

**KHGEARS INTERNATIONAL
LIMITED AND ITS
SUBSIDIARIES**

**Consolidated Financial Statements
with CPA's Audit Report**

Years Ended Dec. 31, 2023 and 2022

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CPA's Audit Report

Khgears International Limited:

Opinion

We have audited the accompanying consolidated financial statements of Khgears International Limited and its subsidiaries (collectively referred to as the “Group”), which comprise the consolidated balance sheets as of Dec. 31, 2023 and 2022, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and the related notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of Dec. 31, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission (FSC) of the Republic of China (ROC).

Basis for the Audit Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended Dec. 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Group's consolidated financial statements for the year ended Dec. 31, 2023 are stated as follows:

The sales revenue of specific customers

The sales revenue growth from specific customers of Khgears International Limited and its subsidiaries is greater than that of other customers in 2023. Given the substantial amount involved, the authenticity of sales to specific customers is listed as a key audit matter.

Please refer to Note IV for sales revenue accounting policies and relevant information.

Responsive audit procedures are as follows:

1. Understand the relevant operating procedures and internal controls of the Company's sales transactions, and test the design and implementation of these controls.
2. Obtain the sales revenue transaction details of specific customers, check the customer's original order, delivery receipt or customer pickup information, issued invoice and other relevant vouchers for sales revenue recognition, as well as check the actual payment, in order to confirm the authenticity of sales revenue recognition.

Responsibilities of Management and Governing Units for Consolidated Financial Statements

The responsibility of management is to prepare properly represented consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRS, IAS, IFRIC, and SIC endorsed and issued into effect by FSC of the ROC, and maintain the necessary internal control related to the preparation of the consolidated financial statements to ensure no significant misrepresentation are contained in the consolidated financial statements resulting from fraud or error.

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

The Group's governance units (including the Audit Committee) are responsible for overseeing the financial reporting process.

CPA's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Group's 2023 consolidated financial statements and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Deloitte & Touche
CPA Cai, You-Ling

CPA Chen, Jun-Hong

Approved for recordation by Financial
Supervisory Commission
Jin-Guan-Zheng-Shen-Zi No. 1100356048

Approved for recordation by Financial
Supervisory Commission
Jin-Guan-Zheng-Shen-Zi No. 0990031652

Mar. 25, 2024

Notice to Readers

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

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

KHGEARS INTERNATIONAL LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
DEC. 31, 2023 AND 2022

(In Thousands of New Taiwan Dollars)

Code	Assets	Dec. 31, 2023		Dec. 31, 2022	
		Amount	%	Amount	%
	Current assets				
1100	Cash and cash equivalents (Notes IV and VI)	\$ 881,110	25	\$ 798,574	22
1150	Notes receivable (Notes IV and VII)	24,470	1	23,264	1
1170	Accounts receivable (Notes IV and VII)	616,749	18	750,855	21
1200	Other receivables (Note IV)	75,724	2	66,984	2
1220	Current tax assets (Notes IV and XIX)	2,452	-	-	-
1310	Inventories (Notes IV, V and VIII)	665,442	19	705,147	19
1470	Other current assets (Note XIII)	<u>124,063</u>	<u>3</u>	<u>86,119</u>	<u>2</u>
11XX	Total current assets	<u>2,390,010</u>	<u>68</u>	<u>2,430,943</u>	<u>67</u>
	Non-current assets				
1535	Financial assets measured at amortized cost (Notes IV and XXVI)	974	-	1,013	-
1600	Property, plant and equipment (Notes IV, X and XXVI)	972,577	28	1,023,694	28
1755	Right-of-use assets (Notes IV, XII and XXVI)	65,376	2	70,838	2
1780	Intangible assets (Notes IV and XI)	4,627	-	7,454	-
1840	Deferred tax assets (Notes IV and XIX)	6,119	-	9,453	-
1915	Prepayments for equipment (Note X)	57,234	2	102,685	3
1920	Refundable deposits paid	<u>438</u>	<u>-</u>	<u>440</u>	<u>-</u>
15XX	Total non-current assets	<u>1,107,345</u>	<u>32</u>	<u>1,215,577</u>	<u>33</u>
1XXX	Total assets	<u>\$ 3,497,355</u>	<u>100</u>	<u>\$ 3,646,520</u>	<u>100</u>
	Liabilities and equity				
	Current liabilities				
2100	Short-term borrowings (Notes IV and XIV)	\$ 61,294	2	\$ 245,600	7
2170	Accounts payable	255,959	7	230,037	6
2200	Other payables (Note XV)	253,710	7	232,208	6
2230	Current tax liabilities (Notes IV and XIX)	5,853	-	10,271	-
2280	Current lease liabilities (Notes IV and XII)	13,349	-	13,822	1
2313	Deferred income (Notes IV and XXII)	21,539	1	45,520	1
2320	Long-term liabilities due within one year or one operating cycle (Notes IV and XIV)	15,323	1	15,350	1
2399	Other current liabilities (Note V)	<u>176,490</u>	<u>5</u>	<u>180,817</u>	<u>5</u>
21XX	Total current liabilities	<u>803,517</u>	<u>23</u>	<u>973,625</u>	<u>27</u>
	Non-current liabilities				
2540	Long-term borrowings (Notes IV and XIV)	7,662	-	23,025	1
2570	Deferred tax liabilities (Notes IV and XIX)	47,493	1	13,662	-
2580	Non-current lease liabilities (Notes IV and XII)	4,207	-	5,567	-
2630	Long-term deferred income (Notes IV and XXII)	23,377	1	26,671	1
2645	Guarantee deposits and margins received	<u>88</u>	<u>-</u>	<u>89</u>	<u>-</u>
25XX	Total non-current liabilities	<u>82,827</u>	<u>2</u>	<u>69,014</u>	<u>2</u>
2XXX	Total liabilities	<u>886,344</u>	<u>25</u>	<u>1,042,639</u>	<u>29</u>
	Equity attributable to owners of the Company (Notes IV, XVII and XXI)				
3110	Share capital	<u>531,090</u>	<u>15</u>	<u>533,350</u>	<u>15</u>
3200	Capital surplus	<u>1,164,842</u>	<u>33</u>	<u>1,178,809</u>	<u>32</u>
	Retained earnings				
3310	Legal reserve	146,743	4	111,639	3
3320	Special reserve	86,259	3	129,988	4
3350	Unappropriated earnings	<u>838,258</u>	<u>24</u>	<u>746,098</u>	<u>20</u>
3300	Total retained earnings	<u>1,071,260</u>	<u>31</u>	<u>987,725</u>	<u>27</u>
	Other equity				
3410	Exchange differences on translation of foreign financial statements	(141,658)	(4)	(86,259)	(3)
3491	Unearned remuneration to employees	(711)	-	(9,744)	-
3400	Total other equity	(<u>142,369</u>)	(<u>4</u>)	(<u>96,003</u>)	(<u>3</u>)
3500	Treasury shares	(<u>13,812</u>)	-	-	-
3XXX	Total equity	<u>2,611,011</u>	<u>75</u>	<u>2,603,881</u>	<u>71</u>
	Total liabilities and equity	<u>\$ 3,497,355</u>	<u>100</u>	<u>\$ 3,646,520</u>	<u>100</u>

