

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

Consolidated Financial Statements

**With Independent Auditors' Review Report
For the Three Months Ended March 31, 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 March 31, 2022 and 2021, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three months ended March 31, 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\$231,316 thousand and NT\$210,149 thousand, constituting 3% and 2% of consolidated total assets as of March 31, 2022 and 2021, respectively, total liabilities amounting to NT\$60,012 thousand and NT\$129,823 thousand, constituting 1% and 2% of consolidated total liabilities as of March 31, 2022 and 2021, respectively, and total comprehensive income (loss) amounting to NT\$(28,139) thousand, NT\$(109,282) thousand, constituting 103% and (34)% of consolidated total comprehensive income (loss) for the three months ended March 31, 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\$16,719 thousand and NT\$17,075 thousand as of March 31, 2022 and 2021, respectively, and its equity in net earnings (loss) on this investee company of NT\$7 thousand, and NT\$81 thousand for the three months ended March 31, 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 March 31, 2022 and 2021, and of its consolidated financial performance and its consolidated cash flows for the three months ended March 31, 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)
May 5, 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 March 31, 2022, and 2021
REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES

Consolidated Statements of Financial Position

March 31, 2022, December 31, 2021, and March 31, 2021

(Expressed in thousands of New Taiwan Dollar)

	March 31, 2022		December 31, 2021		March 31, 2021	
	Amount	%	Amount	%	Amount	%
Assets						
Current assets:						
1100 Cash and cash equivalents (note 6 (a))	\$ 2,758,975	31	4,574,719	36	2,720,318	27
1110 Current financial assets at fair value through profit or loss (note 6 (b))	96	-	96	-	20,988	-
1120 Current financial assets at fair value through other comprehensive income (note 6 (c))	-	-	-	-	34,528	-
1150 Notes receivable, net (note 6 (d))	370	-	2,276	-	891	-
1160 Notes receivable due from related parties, net (note 6 (d) and 7)	23,413	-	27,543	-	5,904	-
1170 Accounts receivable, net (note 6 (d))	717,260	8	1,717,113	14	2,143,966	21
1180 Accounts receivable due from related parties, net (note 6 (d) and 7)	4,808	-	11,078	-	141	-
1200 Other receivables, net (note 6 (e))	3,873	-	140	-	512	-
130x Inventories (note 6 (f))	1,330,143	15	1,975,275	16	1,804,272	18
1479 Other current assets (note 6 (k))	103,739	1	209,740	2	243,899	2
	<u>4,942,677</u>	<u>55</u>	<u>8,517,980</u>	<u>68</u>	<u>6,975,419</u>	<u>68</u>
Non-current assets:						
1550 Investments accounted for using equity method (note 6 (g))	16,719	-	16,712	-	17,075	-
1600 Property, plant and equipment (note 6 (h) and 8)	3,281,414	36	3,266,653	26	2,884,049	28
1755 Right-of-use assets (note 6 (i))	115,618	1	122,650	1	97,839	1
1780 Intangible assets (note 6 (j))	61,980	1	62,399	-	59,921	1
1840 Deferred tax assets	77,522	1	84,195	1	66,060	1
1920 Guarantee deposits paid	7,817	-	9,053	-	6,045	-
1975 Net defined benefit asset, non-current	94,392	1	90,665	1	-	-
1990 Other non-current assets (note 6 (k))	444,209	5	351,126	3	149,391	1
	<u>4,099,671</u>	<u>45</u>	<u>4,003,453</u>	<u>32</u>	<u>3,280,380</u>	<u>32</u>
Total assets	<u>\$ 9,042,348</u>	<u>100</u>	<u>12,521,433</u>	<u>100</u>	<u>10,255,799</u>	<u>100</u>
Liabilities and Equity						
Current liabilities:						
2100 Short-term borrowings (note 6 (l) and 8)	\$ 854,061	9	802,025	7	57,080	1
2130 Current contract liabilities (note 6 (u))	533,614	6	543,155	4	36,712	-
2150 Notes payable	375,773	4	1,391,468	11	987,877	10
2160 Notes payable to related parties (note 7)	83	-	3,799	-	1,242	-
2170 Accounts payable	918,912	10	3,509,685	28	3,374,508	33
2200 Other payables	606,330	7	754,642	6	621,368	7
2216 Dividends payable	544,420	6	-	-	653,305	6
2220 Other payables to related parties (note 7)	5	-	17	-	299	-
2230 Current tax liabilities	172,236	2	185,745	2	182,350	2
2250 Current provisions (note 6 (p))	162,662	2	162,599	1	127,441	1
2280 Current lease liabilities (note 6 (o))	30,686	-	34,261	-	22,101	-
2320 Long-term borrowing, current portion (note 6 (n) and 8)	192,443	2	93,264	1	114,040	1
2399 Other current liabilities (note 6 (m))	170,317	2	156,254	1	159,124	2
	<u>4,561,542</u>	<u>50</u>	<u>7,636,914</u>	<u>61</u>	<u>6,337,447</u>	<u>63</u>
Non-current liabilities:						
2540 Long-term borrowings (note 6 (n) and 8)	766,667	9	593,333	5	455,888	4
2570 Deferred tax liabilities	6,491	-	6,491	-	14,050	-
2580 Non-current lease liabilities (note 6 (o))	29,108	-	34,292	-	19,029	-
2640 Net defined benefit liability, non-current	-	-	-	-	1,185	-
	<u>802,266</u>	<u>9</u>	<u>634,116</u>	<u>5</u>	<u>490,152</u>	<u>4</u>
Total liabilities	<u>5,363,808</u>	<u>59</u>	<u>8,271,030</u>	<u>66</u>	<u>6,827,599</u>	<u>67</u>
Equity attributable to owners of parent: (note 6 (s))						
Ordinary shares	1,814,735	20	1,814,735	14	1,814,735	18
Capital surplus	586	-	586	-	586	-
Retained earnings (note 6 (c))	1,977,235	22	2,572,950	21	1,769,212	17
Other equity	(139,230)	(1)	(163,182)	(1)	(181,588)	(2)
Total equity attributable to owners of parent:	<u>3,653,326</u>	<u>41</u>	<u>4,225,089</u>	<u>34</u>	<u>3,402,945</u>	<u>33</u>
Non-controlling interests	<u>25,214</u>	<u>-</u>	<u>25,314</u>	<u>-</u>	<u>25,255</u>	<u>-</u>
Total equity	<u>3,678,540</u>	<u>41</u>	<u>4,250,403</u>	<u>34</u>	<u>3,428,200</u>	<u>33</u>
Total liabilities and equity	<u>\$ 9,042,348</u>	<u>100</u>	<u>12,521,433</u>	<u>100</u>	<u>10,255,799</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 ended March 31, 2022 and 2021

