables, please refer to note 6(e).

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All of these financial assets are considered to have low risk, and thus, the impairment provision recognized during the period was limited to 12 months expected credit losses. Regarding how the financial instruments are considered to have low credit risk, please refer to note 4(g) of the consolidated financial statements for the year ended December 31, 2021.

(ii) Liquidity risk

The following table shows the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>Over 5 years</u>
September 30, 2022						
Non-derivative financial liabilities						
Secured loans	\$ 979,355	1,000,188	418,841	400,168	181,179	-
Unsecured loans	887,333	893,735	758,074	51,414	84,247	-
Leased liabilities (current and non-current)	41,197	42,395	14,594	7,277	10,234	10,290
Payables	<u>1,394,896</u>	<u>1,394,896</u>	<u>1,394,896</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,302,781</u>	<u>3,331,214</u>	<u>2,586,405</u>	<u>458,859</u>	<u>275,660</u>	<u>10,290</u>
December 31, 2021						
Non-derivative financial liabilities						
Secured loan	\$ 762,025	770,243	174,332	241,770	354,141	-
Unsecured loans	726,597	728,219	728,219	-	-	-
Leased liabilities (current and non-current)	68,553	70,100	34,778	12,241	10,586	12,495
Payables	<u>5,659,611</u>	<u>5,659,611</u>	<u>5,659,611</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 7,216,786</u>	<u>7,228,173</u>	<u>6,596,940</u>	<u>254,011</u>	<u>364,727</u>	<u>12,495</u>
September 30, 2021						
Non-derivative financial liabilities						
Secured loans	\$ 529,767	530,034	66,934	117,768	345,332	-
Unsecured loans	440,650	449,293	449,293	-	-	-
Leased liabilities (current and non-current)	74,012	75,693	34,871	17,007	10,585	13,230
Payables	<u>5,411,250</u>	<u>5,411,250</u>	<u>5,411,250</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 6,455,679</u>	<u>6,466,270</u>	<u>5,962,348</u>	<u>134,775</u>	<u>355,917</u>	<u>13,230</u>

The Group does not expect the cash flows included in the maturity analysis to occur significantly earlier or at significantly different amounts.

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(iii) Market risk

1) Currency risk

The Group's significant exposure to foreign currency risk of financial assets and liabilities was as follows:

	September 30, 2022			December 31, 2021			September 30, 2021		
	Foreign Currency	Exchange Rates	NTD	Foreign Currency	Exchange Rates	NTD	Foreign Currency	Exchange Rates	NTD
<u>Financial Assets</u>									
<u>Monetary items</u>									
USD	\$ 66,146	31.75	2,100,136	96,986	27.68	2,684,572	113,973	27.85	3,174,148
EUR	33	31.26	1,032	13	31.32	407	13	32.32	420
JPY	210,281	0.2201	46,283	196,874	0.2405	47,348	193,011	0.2490	48,060
GBP	5	35.53	178	5	37.3	187	5	37.46	187
CNY	-	-	-	7,058	4.344	30,660	-	-	-
<u>Financial Liabilities</u>									
<u>Monetary items</u>									
USD	8,873	31.75	281,718	13,042	27.68	361,003	14,712	27.85	409,729
EUR	229	31.26	7,159	783	31.32	24,524	783	32.32	25,307
JPY	-	-	-	579	0.2405	139	-	-	-

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, trade and other receivables, and trade and other payables that are denominated in foreign currency.

A strengthening or weakening of 1% of the NTD against the USD, EUR, JPY and GBP as at September 30, 2022 and 2021, would have increased or decreased the net profit after tax by \$14,870 thousand and \$22,302 thousand, respectively, with all other variables remaining constant. The analysis is performed on the same basis for September 30, 2022 and 2021.

Since the Group has many kinds of functional currency, the information on foreign exchange gain (loss) on monetary items is disclosed by total amount. For the nine months ended September 30, 2022 and 2021, the foreign exchange gain (loss) (including realized and unrealized portions) amounted to \$91,215 thousand and \$(76,136) thousand, respectively.