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

Chairman: Kwok Hing Global Limited
Representative: Gao, Guo-Xing

General Manager: Du, Chun-Hui

Head-Finance & Accounting: Chen, Guo-Gang

KHGEARS INTERNATIONAL LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DEC. 31, 2023 AND 2022

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

Code		2023		2022	
		Amount	%	Amount	%
4100	Net sales revenue (Notes IV and XXIX)	\$ 2,348,849	100	\$ 2,443,385	100
5110	Cost of sales (Notes IV, VIII, XVI and XVIII)	<u>1,682,452</u>	<u>72</u>	<u>1,750,669</u>	<u>71</u>
5900	Gross profit from operations	<u>666,397</u>	<u>28</u>	<u>692,716</u>	<u>29</u>
	Operating expenses (Notes XVI and XVIII)				
6100	Selling expenses	98,386	4	96,078	4
6200	Administrative expenses	153,588	6	195,552	8
6300	Research and development expenses	<u>134,336</u>	<u>6</u>	<u>140,943</u>	<u>6</u>
6000	Total operating expenses	<u>386,310</u>	<u>16</u>	<u>432,573</u>	<u>18</u>
6900	Net operating income	<u>280,087</u>	<u>12</u>	<u>260,143</u>	<u>11</u>
	Non-operating income and expenses				
7100	Interest income (Note IV)	17,121	1	5,992	-
7010	Other income (Notes IV, XVIII and XXII)	78,445	3	50,921	2
7020	Other gains and losses (Notes IV and XVIII)	(1,541)	-	87,327	3
7050	Finance costs (Notes IV and XVIII)	(<u>15,728</u>)	(<u>1</u>)	(<u>7,190</u>)	-
7000	Total non-operating income and expenses	<u>78,297</u>	<u>3</u>	<u>137,050</u>	<u>5</u>
7900	Profit before tax	358,384	15	397,193	16
7950	Income tax expense (Notes IV and XIX)	(<u>84,485</u>)	(<u>3</u>)	(<u>46,154</u>)	(<u>2</u>)
8200	Net income	<u>273,899</u>	<u>12</u>	<u>351,039</u>	<u>14</u>

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Code		2023		2022	
		Amount	%	Amount	%
	Other comprehensive income (loss) (Note IV)				
8310	Items that will not be reclassified subsequently to profit or loss:				
8341	Translation differences from functional currency to presentation currency	(\$ 50,325)	(2)	\$ 36,116	2
8360	Components of other comprehensive income that will be reclassified to profit or loss:				
8361	Exchange differences on translation of foreign financial statements	(5,074)	(1)	7,613	-
8300	Other comprehensive income (net amount after tax)	(55,399)	(3)	43,729	2
8500	Total net comprehensive income this year	\$ 218,500	9	\$ 394,768	16
	Earnings per share (Note XX)				
9750	Basic earnings per share	\$ 5.18		\$ 6.66	
9850	Diluted earnings per share	\$ 5.11		\$ 6.53	

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

Chairman:
Kwok Hing Global Limited
Representative: Gao, Guo-Xing

General Manager:
Du, Chun-Hui

Head-Finance & Accounting:
Chen, Guo-Gang

KHGEARS INTERNATIONAL LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DEC. 31, 2023 AND 2022

(In Thousands of New Taiwan Dollars)

Code		Share capital (Note XVII)		Capital surplus (Notes IV, XVII and XXI)	Retained earnings (Note XVII)			Other equity (Note IV)		Treasury shares (Note XVII)	Total equity
		Quantity (in thousands)	Amount		Legal reserve	Special reserve	Unappropriated earnings	Exchange differences on translation of foreign financial statements	Unearned remuneration to employees (Note XXI)		
A1	Balance as of Jan. 1, 2022	53,380	\$ 533,800	\$ 1,181,590	\$ 72,270	\$ 127,893	\$ 673,714	(\$ 129,988)	(\$ 28,505)	\$ -	\$ 2,430,774
	Appropriation of 2021 earnings										
B1	Legal reserve	-	-	-	39,369	-	(39,369)	-	-	-	-
B3	Special reserve	-	-	-	-	2,095	(2,095)	-	-	-	-
B5	Cash dividends	-	-	-	-	-	(237,191)	-	-	-	(237,191)
N1	Share-based payment	-	-	-	-	-	-	-	15,530	-	15,530
T1	Cancellation of restricted stock awards	(45)	(450)	(2,781)	-	-	-	-	3,231	-	-
D1	Consolidated net income in 2022	-	-	-	-	-	351,039	-	-	-	351,039
D3	Consolidated other comprehensive income in 2022	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,729</u>	<u>-</u>	<u>-</u>	<u>43,729</u>
D5	Consolidated total comprehensive income in 2022	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>351,039</u>	<u>43,729</u>	<u>-</u>	<u>-</u>	<u>394,768</u>
Z1	Balance as of Dec. 31, 2022	53,335	533,350	1,178,809	111,639	129,988	746,098	(86,259)	(9,744)	-	2,603,881
	Appropriation of 2022 earnings										
B1	Legal reserve	-	-	-	35,104	-	(35,104)	-	-	-	-
B3	Special reserve reversed	-	-	-	-	(43,729)	43,729	-	-	-	-
B5	Cash dividends	-	-	-	-	-	(190,364)	-	-	-	(190,364)
N1	Share-based payment	-	-	-	-	-	-	-	(7,194)	-	(7,194)
T1	Cancellation of restricted stock awards	(226)	(2,260)	(13,967)	-	-	-	-	16,227	-	-
L1	Treasury shares buyback	-	-	-	-	-	-	-	-	(13,812)	(13,812)
D1	Consolidated net income in 2023	-	-	-	-	-	273,899	-	-	-	273,899
D3	Consolidated other comprehensive income in 2023	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(55,399)</u>	<u>-</u>	<u>-</u>	<u>(55,399)</u>
D5	Consolidated total comprehensive income in 2023	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>273,899</u>	<u>(55,399)</u>	<u>-</u>	<u>-</u>	<u>218,500</u>
Z1	Balance as of Dec. 31, 2023	<u>53,109</u>	<u>\$ 531,090</u>	<u>\$ 1,164,842</u>	<u>\$ 146,743</u>	<u>\$ 86,259</u>	<u>\$ 838,258</u>	<u>(\$ 141,658)</u>	<u>(\$ 711)</u>	<u>(\$ 13,812)</u>	<u>\$ 2,611,011</u>