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

		For the three months ended March 31			
		2022		2021	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
4000	Operating revenue, net (note 6 (u) and 7)	\$ 1,634,845	100	4,038,815	100
5000	Operating costs (note 6 (f) and (q))	<u>1,549,979</u>	<u>95</u>	<u>3,374,305</u>	<u>84</u>
	Gross profit from operations	<u>84,866</u>	<u>5</u>	<u>664,510</u>	<u>16</u>
6000	Operating expenses (note 6 (q) and (v)):				
6100	Selling expenses	72,177	4	138,800	4
6200	Administrative expenses	47,137	3	54,755	1
6300	Research and development expenses	<u>41,359</u>	<u>3</u>	<u>58,578</u>	<u>1</u>
	Total operating expenses	<u>160,673</u>	<u>10</u>	<u>252,133</u>	<u>6</u>
	Net operating (loss) income	<u>(75,807)</u>	<u>(5)</u>	<u>412,377</u>	<u>10</u>
7000	Non-operating income and expenses:				
7100	Interest income (note 6 (w))	255	-	445	-
7010	Other income (note 6 (w))	4,267	-	5,350	-
7020	Other gains and losses, net (note 6 (w))	11,330	1	(7,866)	-
7050	Finance costs (note 6 (w))	(4,447)	-	(1,973)	-
7060	Shares of profit of associates accounted for using equity method (note 6 (g))	<u>7</u>	<u>-</u>	<u>81</u>	<u>-</u>
		<u>11,412</u>	<u>1</u>	<u>(3,963)</u>	<u>-</u>
7900	Profit (loss) before income tax	(64,395)	(4)	408,414	10
7950	Income (benefit) tax expense (note 6 (r))	<u>(12,824)</u>	<u>(1)</u>	<u>81,115</u>	<u>2</u>
8200	(Loss) profit	<u>(51,571)</u>	<u>(3)</u>	<u>327,299</u>	<u>8</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	<u>-</u>	<u>-</u>	<u>(1,648)</u>	<u>-</u>
		<u>-</u>	<u>-</u>	<u>(1,648)</u>	<u>-</u>
8360	Items that may be reclassified subsequently to profit or loss:				
8361	Exchange differences on translation	30,116	2	(6,172)	-
8399	Income tax related to components of other comprehensive income that will be reclassified to profit or loss (note 6 (r))	<u>(5,988)</u>	<u>(1)</u>	<u>680</u>	<u>-</u>
		<u>24,128</u>	<u>1</u>	<u>(5,492)</u>	<u>-</u>
8300	Other comprehensive income (after tax)	<u>24,128</u>	<u>1</u>	<u>(7,140)</u>	<u>-</u>
8500	Comprehensive income	<u>\$ (27,443)</u>	<u>(2)</u>	<u>320,159</u>	<u>8</u>
	Profit (loss) attributable to:				
8610	Owners of parent	\$ (51,295)	(3)	324,460	8
8620	Non-controlling interests	<u>(276)</u>	<u>-</u>	<u>2,839</u>	<u>-</u>
		<u>\$ (51,571)</u>	<u>(3)</u>	<u>327,299</u>	<u>8</u>
	Comprehensive income attributable to:				
8710	Owners of parent	\$ (27,343)	(2)	320,097	8
8720	Non-controlling interests	<u>(100)</u>	<u>-</u>	<u>62</u>	<u>-</u>
		<u>\$ (27,443)</u>	<u>(2)</u>	<u>320,159</u>	<u>8</u>
	Earnings per share (NT dollars) (note 6 (t))				
9750	Basic earnings per share	<u>\$ (0.28)</u>		<u>1.79</u>	
9850	Diluted earnings per share	<u>\$ (0.28)</u>		<u>1.78</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 three months ended March 31, 2022 and 2021
(expressed in thousands of New Taiwan Dollar)

Share capital	Equity attributable to owners of parent										Total equity	
	Ordinary share	Capital surplus	Retained earnings			Exchange differences on translation of foreign financial statements	Other equity	Total other equity interest	Total equity attributable to owners of parent	Non-controlling interests		Total equity
			Legal reserve	Special reserve	Unappropriated retained earnings							
\$ 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	
-	-	-	-	(653,305)	(653,305)	-	-	-	(653,305)	-	(653,305)	
-	-	-	-	324,460	324,460	-	-	-	324,460	2,839	327,299	
-	-	-	-	-	-	(2,715)	(1,648)	(4,363)	(4,363)	(2,777)	(7,140)	
-	-	-	-	324,460	324,460	(2,715)	(1,648)	(4,363)	320,097	62	320,159	
-	153	-	-	-	-	-	-	-	153	-	153	
\$ 1,814,735	586	265,379	49,668	1,454,165	1,769,212	(159,538)	(22,050)	(181,588)	3,402,945	25,255	3,428,200	
\$ 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	
-	-	-	-	(544,420)	(544,420)	-	-	-	(544,420)	-	(544,420)	
-	-	-	-	(51,295)	(51,295)	-	-	-	(51,295)	(276)	(51,571)	
-	-	-	-	(51,295)	(51,295)	23,952	-	23,952	23,952	176	24,128	
-	-	-	-	(51,295)	(51,295)	23,952	-	23,952	23,952	(100)	(27,443)	
\$ 1,814,735	586	363,103	177,226	1,436,906	1,977,235	(139,230)	-	(139,230)	3,653,326	25,214	3,678,540	

Balance at January 1, 2021

Appropriation and distribution of retained earnings:

Cash dividends of ordinary share

Profit for the period

Other comprehensive income for the period

Comprehensive income

Changes in ownership interests in subsidiaries

Balance at March 31, 2021

Balance at January 1, 2022

Appropriation and distribution of retained earnings:

Cash dividends or ordinary share

Loss for the period

Other comprehensive income for the period

Comprehensive income

Balance at March 31, 2022

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 Cash Flows
For the three months ended March 31, 2022 and 2021
(Expressed in thousands of New Taiwan Dollar)