2) Interest rate analysis

Please refer to the notes on liquidity risk management and interest rate exposure of the Group's financial assets and liabilities.

The following sensitivity analysis is based on the exposure to the interest rate risk of derivative and non-derivative financial instruments on the reporting date. Regarding assets with variable interest rates, the analysis is based on the assumption that the amount of assets outstanding at the reporting date was outstanding throughout the year. The rate of change is expressed as the interest rate increases or decreases by 1% when reporting to management internally, which also represents the Group management's assessment of the reasonably possible interest rate change.

(Continued)

REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES
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If the interest rate had increased or decreased by 1%, the Group's net income would have decreased or increased by \$11,200 thousand and \$5,823 thousand for the nine months ended September 30, 2022 and 2021, respectively, with all other variable factors remaining constant. This is mainly due to the Group's borrowings at variable rates.

3) Other market price risk

For the nine months ended September 30, 2022 and 2021, the sensitivity analyses for the changes in the securities price at the reporting date were performed using the same basis for profit or loss as illustrated below:

<u>Prices of securities at the reporting date</u>	For the nine months ended September 30			
	2022		2021	
	Other comprehensive income after tax	Net income	Other comprehensive income after tax	Net income
Increasing 1%	\$ -	-	401	25
Decreasing 1%	\$ -	-	(401)	(25)

(vi) Fair value of financial instruments

1) Fair value hierarchy

The measurement basis of the financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income is repetitive. The carrying amount and fair value of the Group's financial assets and liabilities, including the information on fair value hierarchy, were as follows; however, except as described in the following paragraphs, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, and lease liabilities, disclosure of fair value information is not required:

	September 30, 2022				
	<u>Book Value</u>	Fair Value			<u>Total</u>
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss					
Designated at fair value through profit or loss	\$ 96	-	-	96	96
Financial assets measured at amortized cost					
Cash and cash equivalents	1,778,257	-	-	-	-
Notes and trade receivables, and other receivables (including receivables from related parties)	1,004,354	-	-	-	-
Guarantee deposits paid	4,226	-	-	-	-
	\$ 2,786,933	-	-	96	96

(Continued)

REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES
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		September 30, 2022			
		Fair Value			
	Book Value	Level 1	Level 2	Level 3	Total
Financial liabilities measured at amortized cost					
Short-term borrowings	\$ 823,355	-	-	-	-
Notes and trade payables, and other payables (including payables to related parties)	1,394,896	-	-	-	-
Long-term borrowings due in 1 year	332,500	-	-	-	-
Loan-term borrowings	710,833	-	-	-	-
Lease liabilities	41,197	-	-	-	-
	<u>\$ 3,302,781</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
		December 31, 2021			
		Fair Value			
	Book Value	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Designated at fair value through profit or loss	\$ 96	-	-	96	96
Financial assets measured at amortized cost					
Cash and cash equivalents	4,574,719	-	-	-	-
Notes and trade receivables, and other receivables (including receivables from related parties)	1,758,150	-	-	-	-
Guarantee deposits paid	9,053	-	-	-	-
	<u>\$ 6,342,018</u>	<u>-</u>	<u>-</u>	<u>96</u>	<u>96</u>
Financial liabilities at amortized cost					
Short-term borrowings	\$ 802,025	-	-	-	-
Notes and trade payables, and other payables (including payables to related parties)	5,659,611	-	-	-	-
Long-term borrowings due in 1 year	93,264	-	-	-	-
Loan-term borrowings	593,333	-	-	-	-
Lease liabilities	68,553	-	-	-	-
	<u>\$ 7,216,786</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(Continued)

REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	September 30, 2021				
	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss					
Designated at fair value through profit or loss	\$ 2,471	2,375	-	96	2,471
Financial assets at fair value through other comprehensive income					
Stocks in listed companies	40,085	40,085	-	-	40,085
Financial assets measured at amortized cost					
Cash and cash equivalents	2,684,669	-	-	-	-
Notes and trade receivables, and other receivables (including receivables from related parties)	1,907,544	-	-	-	-
Guarantee deposits paid	8,219	-	-	-	-
	<u>\$ 4,642,988</u>	<u>42,460</u>	<u>-</u>	<u>96</u>	<u>42,556</u>
Financial liabilities at amortized cost					
Short-term borrowings	\$ 472,267	-	-	-	-
Notes and trade payables, and other payables (including payables to related parties)	5,411,250	-	-	-	-
Long-term borrowings due in 1 year	38,150	-	-	-	-
Loan-term borrowings	460,000	-	-	-	-
Lease liabilities	74,012	-	-	-	-
	<u>\$ 6,455,679</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

2) Valuation techniques for financial instruments not measured at fair value

The Group's valuation techniques and assumptions used for financial instruments not measured at fair value are as follows:

For financial liabilities measured at amortized cost, if there is quoted price generated by transactions, the recent transaction price and quoted price data is used as the basis for fair value measurement. However, if no quoted prices are available, the discounted cash flows are used to estimate fair values.

3) Valuation techniques for financial instruments measured at fair value

The fair value of financial instruments is quoted prices if quoted prices are from an active market. Published prices from the main exchange and central government bonds regarded as usually-traded securities are both basis of fair values of listed equity instruments and debt instruments with quoted prices from an active market.

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REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES
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A financial instrument is regarded as being quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's-length basis. Whether transactions are taking place 'regularly' is a matter of judgment and depends on the facts and circumstances of the market for the instrument.

Quoted market prices may not be indicative of the fair value of an instrument if the activity in the market is infrequent, the market is not well-established, only small volumes are traded, or bid-ask spreads are very wide. Determining whether a market is active involves judgment.

The Group holds the financial instruments with the active market, the categories and characteristics of fair value are listed as follow: Fair values of listed stocks are based on market quoted prices.

4) Transfers between Level 1 and Level 2

There were no transfers in the nine months ended September 30, 2022 and 2021.

5) Quantified information for significant unobservable inputs (Level 3) used in fair value measurement

The Group's financial instruments that use Level 3 inputs to measure fair value mainly include "financial assets measured at fair value through profit or loss – debt investments".

Most of the Group's fair values are Level 3 "only with single significant unobservable inputs", and only equity instruments without active market have plural significant unobservable inputs. Since significant unobservable inputs of equity instruments without an active market are independent, they are not correlated.

(y) **Financial risk management**

There were no significant changes in the Group's financial risk management and policies as those disclosed in Note (6)(y) of the consolidated financial statements for the year ended December 31, 2021.

(z) **Capital management**

The Group meets its objectives for managing capital to safeguard the capacity to continue to operate, to continue to provide a return on shareholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to the shareholders, reduce the capital for redistribution to shareholders, and issue new shares or sell assets to settle any liabilities.

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REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES
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The Group and other entities in the similar industry use the debt-to-equity ratio to manage capital. This ratio uses the total net debt divided by the total capital. The net debt from the balance sheet is derived from the total liabilities, less cash and cash equivalents. The total capital and equity include share capital, capital surplus, retained earnings, other equity, and non-controlling interest, plus, net debt.

As of September 30, 2022, the Group's capital management strategy is consistent with the prior year as of December 31, 2021 and prior period as of September 30, 2021. The Group's debt to equity ratio as of September 30, 2022, December 31, 2021 and September 30, 2021, were as follows:

	<u>September 30, 2022</u>	<u>December 31, 2021</u>	<u>September 30, 2021</u>
Total liabilities	\$ 4,579,715	8,271,030	6,897,106
Less: cash and cash equivalents	<u>(1,778,257)</u>	<u>(4,574,719)</u>	<u>(2,684,669)</u>
Net debt	2,801,458	3,696,311	4,212,437
Total equity	<u>3,554,730</u>	<u>4,250,403</u>	<u>3,915,794</u>
Total capital	<u>\$ 6,356,188</u>	<u>7,946,714</u>	<u>8,128,231</u>
Debt to equity ratio	<u>44%</u>	<u>47%</u>	<u>52%</u>

As of September 30, 2022, the decrease in debt-to-equity ratio was mainly due to the substantial decrease in revenue during the current period, hence, the relative decrease in purchases from suppliers has led to an decrease in the amount of account payable.