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

Chairman: Kwok Hing Global Limited
Representative: Gao, Guo-Xing

General Manager: Du, Chun-Hui

Head-Finance & Accounting: Chen, Guo-Gang

KHGEARS INTERNATIONAL LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DEC. 31, 2023 AND 2022

(In Thousands of New Taiwan Dollars)

Code		2023	2022
	Cash flows from operating activities		
A10000	Profit before tax	\$ 358,384	\$ 397,193
A20010	Adjustments for		
A20100	Depreciation expense	153,118	143,622
A20200	Amortization expense	2,735	2,705
A20300	Impairment loss (reversal of gain) of expected credit	(1,488)	602
A20900	Finance costs	15,728	7,190
A21200	Interest income	(17,121)	(5,992)
A21900	Remuneration cost of share options granted to employees	(7,194)	15,530
A22500	Gains on disposal and scrapping of property, plant and equipment	(2,707)	(625)
A23700	Loss on decline in market value and obsolete and slow-moving inventories	17,273	90,319
A29900	Deferred revenue amortization	(36,964)	(9,934)
A30000	Changes in operating assets and liabilities		
A31130	Notes receivable	(1,206)	(20,248)
A31150	Accounts receivable	135,608	100,657
A31180	Other receivables	(8,740)	(35,473)
A31200	Inventories	25,380	(92,501)
A31240	Other current assets	(37,944)	16,894
A32150	Accounts payable	25,922	(71,006)
A32180	Other payables	18,018	(12,977)
A32230	Other current liabilities	(4,327)	11,003
A32250	Deferred income	<u>10,604</u>	<u>9,197</u>
A33000	Net cash inflows generated from operating activities	645,079	546,156
A33100	Interest received	17,121	5,992
A33300	Interest paid	(18,180)	(7,192)
A33500	Income taxes paid	<u>(51,101)</u>	<u>(48,918)</u>
AAAA	Net cash generated from operating activities	<u>592,919</u>	<u>496,038</u>
	Cash flows from investing activities		
B02700	Acquisition of property, plant and equipment	(46,282)	(62,028)
B02800	Proceeds from disposal of property, plant and equipment	4,982	3,488
B03700	Increase in refundable deposits	(7)	-

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Code		2023	2022
B03800	Decrease in refundable deposits	\$ -	\$ 554
B04500	Acquisition of intangible assets	-	(4,496)
B07100	Increase in prepayments for equipment	(<u>36,101</u>)	(<u>103,062</u>)
BBBB	Net cash used in investing activities	(<u>77,408</u>)	(<u>165,544</u>)
	Cash flows from financing activities		
C00100	Increase in short-term borrowings	165,714	416,246
C00200	Decrease in short-term borrowings	(350,354)	(228,523)
C01600	Increase in long-term borrowings	-	43,558
C01700	Repayments of long-term borrowings	(15,363)	(7,680)
C04020	Repayment of the principal portion of lease liabilities	(1,345)	(1,035)
C04500	Cash dividends	(190,364)	(237,191)
C04900	Purchase treasury shares	(<u>13,812</u>)	-
CCCC	Net cash used in financing activities	(<u>405,524</u>)	(<u>14,625</u>)
DDDD	Effect of exchange rate changes on cash and equivalents	(<u>27,451</u>)	<u>38,551</u>
EEEE	Net increase in cash and cash equivalents	82,536	354,420
E00100	Opening balance of cash and cash equivalents	<u>798,574</u>	<u>444,154</u>
E00200	Ending balance of cash and cash equivalents	<u>\$ 881,110</u>	<u>\$ 798,574</u>

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

Chairman:
Kwok Hing Global Limited
Representative: Gao, Guo-Xing

General Manager:
Du, Chun-Hui

Head-Finance & Accounting:
Chen, Guo-Gang

KHGEARS INTERNATIONAL LIMITED AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DEC. 31, 2023 AND 2022

(Otherwise stated, all amounts are in thousands of NTD)

I. Company history

Khgears International Limited (hereinafter referred to as the Company) was established in the British Cayman Islands on Apr. 30, 2014. In August 2018, the shareholders' meeting approved a resolution to change the Company name from "Khgears International Limited Co.," to "Khgears International Limited".

The Consolidated Company primarily engages in the manufacturing and sales of gears and gearboxes.

The Company's shares have been listed and traded on the Taiwan Stock Exchange since Sep. 17, 2019.

The Company's functional currency is RMB. To increase the comparability and consistency of the consolidated financial statement, this consolidated financial statement is presented in New Taiwan Dollar.

II. Dates and procedures for the financial statement approval

The consolidated financial statements were approved by the Company's Board of Directors on Mar. 12, 2024.

III. Application of new and revised standards, amendments, and interpretations

(I) Initial application of the amendments to the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) (collectively, "IFRS Accounting Standards") endorsed and issued into effect by the Financial Supervisory Commission (FSC)

The application of the amendments to the IFRS endorsed and issued into effect by the FSC does not have a significant effect on the accounting policies of the Consolidated Company.