	For the three months ended March 31	
	2022	2021
Cash flows from operating activities:		
(Loss) profit before tax	\$ (64,395)	408,414
Adjustments:		
Adjustments to reconcile profit:		
Depreciation expenses	85,593	53,385
Amortization expenses	3,735	3,351
Interest expenses	4,447	1,973
Interest income	(255)	(445)
Shares of profit of associates accounted for using equity method	(7)	(81)
Losses on disposal of property, plant and equipment	876	447
Total adjustments to reconcile profit	<u>94,389</u>	<u>58,630</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	-	(2,518)
Notes receivable	1,906	(782)
Notes receivable due from related parties	4,130	430
Accounts receivable	999,853	236,175
Accounts receivable due from related parties	6,270	3,211
Other receivables	(3,733)	10
Inventories	645,132	(708,078)
Other current assets	106,001	(52,391)
Net defined benefit assets	(3,727)	80
Other operating assets	499	(2,446)
	<u>1,756,331</u>	<u>(526,309)</u>
Changes in operating liabilities:		
Contract liabilities	(9,541)	9,258
Notes payable	(1,015,695)	198,636
Notes payable to related parties	(3,716)	399
Accounts payable	(2,590,773)	134,699
Other payables	(111,182)	57,334
Other payables to related parties	(12)	(162)
Other current liabilities	14,126	(12,274)
Net defined benefit liability	-	1,185
	<u>(3,716,793)</u>	<u>389,075</u>
Total changes in operating assets and liabilities	<u>(1,960,462)</u>	<u>(137,234)</u>
Total adjustments	<u>(1,866,073)</u>	<u>(78,604)</u>
Cash (outflow) inflow generated from operations	(1,930,468)	329,810
Interest received	255	445
Interest paid	(4,377)	(2,088)
Net cash from (used in) operating activities	<u>(1,934,590)</u>	<u>328,167</u>
Cash flows from (used in) investing activities:		
Acquisition of property, plant and equipment	(56,492)	(34,261)
Proceeds from disposal of property, plant and equipment	1,445	289
Decrease (increase) in refundable deposits	1,236	(1,642)
Acquisition of intangible assets	(3,213)	(560)
Increase in prepayments for business facilities	(142,358)	(87,594)
Net cash used in investing activities	<u>(199,382)</u>	<u>(123,768)</u>
Cash flows from (used in) financing activities:		
Increase in short-term borrowings	747,502	50,000
Decrease in short-term borrowings	(700,000)	(330,000)
Increase from long-term borrowings	300,000	500,000
Repayments of long-term borrowings	(29,404)	(311,531)
Payments of lease liabilities	(8,759)	(4,128)
Change in non-controlling interests	-	153
Net cash from (used in) financing activities	<u>309,339</u>	<u>(95,506)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>8,889</u>	<u>(1,704)</u>
Net (decrease) increase in cash and cash equivalents	<u>(1,815,744)</u>	<u>107,189</u>
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>\$ 2,758,975</u>	<u>2,720,318</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 March 31, 2022 and 2021

REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

March 31, 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 three months ended March 31, 2022 and 2021 were authorized for issuance by the Board of Directors on May 5, 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. (“FSC”) 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”

(Continued)

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

- (b) The impact of IFRSs issued by the International Accounting Standards Board (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 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
Amendments to IAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction”	The amendments narrowed the scope of the recognition exemption so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.	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 IAS 1 “Disclosure of Accounting Policies”
- Amendments to IAS 8 “Definition of Accounting Estimates”

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

(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.

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:

<u>Name of investor</u>	<u>Name of subsidiary</u>	<u>Principal activity</u>	<u>Shareholding</u>			<u>Note</u>
			<u>March 31, 2022</u>	<u>December 31, 2021</u>	<u>March 31, 2021</u>	
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

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REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES
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(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.

(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.

(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.

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

(6) Explanation of Significant Accounts:

Except as described in the following paragraphs, there were no significant differences with those disclosed in the 2021 annual consolidated financial statements. Please refer to Note (6) of the consolidated financial statements for the year ended December 31, 2021, for other related information.

(a) Cash and cash equivalents

	<u>March 31, 2022</u>	<u>December 31, 2021</u>	<u>March 31, 2021</u>
Petty cash and cash on hand	\$ 1,029	1,051	1,010
Checking and demand deposits	2,757,946	4,573,668	2,716,454
Time deposits	<u>-</u>	<u>-</u>	<u>2,854</u>
Cash and cash equivalents in the consolidated statement of cash flows	<u>\$ 2,758,975</u>	<u>4,574,719</u>	<u>2,720,318</u>

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

	<u>March 31, 2022</u>	<u>December 31, 2021</u>	<u>March 31, 2021</u>
Mandatorily measured at fair value through profit or loss:			
Non-derivative financial assets			
Stocks listed on domestic markets	\$ -	-	20,892
Stocks unlisted on domestic markets	<u>96</u>	<u>96</u>	<u>96</u>
Total	<u>\$ 96</u>	<u>96</u>	<u>20,988</u>

- (i) For the gain or loss arising from the revaluation to market value, please refer to Note 6(w).
- (ii) As of March 31, 2022, December 31, 2021 and March 31, 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

	<u>March 31, 2022</u>	<u>December 31, 2021</u>	<u>March 31, 2021</u>
Equity investments at fair value through other comprehensive income			
Domestic Company - FALCON MACHINE TOOLS CO.,LTD	\$ -	-	34,528
Total	<u>\$ -</u>	<u>-</u>	<u>34,528</u>

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

- (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) For credit risk and market risk, please refer to Note 6(x).

- (iii) As of March 31, 2022, December 31, 2021 and March 31, 2021, the financial assets at fair value through other comprehensive income were not pledged as collateral.

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

	March 31, 2022	December 31, 2021	March 31, 2021
Notes receivable from operating activities	\$ 370	2,276	891
Notes receivable from operating activities-related parties	23,413	27,543	5,904
Total	<u>\$ 23,783</u>	<u>29,819</u>	<u>6,795</u>
Accounts receivable-measured at amortized cost	\$ 718,863	1,718,716	2,145,569
Accounts receivable from related parties-measured at amortized cost	4,808	11,078	141
Less: Loss allowance	<u>(1,603)</u>	<u>(1,603)</u>	<u>(1,603)</u>
Total	<u>\$ 722,068</u>	<u>1,728,191</u>	<u>2,144,107</u>

- (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:

	March 31, 2022		
	Gross carrying amount	Weighted- average loss rate	Loss allowance provision
Current	\$ 537,573	0.06%	330
1 to 90 days past due	207,607	0.07%	136
91 to 180 days past due	2,273	50%	1,136
181 to 360 days past due	-	100%	-
Over 360 days past due	<u>1</u>	100%	<u>1</u>
Total	<u>\$ 747,454</u>		<u>1,603</u>

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

	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

	March 31, 2021		
	Gross carrying amount	Weighted- average loss rate	Loss allowance provision
Current	\$ 1,647,244	-%	-
1 to 90 days past due	503,318	-%	-
91 to 180 days past due	1,943	82.50%	1,603
Total	\$ 2,152,505		1,603