(aa) Financing activities not affecting the current cash flow

Reconciliation of the Group's liabilities arising from financing activities were as follows:

	<u>January 1, 2022</u>	<u>Cash flows</u>	<u>Non-cash changes</u>			<u>September 30, 2022</u>
			<u>Acquisition</u>	<u>Lease modifications</u>	<u>Foreign exchange movement</u>	
Long-term borrowings	\$ 686,597	355,604	-	-	1,132	1,043,333
Short-term borrowings	802,025	18,264	-	-	3,066	823,355
Lease liabilities	68,553	(24,253)	4,229	(7,332)	-	41,197
Total liabilities from financing	<u>\$ 1,557,175</u>	<u>349,615</u>	<u>4,229</u>	<u>(7,332)</u>	<u>4,198</u>	<u>1,907,885</u>

	<u>January 1, 2021</u>	<u>Cash flows</u>	<u>Non-cash changes</u>			<u>September 30, 2021</u>
			<u>Acquisition</u>	<u>Lease modifications</u>	<u>Foreign exchange movement</u>	
Long-term borrowings	\$ 380,739	116,876	-	-	535	498,150
Short-term borrowings	336,960	131,499	-	-	3,808	472,267
Lease liabilities	23,619	(20,239)	70,632	-	-	74,012
Total liabilities from financing	<u>\$ 741,318</u>	<u>228,136</u>	<u>70,632</u>	<u>-</u>	<u>4,343</u>	<u>1,044,429</u>

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REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(7) Related-Party Transactions:

- (a) Name and relationship with related party

The followings are entities that have had transactions with related party during the periods covered in the consolidated financial statements.

Name of related party	Relationship with the Group
Fine Clear Co., Ltd	An associate

- (b) Significant related-party transactions

- (i) Sales of goods to related party

The amounts of significant sales by the Group to related party were as follows:

	For the three months ended September 30		For the nine months ended September 30	
	2022	2021	2022	2021
	Associates – Fine Clear Co., Ltd	\$ 22,129	17,162	57,335

The prices charged to related party is incomparable to normal price because there were no similar items sold to both related and non-related parties. The credit term was 150 days, while the credit term for routine sales transactions was ranged from 30 days to 120 days. Amounts receivable from related parties were uncollateralized, and no expected credit loss were required after the assessment by the management.

- ii) Receivables from related-parties

Account	Related-party type	September 30, 2022	December 31, 2021	September 30, 2021
Notes receivable	Associates – Fine Clear Co., Ltd	\$ 40,580	27,543	17,640
Accounts receivable	Associates – Fine Clear Co., Ltd	4,534	11,078	10,288
		\$ 45,114	38,621	27,928

- iii) Payables to related-parties

Account	Related-party type	September 30, 2022	December 31, 2021	September 30, 2021
Notes payable	Associates – Fine Clear Co., Ltd	\$ 8	3,799	2,617
Other payables	Associates – Fine Clear Co., Ltd	49	17	977
		\$ 57	3,816	3,594

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REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(c) Key management personnel compensation

	<u>For the three months ended</u> <u>September 30</u>		<u>For the nine months ended</u> <u>September 30</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Short-term employee benefits	\$ 6,771	28,702	24,385	42,609
Post-employment benefits	322	425	1,097	945
Termination benefits	-	-	-	-
Other long-term benefits	-	-	-	-
Share-based payments	-	-	-	-
	<u>\$ 7,093</u>	<u>29,127</u>	<u>25,482</u>	<u>43,554</u>

(8) Pledged Assets:

The carrying amounts of pledged assets were as follow:

<u>Pledged assets</u>	<u>Object</u>	<u>September</u> <u>30, 2022</u>	<u>December</u> <u>31, 2021</u>	<u>September</u> <u>30, 2021</u>
Land	Guarantee for bank loans	\$ 296,916	296,916	296,916
Buildings	Guarantee for bank loans	824,337	853,440	863,475
		<u>\$ 1,121,253</u>	<u>1,150,356</u>	<u>1,160,391</u>