(II) Applicable FSC-approved IFRS Accounting Standards in 2024

New, revised or amended standards and interpretations	Effective date issued by IASB (Note 1)
Amendments to IFRS 16 - Lease Liability in a Sale and Leaseback	Jan. 1, 2024 (Note 2)

Amendments to IAS 1 - Classification of Liabilities as Current or Non-Current	Jan. 1, 2024
Amendments to IAS 1 - Non-current Liabilities with Covenants	Jan. 1, 2024
Amendments to IAS 7 and IFRS 7 - Supplier Finance Arrangements	Jan. 1, 2024 (Note 3)

Note 1: Unless stated otherwise, the above new/revised/amended standards or interpretations are effective for annual reporting periods beginning on their respective effective dates.

Note 2: A seller-lessee applies the amendments retrospectively to IFRS 16 to sale and leaseback transactions entered into after the date of initial application.

Note 3: When the amendments apply for the first time, some requirements for disclosure are exempted.

As of the publication date of this consolidated financial statement, the Consolidated Company has concluded that there is no material impact of amendments of above standards and interpretations on the financial position and financial performance.

(III) New IFRS Accounting Standards in issue by IASB but not yet endorsed and issued into effect by the FSC

<u>New, revised or amended standards and interpretations</u>	<u>Effective date issued by IASB (Note 1)</u>
Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined by IASB
IFRS 17 - Insurance Contracts	Jan. 1, 2023
Amendments to IFRS 17	Jan. 1, 2023
Amendments to IFRS 17 - Initial Application of IFRS 17 and IFRS 9 - Comparative Information	Jan. 1, 2023
Amendments to IAS 21 - Lack of Exchangeability	Jan. 1, 2025 (Note 2)

Note 1: Unless stated otherwise, the above new/revised/amended standards or interpretations are effective for annual reporting periods beginning on their respective effective dates.

Note 2: The amendments apply to the annual reporting periods beginning on or after Jan. 1, 2025. When the amendments apply for the first time, the effects will be recognized in retained earnings on the initial application

date. When the Consolidated Company adopts a non-functional currency as the presentation currency, the effects will be reclassified as the exchange differences arising from the translation of the financial statements of foreign operations under equity on the initial application date.

As of the date the consolidated financial statements were authorized, the Consolidated Company is continuously assessing the possible impact that the application of other standards and interpretations will have on the Consolidated Company's financial position and financial performance and will disclose the relevant impact when the assessment is completed.

IV. Summary of significant accounting policies

(I) Statement of compliance

This consolidated financial statement has been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS Accounting Standards endorsed and issued into effect by the FSC.

(II) Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis.

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, are described as follows:

1. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
2. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);
3. Level 3 inputs are unobservable inputs for the asset or liability.

(III) Criteria for classifying assets and liabilities into current and non-current.

Current assets:

1. Assets held primarily for the purpose of trading;
 2. Assets expected to be realized within 12 months after the balance sheet date;
- and

3. Cash and cash equivalents (unless the asset is to be used for an exchange or to settle a liability, or otherwise remains restricted, at more than 12 months after the balance sheet date).

Current liabilities:

1. Liabilities held primarily for the purpose of trading;
2. Liabilities expected to be settled within 12 months of the balance sheet date, and
3. Liabilities for which does not have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Assets or liabilities other than those stated above are classified as non-current assets or non-current liabilities.

(IV) Consolidation basis

This consolidated financial statement includes the financial statement of the Company and the entities (subsidiaries) controlled by the Company. The consolidated statements of comprehensive income have included the operating profits and losses of the acquired or disposed subsidiaries for the current period from the acquisition date or to the disposal date. The financial statements of subsidiaries have been adjusted to ensure the accounting policies are line with those of the Consolidated Company. Transactions between entities, account balances, profit and losses have been fully eliminated in preparing the consolidated financial statements.

For details of subsidiaries, shareholding ratio and business activities, please refer to Note IX and Table 6 and Table 7.

(V) Foreign currency

When preparing financial statements for each individual entity, transactions in currencies other than the entity's functional currency (foreign currencies) shall be converted into functional currency at the exchange rate on the transaction day. Monetary items denominated in foreign currencies are translated at the closing rates at each balance sheet date. Exchange differences arising on the settlement of monetary items or on translating monetary items shall be recognized in profit or loss in the period in which they arise.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising from the retranslation of

non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which cases, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and shall not be re-translated.

In preparing the consolidated financial statements, the assets and liabilities of the Company and its foreign operations (including subsidiaries that operate in a foreign country or use a currency different from that of the Company) are translated into the New Taiwan Dollars at the exchange rate on each balance sheet date. Income and expense items are translated at the average exchange rate for the current period, the resulting currency translation differences are recognized in other comprehensive income, which belong to the exchange differences arising from the conversion of the functional currency to the presentation currency (NTD), and will not be recognized in the future to profit and loss.

(VI) Inventories

Inventories include raw materials, supplies, finished goods and work in progress. Inventories shall be measured at the lower of cost and net realizable value, and the comparison between cost and net realizable value is based on individual items except for inventories of the same category. Net realizable value is the estimated selling price under normal circumstances less the estimated cost to complete the project and the estimated cost to complete the sale. The calculation of inventory cost adopts the weighted average method.

(VII) Property, plant and equipment

Property, plant and equipment shall be recognized at cost, and subsequent measurement shall be presented at costs subtracted by accumulated depreciation and accumulated impairment losses.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately portion with a straight-line method over their useful lives. The Consolidated Company shall review the estimated useful life, residual value and depreciation

method at least at each financial year-end, and the impact of changes in accounting estimates shall be applied prospectively.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

(VIII) Intangible assets

1. Additions

Intangible assets with a limited useful life acquired separately shall be initially measured at cost, and subsequent measurement shall be presented at costs subtracted by accumulated depreciation and accumulated impairment losses. Intangible assets are amortized on a straight-line basis over their useful lives. The Consolidated Company shall review the estimated useful life, residual value, and amortization method at least at each financial year-end, and the impact of changes in accounting estimates shall be applied prospectively. Intangible assets with indefinite useful lives are recognized at cost subtracted by accumulated impairment losses.