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

	2022	2021
Balance at January 1 (which is balance at March 31)	\$ 1,603	1,603

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

(e) **Other receivables**

	March 31, 2022	December 31, 2021	March 31, 2021
Other receivables	\$ 15,120	11,387	11,759
Less: Loss allowance	(11,247)	(11,247)	(11,247)
	\$ 3,873	140	512

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

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

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

	<u>2022</u>	<u>2021</u>
Balance on January 1 (which is balance at March 31)	\$ <u>11,247</u>	<u>11,247</u>

(f) **Inventories**

	<u>March 31, 2022</u>	<u>December 31, 2021</u>	<u>March 31, 2021</u>
Finished goods	\$ 275,338	756,447	816,776
Work in progress	205,468	220,523	346,935
Materials	225,081	240,165	97,652
Parts	614,627	725,566	530,645
Merchandise	<u>9,629</u>	<u>32,574</u>	<u>12,264</u>
	<u>\$ 1,330,143</u>	<u>1,975,275</u>	<u>1,804,272</u>

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

	<u>For the Three Months Ended March 31</u>	
	<u>2022</u>	<u>2021</u>
Inventory scrap loss	\$ 2,475	1,630
Revenue from sale of scraps	<u>(893)</u>	<u>(4,744)</u>
	<u>\$ 1,582</u>	<u>(3,114)</u>

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

(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>March 31, 2022</u>	<u>December 31, 2021</u>	<u>March 31, 2021</u>
Associates	\$ <u>16,719</u>	<u>16,712</u>	<u>17,075</u>

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

(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>March 31, 2022</u>	<u>December 31, 2021</u>	<u>March 31, 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>March 31, 2022</u>	<u>December 31, 2021</u>	<u>March 31, 2021</u>
Carrying amount of individually insignificant associates' equity	<u>\$ 16,719</u>	<u>16,712</u>	<u>17,075</u>
	<u>For the Three Months Ended March 31</u>		
	<u>2022</u>	<u>2021</u>	
Attributable to the Group:			
Profit from continuing operation	\$ 7		81
Other comprehensive income	-		-
Comprehensive income	<u>\$ 7</u>		<u>81</u>

- (ii) As of March 31, 2022, December 31, 2021 and March 31, 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.

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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 three months ended March 31, 2022, December 31, 2021 and March 31, 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>Construct ion 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	-	7,045	4,761	6,374	1,112	-	19,292
Disposal	-	-	(6,120)	(87)	(7,659)	-	(13,866)
Reclassification	-	-	32,256	15,020	1,500	-	48,776
Effect of movements in exchange rates	90	28,214	5,489	3,503	873	-	38,169
Balance on March 31, 2022	<u>\$1,140,020</u>	<u>2,201,016</u>	<u>847,502</u>	<u>815,904</u>	<u>173,114</u>	<u>-</u>	<u>5,177,556</u>
Balance on January 1, 2021	\$ 946,564	2,068,956	725,055	866,514	154,644	79	4,761,812
Additions	1,164	5,890	12,477	12,715	1,252	-	33,498
Disposal	-	-	(129,187)	(198,227)	(4,056)	-	(331,470)
Reclassification	-	-	40,602	11,019	119	-	51,740
Effect of movements in exchange rates	6	(3,423)	(705)	(403)	(69)	-	(4,594)
Balance on March 31, 2021	<u>\$ 947,734</u>	<u>2,071,423</u>	<u>648,242</u>	<u>691,618</u>	<u>151,890</u>	<u>79</u>	<u>4,510,986</u>
Depreciation and impairment loss:							
Balance on January 1, 2022	\$ -	866,637	305,252	528,974	117,669	-	1,818,532
Depreciation	-	26,618	25,257	20,699	3,894	-	76,468
Disposal	-	-	(5,047)	(72)	(6,426)	-	(11,545)
Effect of movements in exchange rates	-	7,379	2,702	1,844	762	-	12,687
Balance on March 31, 2022	<u>\$ -</u>	<u>900,634</u>	<u>328,164</u>	<u>551,445</u>	<u>115,899</u>	<u>-</u>	<u>1,896,142</u>
Balance on January 1, 2021	\$ -	778,946	385,480	625,001	119,512	-	1,908,939
Depreciation	-	20,872	14,719	12,089	2,311	-	49,991
Disposal	-	-	(129,182)	(198,192)	(3,360)	-	(330,734)
Effect of movements in exchange rates	-	(740)	(287)	(187)	(45)	-	(1,259)
Balance on March 31, 2021	<u>\$ -</u>	<u>799,078</u>	<u>270,730</u>	<u>438,711</u>	<u>118,418</u>	<u>-</u>	<u>1,626,937</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 March 31, 2022	<u>\$1,140,020</u>	<u>1,300,382</u>	<u>519,338</u>	<u>264,459</u>	<u>57,215</u>	<u>-</u>	<u>3,281,414</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 March 31, 2021	<u>\$ 947,734</u>	<u>1,272,345</u>	<u>377,512</u>	<u>252,907</u>	<u>33,472</u>	<u>79</u>	<u>2,884,049</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).
- (iii) As of March 31, 2022, December 31, 2021 and March 31, 2021, property, plant and equipment of the Group had been pledged as collateral for bank loans; please refer to note 8.

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REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES
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(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	-	-	-	-
Effect of movement in exchange rates	2,255	-	-	2,255
Balance at March 31, 2022	<u>\$ 88,584</u>	<u>51,627</u>	<u>20,899</u>	<u>161,110</u>
Balance at January 1, 2021	\$ 58,663	21,388	5,142	85,193
Additions	-	14,799	6,840	21,639
Effect of movement in exchange rates	(292)	-	-	(292)
Balance at March 31, 2021	<u>\$ 58,371</u>	<u>36,187</u>	<u>11,982</u>	<u>106,540</u>
Accumulated depreciation and impairment losses: :				
Balance at January 1, 2022	\$ 6,076	22,898	7,231	36,205
Depreciation for the period	1,038	6,453	1,634	9,125
Effect of movement in exchange rates	162	-	-	162
Balance at March 31, 2022	<u>\$ 7,276</u>	<u>29,351</u>	<u>8,865</u>	<u>45,492</u>
Balance at January 1, 2021	\$ 2,667	594	2,062	5,323
Depreciation for the period	334	2,194	866	3,394
Effect of movement in exchange rates	(16)	-	-	(16)
Balance at March 31, 2021	<u>\$ 2,985</u>	<u>2,788</u>	<u>2,928</u>	<u>8,701</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 March 31, 2022	<u>\$ 81,308</u>	<u>22,276</u>	<u>12,034</u>	<u>115,618</u>
Balance at January 1, 2021	<u>\$ 55,996</u>	<u>20,794</u>	<u>3,080</u>	<u>79,870</u>
Balance at March 31, 2021	<u>\$ 55,386</u>	<u>33,399</u>	<u>9,054</u>	<u>97,839</u>