(9) Significant Commitments and Contingencies:

The Group's unrecognized contractual commitments are as follows:

	<u>September</u> <u>30, 2022</u>	<u>December</u> <u>31, 2021</u>	<u>September</u> <u>30, 2021</u>
Acquisition of property, plant and equipment	<u>\$ 347,880</u>	<u>265,343</u>	<u>462,750</u>

(10) Losses Due to Major Disasters:None

(11) Subsequent Events:None

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REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(12) Others:

- (a) A summary of employee benefits, depreciation and amortization expenses, by function, is as follows:

By function	For the three months ended September 30					
	2022			2021		
	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
By item						
Employee benefits						
Salary	89,879	46,535	136,414	249,510	88,030	337,540
Labor and health insurance	10,625	6,899	17,524	21,475	6,398	27,873
Pension	5,137	2,403	7,540	9,318	3,077	12,395
Others	2,462	609	3,071	5,054	612	5,666
Depreciation	75,149	10,325	85,474	61,296	8,942	70,238
Amortization	1,155	3,727	4,882	620	3,117	3,737

By function	For the nine months ended September 30					
	2022			2021		
	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
By item						
Employee benefits						
Salary	338,051	161,789	499,840	716,792	222,258	939,050
Labor and health insurance	40,622	19,103	59,725	59,551	17,203	76,754
Pension	19,404	8,166	27,570	25,893	8,406	34,299
Others	8,411	1,748	10,159	13,890	1,740	15,630
Depreciation	226,528	32,633	259,161	162,200	24,231	186,431
Amortization	2,812	10,296	13,108	1,844	8,945	10,789

- (b) Seasonality of operations

The Group's operations were not affected by seasonality or cyclicity factors.

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REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES
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(13) Other Disclosures:

(a) Information on Significant Transactions:

The followings were the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Group for the nine months ended September 30, 2022:

- (i) Lending to other parties:None.
(ii) Guarantees and endorsements for other parties:

(Amounts in Thousands of New Taiwan Dollars)

No.	Name of guarantor	Counter-party of guarantee and endorsement		Limitation on amount of guarantees and endorsements for a specific enterprise	Highest balance for guarantees and endorsements during the period	Balance of guarantees and endorsements as of reporting date	Actual usage amount during the period	Property pledged for guarantees and endorsements (Amount)	Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements	Maximum amount for guarantees and endorsements	Parent company endorsements/ guarantees to third parties on behalf of subsidiary	Subsidiary endorsements/ guarantees to third parties on behalf of parent company	Endorsements/ guarantees to third parties on behalf of companies in Mainland China
		Name	Relationship with the Company										
0	REXON INDUSTRIAL CORP., LTD.	Tongxiang Rexon	2	1,411,688	(USD5,000) 158,750	-	-	-	- %	1,411,688	Y	N	Y

Note1 : The maximum amount of each guarantee and endorsement provided to each party and the total guarantee and endorsements shall not exceed 40% of the Company’s net asset value.

Note2 : No.0 represents the parent company.

Note3 : Relationship with the Company :

- 1) Companies which were in business relationship.
- 2) Subsidiaries which the company directly held more than fifty percent (50%).
- 3) Companies with substantial control

(iii) Securities held as of September 30, 2022 (excluding investment in subsidiaries, associates and joint ventures):

(Amounts in Thousands of New Taiwan Dollars)

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Notes
				Shares/Units (thousand)	Carrying amount	Percentage of ownership (%)	Fair value	
REXON INDUSTRIAL CORP., LTD.	Stock-Hwa Chung Venture Capital Corp.	-	Financial assets at fair value through profit or loss-current	10	96	- %	96	

- (iv) Information regarding purchase or sale of securities for the period exceeding 300 million or 20% of the Company’s paid-in capital:None.
(v) Information on acquisition of real estate with purchase amount exceeding 300 million or 20% of the Company’s paid-in capital:None.
(vi) Information regarding receivables from disposal of real estate exceeding 300 million or 20% of the the Company’s paid-in capital:None.