2. Derecognition

Any gain or loss arising on the disposal or retirement of an item of intangible assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

(IX) Impairment of property, plant and equipment, right-of-use assets and intangible assets

The Consolidated Company assess at the date of statement property, plant and equipment, right-of-use assets and intangible assets project whether there is any indication of impairment. If there is any indication that an asset may be impaired, the recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Consolidated Company shall determine the recoverable amount of the cash-generating unit to which the asset belongs. Shared assets are allocated to the smallest cash-generating unit group on a reasonable and consistent basis.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its

recoverable amount. An impairment loss is recognized immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset or a cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. (net of amortisation or depreciation). A reversal of an impairment loss is recognized immediately in profit or loss.

(X) Financial instrument

Financial assets and liabilities shall be presented in the consolidated balance sheet when the Consolidated Company becomes a party to the contractual provisions of the instruments.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

1. Financial asset

The Consolidated Company adopts trade-date accounting to recognize and derecognize financial assets.

(1) Category of financial assets and measurement

The types of financial assets held by the Consolidated Company are financial assets measured at amortized cost.

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- A. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- B. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets measured at amortized cost (including cash and cash equivalents, accounts receivable, other receivables, and refundable deposits) are measured at amortized cost, which equals to gross carrying amount determined by the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of such a financial asset.

A financial asset is credit-impaired when there is a significant financial difficulty for the issuer or the borrower, or the disappearance of an active market for that financial asset because of a breach of contract.

Cash equivalents include time deposits and certificates of deposits investments with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

(2) Impairment of financial assets

On each balance sheet date, the Consolidated Company evaluates the impairment loss of financial assets at amortized cost based on expected credit losses.

Accounts receivable are recognized as allowance losses based on lifetime expected credit losses. Other financial assets are evaluated on whether the credit risk has increased significantly since the original recognition. If there is no significant increase, the loss provision shall be recognized as the 12-month expected credit loss, and if there has been a significant increase, the loss provision shall be recognized as the expected credit loss during the duration.

Expected credit losses reflect the weighted average of credit losses with the respective risks of default occurring as the weights. 12-month ECLs represent the portion of lifetime ECLs that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date. In contrast, lifetime ECLs

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

As for the impairment losses on all financial assets, the carrying amounts there are reduced through an allowance account.

(3) Derecognition of financial assets

The Consolidated Company derecognizes a financial asset only when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the financial asset to another entity.

On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

2. Equity instruments

Debt and equity instruments issued by the Consolidated Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by the Consolidated Company are recognized at the proceeds received, net of direct issue costs.

The Company's own equity instruments subsequently recovered are recognized and deducted under equity. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of the Company's own equity instruments.

3. Financial liabilities

(1) Subsequent measurement

All financial liabilities are measured at amortized cost using the effective interest method.

(2) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

(XI) Revenue recognition

When a performance obligation is satisfied, the Consolidated Company shall recognize as revenue the amount of the transaction price that is allocated to that performance obligation.

Merchandise revenue comes from the sales of products such as gears and machined parts. Since the customer has the right to set the price and use of the product when the product arrives at the customer's designated location/when the product is shipped/when the product is accepted, and has the main responsibility for resale, and bears the risk of obsolescence of the product, the Consolidated Company recognized revenue and accounts receivable at the aforementioned time point.

(XII) Lease

At the inception of a contract, the Consolidated Company assesses whether the contract is, or contains, a lease.

The Consolidated Company as lessee

Except for leases of low-value assets to which the recognition exemption applies and lease payments for short-term leases, which are recognized as expenses on a straight-line basis over the lease term, other leases are recognized as right-of-use assets and lease liabilities on the lease commencement date.

The right-of-use asset is initially measured at cost (including the original measurement amount of the lease liability, the lease payment paid before the lease commencement date, and initial direct costs and estimated costs to restore the underlying assets), and subsequently measured at cost less accumulated depreciation and accumulated impairment losses and adjusted for any remeasurement of the lease liability. Right-of-use assets shall be presented separately in the consolidated balance sheet.

The lessee shall depreciate the right-of-use asset on a straight-line basis from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. If the ownership of the underlying asset will be obtained at the end of the lease term, or if the cost of the right-of-use asset reflects the exercise of the purchase option, depreciation is allocated from the start of the lease to the expiration of the useful life of the underlying asset.

The lease liability is originally measured based on the present value of the lease payment (including fixed payment, substantially fixed benefits, variable lease

payment depending on the index or rate, the amount expected to be paid by the lessee under the residual value guarantee, the exercise price of the purchase option that is reasonable assurance to be exercised, and the lease termination penalty reflected during the lease term, less lease incentives received). The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.

Subsequently, the lease liability is measured on an amortized cost basis using the effective interest method, and the interest expense is amortized over the lease term. Lease liabilities shall be presented separately in the consolidated balance sheet.

(XIII) Borrowing costs

All borrowing costs are recognized as profit or loss in the period in which they are incurred.

(XIV) Government subsidy

A government grant is not recognized until there is reasonable assurance that the Consolidated Company will comply with the conditions attaching to it, and that the grant will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Consolidated Company recognizes as expenses the related costs that the grants intend to compensate. Government subsidies that are conditioned on the Consolidated Company purchasing, constructing, or otherwise acquiring non-current assets are recognized as deferred income and are transferred to profit or loss during the useful life of the relevant assets on a reasonable and systematic basis.

Government grants that are receivables as compensation for expenses already incurred are recognized as profit or loss in the period in which they become receivables.

(XV) Post-employment benefits

The subsidiary participates in the government's pension plan under local laws and regulations, and regularly allocates a certain percentage of pensions based on employees' salaries. This is a pension with a determined retirement allocation method. During the period when employees provide services, the retirement

amounts that should be allocated are recognized as an expense for the current period.

(XVI) Share-based payment agreement

The fair value of equity instruments at the grant date of the options and restricted stock for employees, and the best estimates of the number of shares or options that are expected to ultimately vest are recognized as expenses on a straight-line basis over the vesting period, with a corresponding adjustment in capital surplus-stock options or other equity (employees have not earned remuneration). It is recognized as an expense in full at the grant date if vesting immediately. When the Company handles cash capital increases and retains employee subscriptions, the day approved by the Board of Directors is the grant date.