(j) **Intangible assets**

The costs, amortization and impairment loss of the intangible assets of the Group for the three months ended March 31, 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	-	3,213	3,213
Reductions	-	(1,949)	(1,949)
Effect of movement in exchange rates	-	283	283
Balance at March 31, 2022	<u>\$ 43,293</u>	<u>143,239</u>	<u>186,532</u>
Balance at January 1, 2021	\$ 43,293	127,372	170,665
Additions	-	560	560
Effect of movement in exchange rates	-	(33)	(33)
Balance at March 31, 2021	<u>\$ 43,293</u>	<u>127,899</u>	<u>171,192</u>

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REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES
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	<u>Goodwill</u>	<u>Computer Software</u>	<u>Total</u>
Amortization and impairment Loss:			
Balance at January 1, 2022	\$ -	122,586	122,586
Amortization for the period	-	3,735	3,735
Reductions	-	(1,949)	(1,949)
Effect of movement in exchange rates	-	180	180
Balance at March 31, 2022	<u>\$ -</u>	<u>124,552</u>	<u>124,552</u>
Balance at January 1, 2021	\$ -	107,937	107,937
Amortization for the period	-	3,351	3,351
Effect of movement in exchange rates	-	(17)	(17)
Balance at March 31, 2021	<u>\$ -</u>	<u>111,271</u>	<u>111,271</u>
Carrying value:			
Balance at January 1, 2022	<u>\$ 43,293</u>	<u>19,106</u>	<u>62,399</u>
Balance at March 31, 2022	<u>\$ 43,293</u>	<u>18,687</u>	<u>61,980</u>
Balance at January 1, 2021	<u>\$ 43,293</u>	<u>19,435</u>	<u>62,728</u>
Balance at March 31, 2021	<u>\$ 43,293</u>	<u>16,628</u>	<u>59,921</u>

As of March 31, 2022, December 31, 2021 and March 31, 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>March 31, 2022</u>	<u>December 31, 2021</u>	<u>March 31, 2021</u>
Other current assets:			
Prepayments	\$ 76,364	58,328	92,220
Business tax receivables	17,040	136,889	125,006
Temporary payments and payment on behalf of others	10,335	14,523	26,673
	<u>\$ 103,739</u>	<u>209,740</u>	<u>243,899</u>
	<u>March 31, 2022</u>	<u>December 31, 2021</u>	<u>March 31, 2021</u>
Other non-current assets:			
Prepayments for equipment	\$ 438,091	344,509	135,646
Restricted assets	-	-	8,000
Others	6,118	6,617	5,745
	<u>\$ 444,209</u>	<u>351,126</u>	<u>149,391</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:

	March 31, 2022	December 31, 2021	March 31, 2021
Unsecured bank loans	\$ 704,000	700,000	57,080
Secured bank loans	150,061	102,025	-
Total	<u>\$ 854,061</u>	<u>802,025</u>	<u>57,080</u>
Unused credit lines	<u>\$ 3,160,732</u>	<u>3,386,903</u>	<u>1,864,980</u>
Range of interest rate	<u>0.7%~4.785%</u>	<u>0.67%~4.785%</u>	<u>1.5%~4.57%</u>

(i) Additional short-term borrowings and repayments

For the three months ended March 31, 2022 and 2021, the Group had the additional short-term borrowings amounting to \$747,502 thousand and \$50,000 thousand, with a range of interest rate 0.75%~4.785% and 1%, maturing in a range from April, 2022 to March, 2023 and May, 2021, and the repayments were \$700,000 thousand and \$330,000 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:

	March 31, 2022	December 31, 2021	March 31, 2021
Advance receipts	\$ 3,566	3,572	-
Temporary receipt	156,467	147,005	150,428
Others	10,284	5,677	8,696
	<u>\$ 170,317</u>	<u>156,254</u>	<u>159,124</u>

Temporary receipt is mainly received from mold sharing payment.

(n) **Long-term borrowings**

The details of long-term borrowings were as follows:

	March 31, 2022	December 31, 2021	March 31, 2021
Unsecured bank loans	\$ 15,777	26,597	61,528
Secured bank loans	943,333	660,000	508,400
Less: current portion	(192,443)	(93,264)	(114,040)
Total	<u>\$ 766,667</u>	<u>593,333</u>	<u>455,888</u>
Unused long-term credit lines	<u>\$ 170,000</u>	<u>470,000</u>	<u>321,600</u>
Range of interest rate	<u>1.03%~2.21%</u>	<u>0.45%~2.3%</u>	<u>0.45%~2.3%</u>

(Continued)

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

(i) Additional long-term borrowings and repayments

For the three months ended March 31, 2022 and 2021, the Group had the additional long-term borrowings amounting to \$300,000 thousand and \$500,000 thousand, with a range of interest rate 1.03% and 1.05%, maturing in January, 2025 and February, 2024, and the repayments were \$29,404 thousand and \$311,531 thousand, respectively.

(ii) Collateral for long-term borrowings

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

(o) **Lease liabilities**

	<u>March 31, 2022</u>	<u>December 31, 2021</u>	<u>March 31, 2021</u>
Current	<u>\$ 30,686</u>	<u>34,261</u>	<u>22,101</u>
Non-current	<u>\$ 29,108</u>	<u>34,292</u>	<u>19,029</u>

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

The amount recognized in profit or loss was as follows:

	<u>For the three months ended March 31</u>	
	<u>2022</u>	<u>2021</u>
Interest expense on lease liabilities	<u>\$ 161</u>	<u>85</u>

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

	<u>For the three months ended March 31</u>	
	<u>2022</u>	<u>2021</u>
Total cash outflow for leases	<u>\$ 8,920</u>	<u>4,213</u>

The lease period for the Group's lease of land, buildings and vehicles are two to ten years.