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REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES
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- (vii) Information regarding related-parties purchases and/or sales exceeding 100 million or 20% of the Company's paid-in capital:

(Amounts in Thousands of New Taiwan Dollars)

Company name	Related party	Nature of relationship	Transaction details				Abnormal Transactions		Notes/Accounts receivable (payable)		Note
			Item	Amount	Percentage of the purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of notes/accounts receivable (payable)	
REXON INDUSTRIAL CORP., LTD.	Tongxiang Rexion	Subsidiary	Purchase	789,490	39 %	90-150Days	Note 1	Note 2	(184,214)	(23.8)%	

Note1 : The prices charged to related party is incomparable to normal price because there were no similar items sold to both related and non-related parties.

Note2 : The payment term for the related party is 90-150 days. Apart from according to the established payment policy, the related working capital, industry characteristics, and industrial prosperity are also considered.

- (viii) Information regarding receivables from related-parties exceeding 100 million or 20% of the Company's paid-in capital:

(Amounts in Thousands of New Taiwan Dollars)

Company name	Related party	Nature of relationship	Ending balance	Turnover rate	Overdue		Amounts received in subsequent period	Allowance for bad debts
					Amount	Action taken		
Tongxiang Rexion	REXON INDUSTRIAL CORP., LTD.	Parent company	Account receivable 184,214	7.91%	-	-	The recovery amount as of October 21, 2022 : 0	-

- (ix) Information regarding trading in derivative financial instruments:None.
- (x) Significant transactions and business relationship between the parent company and its subsidiaries for the nine months ended September 30, 2022:

(Amounts in Thousands of New Taiwan Dollars)

No. (Note 1)	Company name	Counter Party	Relationship (Note 2)	Intercompany transactions			
				Account	Amount	Terms	Percentage of the consolidated net revenue or total assets
0	REXON INDUSTRIAL CORP., LTD.	Tongxiang Rexion	1	Purchases	789,490	The sales prices were by agreement	21.62%
0	REXON INDUSTRIAL CORP., LTD.	Tongxiang Rexion	1	Accounts payable	184,214	The payment terms were by agreement	2.26%
0	REXON INDUSTRIAL CORP., LTD.	Rexon Technology Corp., Ltd.	1	Purchases	40,632	The sales prices were by agreement	1.11%
0	REXON INDUSTRIAL CORP., LTD.	Rexon Technology Corp., Ltd.	1	Accounts payable	43,565	The payment terms were by agreement	0.54%
0	REXON INDUSTRIAL CORP., LTD.	Power Tool specialists Inc.	1	Service fee	33,109	The sales prices were by agreement	0.91%
0	REXON INDUSTRIAL CORP., LTD.	Power Tool Specialists Inc.	1	Other payable	107,148	The payment terms were by agreement	1.32%
0	REXON INDUSTRIAL CORP., LTD.	Power Tool Specialists Inc.	1	Account receivable	3,882	The payment terms were by agreement	0.05%
0	REXON INDUSTRIAL CORP., LTD.	Power Tool Specialists Inc.	1	Sales	7,157	The sales prices were by agreement	0.20%

Note 1: Company numbering as follows:

- 1) Parent company – 0
- 2) Subsidiary starts from 1

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REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES
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Note 2: The numbering of the relationship between transaction parties as follows:

- 1) Parent company to subsidiary – 1
- 2) Subsidiary to parent company – 2
- 3) Subsidiary to subsidiary – 3

(b) Information on Investees:

The followings are the information on investees for the nine months ended September 30, 2022:

(Amounts in Thousands of New Taiwan Dollars)