When the Company issues restricted stock for employees, which is recognized as other equity (employees have not earned remuneration) at the grant date, and at the same time adjusts the capital reserve - restricted stock for employees.

The Consolidated Company revises the estimated quantity of expected vested restricted stock for employees on each balance sheet date. If there is a revision to the original estimated quantity, the influenced amount is recognized as profit and loss, so that the accumulated expenses reflect the revised estimate, and the capital surplus- restricted stock for employees is relatively adjusted.

(XVII) Income tax

Income tax expense is the sum of current income tax and deferred income tax.

1. Current income tax

The Consolidated Company calculates income tax payable based on income for the current period determined under laws and regulations enacted by Mainland China and each income tax reporting jurisdiction.

According to the Income Tax Act of the R.O.C., an additional tax on unappropriated earnings is provided for in the year the shareholders approve to retain the earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2. Deferred income tax

Deferred income tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences and loss deductibles, so taxable profits will probably be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Consolidated Company can control the reversal of the temporary difference time point and, probably, the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are recognized only to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and such temporary differences are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liabilities are settled or the assets are realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Consolidated Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3. Current and deferred income tax

Current and deferred income taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred taxes

are also recognized in other comprehensive income or directly in equity, respectively.

V. Major sources of uncertainty in significant accounting judgments, estimations, and assumptions

When Consolidated Company adopts accounting policies, the management must make relevant judgments, estimates and assumptions based on experience and other relevant factors for the information that is not easily obtained from other sources. Actual results may differ from estimates.

The Consolidated Company will consider the relevant major estimates when making major accounting estimates, such as cash flow estimates, growth rates, discount rates, and profitability. The management will continue to review the estimates and the basic assumptions.

Main sources of uncertainty in estimates and assumptions

Impairment loss of inventories

The net realizable value of inventories is an estimate of the balance after the estimated selling price in the normal business process less the estimated costs required to complete the project and the estimated costs required to complete the sale. These estimates are based on current market conditions and empirical assessment of historical sales of similar products. Changes in market conditions may significantly affect these estimated results.

VI. Cash and cash equivalents

	Dec. 31, 2023	Dec. 31, 2022
Cash on hand and working fund	\$ 678	\$ 962
Bank demand deposit	597,381	692,049
Cash Equivalent (Investments with original maturity within 3 months)		
Bank fixed deposit	283,051	105,563
	<u>\$ 881,110</u>	<u>\$ 798,574</u>

The interest rate range for bank deposits on the balance sheet date is as follows:

	Dec. 31, 2023	Dec. 31, 2022
Bank deposit	0%~5.2%	0%~5.8%

VII. Notes/ accounts receivable

	<u>Dec. 31, 2023</u>	<u>Dec. 31, 2022</u>
<u>Notes receivable</u>		
Measured at amortized cost	<u>\$ 24,470</u>	<u>\$ 23,264</u>
<u>Accounts receivable</u>		
Measured at amortized cost		
Total amount	\$ 617,251	\$ 752,757
Less: loss allowances	(<u>502</u>)	(<u>1,902</u>)
	<u>\$ 616,749</u>	<u>\$ 750,855</u>

The average credit period for merchandise sales by the Consolidated Company is 30 to 150 days. Since the credit period is short, no interest will be accrued.

In order to minimize credit risk, the management of the Consolidated Company has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Consolidated Company reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowance is made for possible irrecoverable amounts. Accordingly, the management of the Consolidated Company believes that the credit risk of the company has been significantly reduced.

The Consolidated Company recognizes loss allowance for accounts receivable based on lifetime expected credit losses. The lifetime expected credit losses are calculated using a provision matrix, which takes into account the customer's past default record and the current financial situation and industrial economic situation. As the Consolidated Company's credit loss experience shows that there is no significant difference in the provision matrix of different customer groups, the provision matrix does not further differentiate customer groups, and only sets the expected credit loss rate based on the number of days overdue for accounts receivable.

If there is evidence that the counterparty is facing serious financial difficulties and the Consolidated Company cannot reasonably expect the recoverable amount, such as the counterparty is in liquidation, the Consolidated Company will write off the relevant accounts receivable, but will continue to pursue account recovery, and the amount recovered due to pursuit and recovery will be recognized in profit or loss.

The Consolidated Company measures the loss allowance of accounts receivable according to the provision matrix as follows:

Dec. 31, 2023

	Not past due	1~90 days past due	91~180 days past due	181~365 days past due	Over 365 days past due	Total
Expected credit loss rate	0.05%	0.05%~5%	5%~30%	30%~60%	100%	
Total amount	\$ 637,783	\$ 3,876	\$ 62	\$ -	\$ -	\$ 641,721
Loss allowance (lifetime expected credit losses)	(287)	(198)	(17)	-	-	(502)
Measured at amortized cost	\$ 637,496	\$ 3,678	\$ 45	\$ -	\$ -	\$ 641,219

Dec. 31, 2022

	Not past due	1~90 days past due	91~180 days past due	181~365 days past due	Over 365 days past due	Total
Expected credit loss rate	0.05%	0.05%~5%	5%~30%	30%~60%	100%	
Total amount	\$ 748,900	\$ 26,747	\$ 241	\$ -	\$ 133	\$ 776,021
Loss allowance (lifetime expected credit losses)	(360)	(1,337)	(72)	-	(133)	(1,902)
Measured at amortized cost	\$ 748,540	\$ 25,410	\$ 169	\$ -	\$ -	\$ 774,119

Changes in lose allowance for accounts receivable is as follows:

	2023	2022
Opening balance	\$ 1,902	\$ 1,283
Less: (Reversal of) impairment loss for the current period this year	(1,488)	602
Withdrawal of bad debts that have been written off	102	-
Effect of exchange rate changes	(14)	17
Ending balance	<u>\$ 502</u>	<u>\$ 1,902</u>

VIII. Inventories

	Dec. 31, 2023	Dec. 31, 2022
Finished goods	\$ 304,368	\$ 338,543
Work in process	247,211	223,894
Raw material	113,863	142,710
	<u>\$ 665,442</u>	<u>\$ 705,147</u>

The cost of sales related to inventory in 2023 and 2022 was NTD1,682,452 thousand and NTD1,750,669 thousand, respectively.