(p) **Provisions**

	<u>Warranties</u>
Balance at January 1, 2022	\$ 162,599
Provisions made during the period	17,307
Provisions used during the period	<u>(17,244)</u>
Balance at March 31, 2022	<u>\$ 162,662</u>

(Continued)

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

	Warranties
Balance at January 1, 2021	\$ 165,973
Provisions made during the period	56,493
Provisions used during the period	(95,025)
Balance at March 31, 2021	\$ 127,441

The provision for warranties relates mainly to automatic facilities and fitness equipments sold for the period ended March 31, 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	
	March 31	
	2022	2021
Operating costs	\$ 898	1,040
Selling expenses	147	160
Administrative expenses	247	332
Research and development expenses	260	190
	\$ 1,552	1,722

(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	
	March 31	
	2022	2021
Operating costs	\$ 5,724	6,578
Selling expenses	302	263
Administrative expenses	823	1,213
Research and development expenses	1,040	810
	\$ 7,889	8,864

Except for the Company and Rexion Technology Corp., Ltd., other subsidiaries adopted the defined contribution method under their local law, and accordingly, the pension costs were \$1,352 thousand and \$1,256 thousand for the three months ended March 31, 2022 and 2021.

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

(r) **Income taxes**

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

	For the three months ended March 31	
	2022	2021
Current tax expenses		
Current period	\$ (13,509)	80,962
Deferred tax expenses		
Origination and reversal of temporary differences	685	153
Income tax expenses from continuing operations	\$ (12,824)	81,115

The amounts of income tax recognized in other comprehensive income for the three months ended March 31, 2022 and 2021 were as follows:

	For the three months ended March 31	
	2022	2021
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign financial statements	\$ (5,988)	680

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

(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 March 31, 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.

(Continued)

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

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 March 31, 2022, December 31, 2021 and March 31, 2021, the amounts of such special reserves were \$177,226 thousand, \$177,226 thousand and \$49,668 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:

	2021	2020
Dividends distributed to ordinary shareholders		
Cash	\$ 544,420	653,305

(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	23,952	-	23,952
Balance at March 31, 2022	\$ (139,230)	-	(139,230)
Balance at January 1, 2021	\$ (156,823)	(20,402)	(177,225)
Exchange differences on foreign operations	(2,715)	-	(2,715)
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	-	(1,648)	(1,648)
Balance at March 31, 2021	\$ (159,538)	(22,050)	(181,588)

(Continued)

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

(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 March 31	
	2022	2021
Basic earnings per share		
Profit attributable to ordinary shareholders of the Company	\$ <u>(51,295)</u>	<u>324,460</u>
Weighted-average number of ordinary shares	<u>181,473</u>	<u>181,473</u>
Basic earnings per share	<u>\$ (0.28)</u>	<u>1.79</u>
Diluted earnings per share		
Profit attributable to ordinary shareholders of the Company	\$ <u>(51,295)</u>	<u>324,460</u>
Weighted-average number of ordinary shares (basic)	\$ 181,473	181,473
Effect of dilutive potential ordinary shares		
Effect of employee share bonus	<u>-</u>	<u>724</u>
Weighted-average number of ordinary shares (diluted)	<u>181,473</u>	<u>182,197</u>
Diluted earnings per share	<u>\$ (0.28)</u>	<u>1.78</u>

There was net loss incurred for the period from January 1, 2022 to March 31, 2022, and no dilutive effect occurred.

(u) **Revenue from contracts with customers**

(i) Details of revenue

	For the Three Months Ended March 31	
	2022	2021
<u>Primary geographical markets</u>		
America	\$ 1,504,411	3,972,347
Europe	91,656	40,415
Asia	41,185	19,324
Other	<u>(2,407)</u>	<u>6,729</u>
	<u>\$ 1,634,845</u>	<u>4,038,815</u>

(Continued)

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

<u>Major products/services lines</u>	For the Three Months Ended March 31	
	2022	2021
	Woodworking tools	\$ 267,306
Fitness equipment	1,304,753	3,521,682
Other	<u>62,786</u>	<u>68,582</u>
	<u>\$ 1,634,845</u>	<u>4,038,815</u>

(ii) Contract balances

	March 31, 2022	December 31, 2021	March 31, 2021
Contract liabilities	<u>\$ 533,614</u>	<u>543,155</u>	<u>36,712</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 March 31, 2022 and March 31, 2021, that were included in the contract liability balance at the beginning of the period were \$2,889 thousand and \$5,487 thousand, respectively.

(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.

The remunerations to employees amounted to \$0 and \$21,573 thousand, respectively, for the three-months ended March 31, 2022 and 2021. The remunerations to directors and supervisors amounted to \$0 and \$4,315 thousand, respectively, for the three-months ended March 31, 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.

(Continued)

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

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

(i) Interest income

The details of interest income were as follows:

	For the Three Months Ended March 31	
	2022	2021
Interest income-bank deposits	\$ 255	445

(ii) Other income

The details of other income were as follows:

	For the Three Months Ended March 31	
	2022	2021
Rental income	\$ 1,397	137
Other	2,870	5,213
	\$ 4,267	5,350

(iii) Other income and losses

The details of other income and losses were as follows:

	For the Three Months Ended March 31	
	2022	2021
Net foreign exchange gain (losses)	\$ 12,240	(9,868)
Net losses on disposal of property, plant and equipment	(876)	(447)
(Losses) gains on measurement of financial assets measured at fair value through profit or loss	-	2,518
Other	(34)	(69)
	\$ 11,330	(7,866)

(iv) Finance expenses

The details of finance expenses were as follows:

	For the Three Months Ended March 31	
	2022	2021
Interest expenses	\$ (4,947)	(1,973)
Less: capitalization of interest	500	-
	\$ (4,447)	(1,973)

(Continued)

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

(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 March 31, 2022, December 31, 2021 and March 31, 2021, the Group reviewed the concentrations of credit risk arising from major customer at percentages below 26%、71% and 64%, respectively, of the total trade receivables. The other top five clients contributed no more than 55%, 17% and 29%, 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).

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>
March 31, 2022						
Non-derivative financial liabilities						
Secured loans	\$ 1,093,394	1,108,486	336,759	391,397	380,330	-
Unsecured loans	719,777	721,208	721,208	-	-	-
Leased liabilities (current and non-current)	59,794	61,180	31,120	8,496	9,804	11,760
Payables	<u>2,445,523</u>	<u>2,445,523</u>	<u>2,445,523</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 4,318,488</u>	<u>4,336,397</u>	<u>3,534,610</u>	<u>399,893</u>	<u>390,134</u>	<u>11,760</u>

(Continued)

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

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>Over 5 years</u>
December 31, 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>
March 31, 2021						
Non-derivative financial liabilities						
Secured loans	\$ 508,400	515,746	69,877	79,113	366,756	-
Unsecured loanse	118,608	120,377	105,913	14,464	-	-
Leased liabilities (current and non-current)	41,130	41,548	22,416	17,165	1,967	-
Payables	<u>5,638,599</u>	<u>5,638,599</u>	<u>5,638,599</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 6,306,737</u>	<u>6,316,270</u>	<u>5,836,805</u>	<u>110,742</u>	<u>368,723</u>	<u>-</u>