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of September 30, 2022			Net income (losses) of investee	Share of profits/losses of investee	Note
				September 30, 2022	December 31, 2021	Shares (thousands)	Percentage	Carrying value			
REXON INDUSTRIAL CORP., LTD.	Fine Clear Co., Ltd	R.O.C	Buying and selling accessories	14,197	14,197	1,600	16.00 %	16,531	1,872	299	Investment Using Equity Method (Note 1)
REXON INDUSTRIAL CORP., LTD.	Rexon Technology Corp., Ltd. (Rexon Tech)	R.O.C	Manufacture and sale of electric components	293,741	293,741	7,851	82.87 %	94,159	(4,171)	(3,456)	Direct subsidiaries of the Company (Note 1)
REXON INDUSTRIAL CORP., LTD.	Power Tool Specialists Inc.	U.S.A	Merchandise trading	196,465	196,465	-	96.00 %	169,488	3,589	3,445	Direct subsidiaries of the Company (Note 1)
REXON INDUSTRIAL CORP., LTD.	Gold Item Group Ltd.	British Virgin Islands	Investing and holding	747,858	747,858	US\$ 25,000 (Note 2)	100.00 %	716,753	573	573	Direct subsidiaries of the Company
Gold Item	Gold Tech Group Ltd.	Hong Kong	Investing and holding	US\$ 25,000	US\$ 25,000	US\$ 25,000 (Note 2)	100.00 %	696,196	573	573	Direct subsidiaries of Gold Item

Note 1 : Disclosures were on basis of investees' financial reports not reviewed by auditors, and share of profits/losses were disclosed by the portion of shares held by the investors.

Note 2 : Company Limited without issuing Shares. The amount of capital invested is disclosed.

(c) Information on Investment in Mainland China:

- (i) The following is the information on investees in Mainland China::

(Amounts in Thousands of New Taiwan Dollars)

Investee company	Main businesses and products	Total amount of paid-in capital	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2022	Investment flows		Accumulated outflow of investment from Taiwan as of September 30, 2022	Net income (losses) of the investee	Percentage of ownership	Net income (losses) recognized	Carrying value as of September 30, 2022	Accumulated remittance of earnings as of September 30, 2022
					Outflow	Inflow						
Tongxiang Rexon	Manufacture of drills, woodworking tools and fitness equipment	RMB 154,465 USD 25,000	Note 1	USD 25,000 NTD 745,565	-	-	USD 25,000 NTD 745,565	573	100.00%	573	696,196	-

Note 1 : The Group invested companies in Mainland China through investees in Third Region, and investees in Third Region invested companies in Mainland China through their investees in Hong Kong.

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REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES
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(ii) Upper limit on investment in Mainland China:

The Company

(Amounts in Thousands of New Taiwan Dollars)

Accumulated Investment in Mainland China as of September 30, 2022	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
US\$25,000 (NT\$745,565)	US\$25,000 (NT\$745,565)	2,117,531

(iii) Significant transactions:

The significant inter-company transactions with the subsidiary in Mainland China, which were eliminated in the preparation of consolidated financial statements, are disclosed in “Information on significant transactions”.

(d) Major shareholders:

Shareholder's Name	Shareholding	Shares	Percentage
Kun-Ju Co., Ltd.		18,735,302	10.32 %
Trust Account entrusted by Shu-Qi Chen in Li-Tai Investing Corp., Ltd.		9,617,000	5.29 %

Note:(1) The information of major shareholders in this table is calculated by Taiwan Depository & Clearing Corporation based on the last business day at the end of each quarter, disclosing shareholders with more than 5% of the Company's ordinary shares and preferred shares that have been delivered without physical registration (including treasury shares). As for the share capital reported in the Company's financial statements and the Company's actual number of shares delivered without physical registration, there may be differences due to different calculation bases.

(2) In a situation where a shareholder entrusted the holdings, the individual account of the settlor opened by the trustee was disclosed. As for the shareholder's declaration of insider's equity holding more than 10% of the shares in accordance with the Securities and Exchange Act, his shareholding includes his own shareholding plus the shares delivered to the trust and the right to use the trust property, etc. For information on insider equity declaration, please refer to Market Observation Post System.

(14) Segment Information:

The reportable information of segment's profit and assets is in accordance with the consolidated financial statements. Please refer to Consolidated Statements of Financial Position and Consolidated Statements of Comprehensive Income.