The cost of sales in 2023 and 2022 included inventory depreciation and loss on obsolete and slow-moving of NTD17,273 thousand and NTD90,319 thousand, respectively.

IX. Subsidiaries

Subsidiaries included in the consolidated financial statements

The subsidiaries included in the consolidated financial statements are as follows:

Investor	Subsidiary	Nature of business	Shareholding percentage		Description
			Dec. 31, 2023	Dec. 31, 2022	
The Company	Kwok Hing (China) Development Limited (Kwok Hing (China))	Investment holding	100%	100%	1.

Investor	Subsidiary	Nature of business	Shareholding percentage		Description
			Dec. 31, 2023	Dec. 31, 2022	
Kwok Hing (China)	Zhuhai Khgears Limited (Zhuhai Khgears)	Manufacture and sale of gears	100%	100%	2.
The Company	Forcefive Limited (FFL)	Sale of gears	100%	100%	3.
The Company	Khgears Limited (Khgears Taiwan)	Manufacture and sale of gears	100%	100%	4.
The Company	Khgears Vietnam Co., Ltd. (Khgears Vietnam)	Manufacture and sale of gears	100%	100%	5.

The subsidiaries listed above have been incorporated into the Company's 2023 and 2022 consolidated financial statements.

1. Kwok Hing (China) was registered and established in Hong Kong on May 25, 2001. It is mainly an investment holding company. The Company obtained 100% equity of Kwok Hing (China) on Sep. 8, 2014.
2. Zhuhai Khgears was registered and established in the People's Republic of China on Jan. 16, 2003. It primarily engages in the manufacturing and sales of gears and gearboxes. Zhuhai Khgears was invested and established by Kwok Hing (China). In December 2023, Kwok Hing (China) increased its capital to Zhuhai Khgears by US\$1,500 thousand.
3. FFL was registered and established in Samoa on Apr. 24, 2013. It primarily engages in the sales of gears and gearboxes. The Company obtained 100% equity of FFL on Jul. 1, 2014. In addition, FFL established the FFL Taiwan Branch in the Republic of China on Sep. 17, 2019, mainly engaged in the sales of gears and gearboxes.
4. In August 2019, Khgears Taiwan was established in the Republic of China, primarily engaged in the sales, manufacturing, and research and development of gears and gearboxes. In addition, the Company increased its capital in Khgears Taiwan by NTD30,000 thousand in December 2022.
5. Khgears Vietnam completed its establishment registration in May 2020. It primarily engages in the manufacturing and sales of gears and gearboxes. In addition, the Company increased its capital in Khgears Vietnam by a total of US\$5,000 thousand in April and May 2022.

X. Property, plant and equipment

	Buildings	Machinery equipment	Transportation equipment	Office equipment	Other fixed assets	Construction in progress	Total
<u>Cost</u>							
Balance as of Jan. 1, 2023	\$ 205,665	\$ 1,340,703	\$ 23,163	\$ 90,423	\$ 38,564	\$ 61,977	\$ 1,760,495
Enhancements	22,756	88,814	-	11,776	2,133	1,736	127,215
Disposals	-	(9,001)	-	(2,217)	(1,088)	-	(12,306)
Reclassification	63,357	-	-	-	-	(63,357)	-
Effect of exchange rate changes	(6,649)	(32,327)	(379)	(1,828)	(1,338)	(178)	(42,699)

Balance as of Dec. 31, 2023	285,129	1,388,189	22,784	98,154	38,271	178	1,832,705
<u>Accumulated depreciation</u>							
Balance as of Jan. 1, 2023	77,380	568,619	21,101	63,602	6,099	-	736,801
Depreciation expense	12,112	119,226	730	10,844	7,039	-	149,951
Disposals	-	(7,079)	-	(1,864)	(1,088)	-	(10,031)
Effect of exchange rate changes	(1,678)	(12,911)	(352)	(1,308)	(344)	-	(16,593)
Balance as of Dec. 31, 2023	87,814	667,855	21,479	71,274	11,706	-	860,128
Net amount as of Dec. 31, 2023	<u>\$ 197,315</u>	<u>\$ 720,334</u>	<u>\$ 1,305</u>	<u>\$ 26,880</u>	<u>\$ 26,565</u>	<u>\$ 178</u>	<u>\$ 972,577</u>
<u>Cost</u>							
Balance as of Jan. 1, 2022	\$ 186,444	\$ 1,147,453	\$ 22,580	\$ 74,645	\$ 3,772	\$ 50,091	\$ 1,484,985
Enhancements	12,190	176,544	-	15,645	33,949	11,183	249,511
Disposals	-	(9,371)	-	(1,006)	-	-	(10,377)
Effect of exchange rate changes	7,031	26,077	583	1,139	843	703	36,376
Balance as of Dec. 31, 2022	205,665	1,340,703	23,163	90,423	38,564	61,977	1,760,495
<u>Accumulated depreciation</u>							
Balance as of Jan. 1, 2022	66,470	455,850	19,092	51,807	1,220	-	594,439
Depreciation expense	9,929	112,868	1,482	11,746	4,812	-	140,837
Disposals	-	(6,827)	-	(687)	-	-	(7,514)
Effect of exchange rate changes	981	6,728	527	736	67	-	9,039
Balance as of Dec. 31, 2022	77,380	568,619	21,101	63,602	6,099	-	736,801
Net amount as of Dec. 31, 2022	<u>\$ 128,285</u>	<u>\$ 772,084</u>	<u>\$ 2,062</u>	<u>\$ 26,821</u>	<u>\$ 32,465</u>	<u>\$ 61,977</u>	<u>\$ 1,023,694</u>

Depreciation expense is accrued on a straight-line basis for the following useful life:

Buildings	5 to 20 years
Machinery equipment	2 to 10 years
Transportation equipment	4 years
Office equipment	2 to 10 years
Other	3 to 10 years

The construction in progress of the Consolidated Company mainly represents the capital expenditure for the configuration of production lines by Zhuhai Khgears; the other part of prepaid equipment mainly represents the capital expenditure prepaid by Khgears Vietnam for production equipment, which will be transferred to property, plant, and equipment after completion and acceptance.

Since there is no sign of impairment in 2023 and 2022, the Consolidated Company has not assessed impairment.