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

(iii) Market risk

1) Currency risk

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

	<u>March 31, 2022</u>			<u>December 31, 2021</u>			<u>March 31, 2021</u>		
	<u>Foreign Currency</u>	<u>Exchange Rates</u>	<u>NTD</u>	<u>Foreign Currency</u>	<u>Exchange Rates</u>	<u>NTD</u>	<u>Foreign Currency</u>	<u>Exchange Rates</u>	<u>NTD</u>
Financial Assets									
<u>Monetary items</u>									
USD	\$ 53,499	28.625	1,531,409	96,986	27.68	2,684,572	120,857	28.535	3,448,654
EUR	13	31.92	415	13	31.32	407	11	33.48	368
JPY	200,661	0.2353	47,216	196,874	0.2405	47,348	167,744	0.2577	43,228
GBP	5	37.62	188	5	37.3	187	5	39.23	196
CNY	-	-	-	7,058	4.344	30,660	-	-	-
Financial Liabilities									
<u>Monetary items</u>									
USD	5,973	28.625	170,977	13,042	27.68	361,003	17,703	28.535	505,155
EUR	240	31.92	7,661	783	31.32	24,524	349	33.48	11,685
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 March 31, 2022 and 2021, would have increased or decreased the net profit after tax by \$11,204 thousand and \$23,805 thousand, respectively, with all other variables remaining constant. The analysis is performed on the same basis for March 31, 2022 and 2021.

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

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 three months ended March 31, 2022 and 2021, the foreign exchange gain (loss) (including realized and unrealized portions) amounted to \$12,240 thousand and \$(9,868) 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.

If the interest rate had increased or decreased by 1%, the Group's net income would have decreased or increased by \$3,626 thousand and \$1,254 thousand for the three months ended March 31, 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 three months ended March 31, 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 three months ended March 31			
	2022		2021	
	Other comprehensive income after tax	Net income	Other comprehensive income after tax	Net income
Increasing 1%	\$ -	-	345	210
Decreasing 1%	\$ -	-	(345)	(210)

(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:

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

March 31, 2022					
	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	\$ 96	-	-	96	96
Financial assets measured at amortized cost					
Cash and cash equivalents	2,758,975	-	-	-	-
Notes and trade receivables, and other receivables (including receivables from related parties)	749,724	-	-	-	-
Guarantee deposits paid	7,817	-	-	-	-
	<u>\$ 3,516,612</u>	<u>-</u>	<u>-</u>	<u>96</u>	<u>96</u>
Financial liabilities measured at amortized cost					
Short-term borrowings	\$ 854,061	-	-	-	-
Notes and trade payables, and other payables (including payables to related parties)	2,445,523	-	-	-	-
Long-term borrowings due in 1 year	192,443	-	-	-	-
Loan-term borrowings	766,667	-	-	-	-
Lease liabilities	59,794	-	-	-	-
	<u>\$ 4,318,488</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
December 31, 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	\$ 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>

(Continued)

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

	December 31, 2021				
	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
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>
March 31, 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	\$ 20,988	20,892	-	96	20,988
Financial assets at fair value through other comprehensive income					
Stocks in listed companies	34,528	34,528	-	-	34,528
Financial assets measured at amortized cost					
Cash and cash equivalents	2,720,318	-	-	-	-
Notes and trade receivables, and other receivables (including receivables from related parties)	2,151,414	-	-	-	-
Guarantee deposits paid	6,045	-	-	-	-
	<u>\$ 4,933,293</u>	<u>55,420</u>	<u>-</u>	<u>96</u>	<u>55,516</u>
Financial liabilities at amortized cost					
Short-term borrowings	\$ 57,080	-	-	-	-
Notes and trade payables, and other payables (including payables to related parties)	5,638,599	-	-	-	-
Long-term borrowings due in 1 year	114,040	-	-	-	-
Loan-term borrowings	455,888	-	-	-	-
Lease liabilities	41,130	-	-	-	-
	<u>\$ 6,306,737</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.

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

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.

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 three months ended March 31, 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.

Quantified information of significant unobservable inputs was as follows:

<u>Item</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Inter-relationship between significant unobservable inputs and fair value measurement</u>
Financial assets at fair value through profit or loss-equity investments without an active market	Net Asset Value Method	• Net Asset Value	Not applicable

(Continued)

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

(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.

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

	March 31, 2022	December 31, 2021	March 31, 2021
Total liabilities	\$ 5,363,808	8,271,030	6,827,599
Less: cash and cash equivalents	<u>(2,758,975)</u>	<u>(4,574,719)</u>	<u>(2,720,318)</u>
Net debt	2,604,833	3,696,311	4,107,281
Total equity	<u>3,678,540</u>	<u>4,250,403</u>	<u>3,428,200</u>
Total capital	<u>\$ 6,283,373</u>	<u>7,946,714</u>	<u>7,535,481</u>
Debt to equity ratio	<u>41%</u>	<u>47%</u>	<u>55%</u>

As of March 31, 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.

(Continued)

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

(aa) Financing activities not affecting the current cash flow

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

	January 1, 2022	Cash flows	Non-cash changes			March 31, 2022
			Acquisition	Foreign exchange movement	Fair value changes	
Long-term borrowings	\$ 686,597	270,596	-	1,917	-	959,110
Short-term borrowings	802,025	47,502	-	4,534	-	854,061
Lease liabilities	68,553	(8,759)	-	-	-	59,794
Total liabilities from financing	\$ <u>1,557,175</u>	<u>309,339</u>	<u>-</u>	<u>6,451</u>	<u>-</u>	<u>1,872,965</u>

	January 1, 2021	Cash flows	Non-cash changes			March 31, 2021
			Acquisition	Foreign exchange movement	Fair value changes	
Long-term borrowings	\$ 380,739	188,469	-	720	-	569,928
Short-term borrowings	336,960	(280,000)	-	120	-	57,080
Lease liabilities	23,619	(4,128)	21,639	-	-	41,130
Total liabilities from financing	\$ <u>741,318</u>	<u>(95,659)</u>	<u>21,639</u>	<u>840</u>	<u>-</u>	<u>668,138</u>

(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.

	<u>Name of related party</u>	<u>Relationship with the Group</u>
(b) Significant related-party transactions	Fine Clear Co., Ltd	An associate

(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 March 31	
	2022	2021
Associates		
– Fine Clear Co., Ltd	\$ <u>10,118</u>	<u>2,565</u>

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.

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

ii) Receivables from related-parties

<u>Account</u>	<u>Related-party type</u>	<u>March 31, 2022</u>	<u>December 31, 2021</u>	<u>March 31, 2021</u>
Notes receivable	Associates – Fine Clear Co., Ltd	\$ 23,413	27,543	5,904
Accounts receivable	Associates – Fine Clear Co., Ltd	4,808	11,078	141
		<u>\$ 28,221</u>	<u>38,621</u>	<u>6,045</u>

iii) Payables to related-parties

<u>Account</u>	<u>Related-party type</u>	<u>March 31, 2022</u>	<u>December 31, 2021</u>	<u>March 31, 2021</u>
Notes payable	Associates – Fine Clear Co., Ltd	\$ 83	3,799	1,242
Other payables	Associates – Fine Clear Co., Ltd	5	17	299
		<u>\$ 88</u>	<u>3,816</u>	<u>1,541</u>

(c) Key management personnel compensation

	For the three months ended March 31	
	<u>2022</u>	<u>2021</u>
Short-term employee benefits	\$ 8,495	10,633
Post-employment benefits	414	252
Termination benefits	-	-
Other long-term benefits	-	-
Share-based payments	-	-
	<u>\$ 8,909</u>	<u>10,885</u>

(8) Pledged Assets:

The carrying amounts of pledged assets were as follow:

<u>Pledged assets</u>	<u>Object</u>	<u>March 31, 2022</u>	<u>December 31, 2021</u>	<u>March 31, 2021</u>
Land	Guarantee for bank loans	\$ 296,916	296,916	296,916
Buildings	Guarantee for bank loans	854,690	853,440	877,802
		<u>\$ 1,151,606</u>	<u>1,150,356</u>	<u>1,174,718</u>

(9) Significant Commitments and Contingencies:

The Group's unrecognized contractual commitments are as follows:

	<u>March 31, 2022</u>	<u>December 31, 2021</u>	<u>March 31, 2021</u>
Acquisition of property, plant and equipment	<u>\$ 513,091</u>	<u>265,343</u>	<u>366,285</u>

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

(10) Losses Due to Major Disasters:None

(11) Subsequent Events:None

(12) Others:

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

By item	For the three months ended March 31					
	2022			2021		
	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
Employee benefits						
Salary	141,984	60,577	202,561	239,894	96,399	336,293
Labor and health insurance	16,809	6,186	22,995	19,915	6,297	26,212
Pension	7,817	2,976	10,793	8,743	3,099	11,842
Others	3,290	546	3,836	4,292	704	4,996
Depreciation	74,648	10,945	85,593	46,179	7,206	53,385
Amortization	545	3,190	3,735	599	2,752	3,351

(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
Notes to the Consolidated Financial Statements

(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 three months ended March 31, 2022:

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

(Amounts in Thousands of New Taiwan Dollars)

No. (Note 2)	Name of guarantor	Counter-party of guarantee and endorsement		Limitation on amount of guarantees and endorsements for a specific enterprise (Note 1)	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 (Note 1)	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 (Note 3)										
0	REXON INDUSTRIAL CORP., LTD.	Fongxiang Rexion	2	1,461,330	(USD5,000) 143,150	(USD5,000) 143,150	(USD5,000) 143,150	-	3.920 %	1,461,330	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 March 31, 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			Fair value	Notes
				Shares/Units (thousand)	Carrying amount	Percentage of ownership (%)		
REXON INDUSTRIAL CORP., LTD.	Stock-Hwa Chung Venture Capital Corp.	-	Financial assets at fair value through profit or loss-current	10	96	- %	96	
Subtotal					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.

(Continued)

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

- (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	209,392	32 %	90-150Days	Note 1	Note 2	(113,260)	(8.7)%	

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 113,260	8.58%	-	-	The recovery amount as of April 18, 2022 : 100,465	-

- (ix) Information regarding trading in derivative financial instruments:None.
- (x) Significant transactions and business relationship between the parent company and its subsidiaries for the three months ended March 31, 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	209,392	The sales prices and payment terms were by agreement	12.81%
0	REXON INDUSTRIAL CORP., LTD.	Tongxiang Rexion	1	Accounts payable	113,260	The sales prices and payment terms were by agreement	1.25%
0	REXON INDUSTRIAL CORP., LTD.	Rexion Technology Corp., Ltd.	1	Purchases	18,336	The sales prices and payment terms were by agreement	1.12%
0	REXON INDUSTRIAL CORP., LTD.	Rexion Technology Corp., Ltd.	1	Accounts payable	12,496	The sales prices and payment terms were by agreement	0.14%
0	REXON INDUSTRIAL CORP., LTD.	Power Tool specialists Inc.	1	Service fee	10,561	The sales prices and payment terms were by agreement	0.65%
0	REXON INDUSTRIAL CORP., LTD.	Power Tool Specialists Inc.	1	Other payable	95,855	The sales prices and payment terms were by agreement	1.06%
0	REXON INDUSTRIAL CORP., LTD.	Power Tool Specialists Inc.	1	Account receivable	1,842	The sales prices and payment terms were by agreement	0.02%
0	REXON INDUSTRIAL CORP., LTD.	Power Tool Specialists Inc.	1	Sales	1,773	The sales prices and payment terms were by agreement	0.11%
1	Tongxiang Rexion	Rexion Technology Corp., Ltd.	3	Account receivable	98,141	The sales prices and payment terms were by agreement	1.09%

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
Notes to the Consolidated Financial Statements

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 three months ended March 31, 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 March 31, 2022			Net income (losses) of investee	Share of profits/losses of investee	Note
				March 31, 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 %	16,719	44	7	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 %	96,133	(1,789)	(1,482)	Direct subsidiaries of the Company (Note 1)
REXON INDUSTRIAL CORP., LTD.	Power Tool Specialists Inc.	U.S.A	Merchandise trading	196,465	196,465	0.1	96.00 %	152,586	773	742	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 %	702,571	(18,831)	(18,831)	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 %	682,165	(18,831)	(18,831)	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 March 31, 2022	Net income (losses) of the investee	Percentage of ownership	Net income (losses) recognized	Carrying value as of March 31, 2021	Accumulated remittance of earnings as of March 31, 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	(18,831)	100.00%	(18,831)	682,165	-

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
Notes to the Consolidated Financial Statements

(ii) Upper limit on investment in Mainland China:

The Company

(Amounts in Thousands of New Taiwan Dollars)

Accumulated Investment in Mainland China as of March 31, 2022	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
US\$25,000 (NT\$745,565)	US\$25,000 (NT\$745,565)	2,191,996

(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.