Please refer to Note XXVI for the Consolidated Company's property, plant, and equipment as pledges for borrowing from banks.

XI. Intangible assets

	2023	2022
	<u>Computer software</u>	<u>Computer software</u>
<u>Cost</u>		
Opening balance	\$ 17,212	\$ 12,545
Additions	-	4,496
Effect of exchange rate changes	(311)	171
Ending balance	<u>16,901</u>	<u>17,212</u>
<u>Accumulated amortization</u>		

Opening balance	9,758	6,960
Amortization expense	2,735	2,705
Effect of exchange rate changes	(219)	93
Ending balance	<u>12,274</u>	<u>9,758</u>
Ending net amount	<u>\$ 4,627</u>	<u>\$ 7,454</u>

Computer software are amortized on a straight-line basis over a useful life of 2 to 10 years.

XII. Leasing agreement

(I) Right-of-use assets

	<u>Dec. 31, 2023</u>	<u>Dec. 31, 2022</u>
Carrying amount of right-of-use assets		
Land	\$ 59,636	\$ 63,727
Building	<u>5,740</u>	<u>7,111</u>
	<u>\$ 65,376</u>	<u>\$ 70,838</u>
	<u>2023</u>	<u>2022</u>
Addition of right-of-use assets	<u>\$ -</u>	<u>\$ 1,800</u>
Depreciation expense on right-of-use assets		
Land	\$ 1,802	\$ 1,769
Building	<u>1,365</u>	<u>1,016</u>
	<u>\$ 3,167</u>	<u>\$ 2,785</u>

(II) Lease liabilities

	<u>Dec. 31, 2023</u>	<u>Dec. 31, 2022</u>
Carrying amounts of lease liabilities		
Current	<u>\$ 13,349</u>	<u>\$ 13,822</u>
Non-current	<u>\$ 4,207</u>	<u>\$ 5,567</u>

As of Dec. 31, 2023 and 2022, the discount interest rates for the above lease liabilities were 1.15% to 2%.

(III) Important lease activities and terms

Zhuhai Khgears acquired land use rights in Mainland China at an original cost of RMB1,962 thousand. The use rights are valid until August 2053.

In addition, Khgears Vietnam signed a contract in August 2020 and is expected to acquire land use rights in Vietnam for VND48,457,787 thousand. The use rights are valid until October 2058, but as of Dec. 31, 2023, there was still a

balance of VND. 9,691,557 thousand (approximately NTD11,994 thousand, recognized as lease liabilities) has not yet been paid, and the land use right certificate has not yet been obtained.

(IV) Other lease information

	<u>2023</u>	<u>2022</u>
Expense on short-term lease	\$ <u>2,429</u>	\$ <u>5,811</u>
Total cash outflow from lease	(\$ <u>3,832</u>)	(\$ <u>6,914</u>)

The Consolidated Company has chosen to apply the recognition exemption to building leases that qualify as short-term leases and will not recognize the related right-of-use assets and lease liabilities.

XIII. Other current assets

	<u>Dec. 31, 2023</u>	<u>Dec. 31, 2022</u>
Prepayments and expenses	\$ 43,702	\$ 41,637
Input VAT	<u>80,361</u>	<u>44,482</u>
	<u>\$ 124,063</u>	<u>\$ 86,119</u>

XIV. Borrowings

(I) Short-term borrowings

	<u>Dec. 31, 2023</u>	<u>Dec. 31, 2022</u>
<u>Unsecured borrowings</u>		
Bank borrowings	<u>\$ 61,294</u>	<u>\$ 245,600</u>

The interest rates of short-term borrowings were 6.51% and 5.13%-6.05% as of Dec. 31, 2023 and 2022, respectively.

(II) Long-term borrowings

	<u>2023</u>	<u>2022</u>
<u>Unsecured borrowings</u>		
Bank borrowings	\$ 22,985	\$ 38,375
Less: the part recognized due within 1 year	(<u>15,323</u>)	(<u>15,350</u>)
Long-term borrowings	<u>\$ 7,662</u>	<u>\$ 23,025</u>

The Consolidated Company obtained a bank borrowing of US\$1,500 thousand in May 2022. The borrowing interest rate is a flexible interest rate of 6.64%, with monthly interest payments and quarterly repayments in three years.

XV. Other payables and other current liabilities

	<u>Dec. 31, 2023</u>	<u>Dec. 31, 2022</u>
Other payables		
Social insurance premium payable	\$ 66,264	\$ 53,026
Payable for salaries or bonuses	53,567	57,130
Payable for employees remuneration and directors remuneration	37,299	47,719
Housing provident fund payable	31,491	27,419
Payable for equipment	7,818	4,334
Other	<u>57,271</u>	<u>42,580</u>
	<u>\$ 253,710</u>	<u>\$ 232,208</u>
Other current liabilities		
Refund liability	\$ 165,763	\$ 168,638
Other	<u>10,727</u>	<u>12,179</u>
	<u>\$ 176,490</u>	<u>\$ 180,817</u>

XVI. Retirement benefit plans

Determined appropriation plan

The employees of the subsidiaries of the Consolidated Company in Mainland China are enrolled in the pension system operated by the local government. According to the regulations of the government where the subsidiary Zhuhai Khgears is located, it should allocate a certain proportion of pension insurance premiums to relevant government departments based on local standard wages. The Consolidated Company's obligation to this government-operated pension system is only to contribute the specified amount.

The employees of the Consolidated Company's subsidiaries in Vietnam are allocated according to a certain percentage of salary under the provisions of government laws. The Consolidated Company's obligation to this government-operated pension system is only to contribute the specified amount.

The Consolidated Company adopted a pension system under the Labor Pension Act (LPA), which is a state-managed defined contribution plan applied to the Khgears Taiwan and the FFL Taiwan Branch. This system entails monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

XVII. Equity

(I) Share capital

	<u>Dec. 31, 2023</u>	<u>Dec. 31, 2022</u>
Number of shares authorized (in thousands)	<u>200,000</u>	<u>200,000</u>
Authorized capital amount	<u>\$ 2,000,000</u>	<u>\$ 2,000,000</u>
Issued and paid shares (in thousands)	<u>53,109</u>	<u>53,335</u>
Issued capital	<u>\$ 531,090</u>	<u>\$ 533,350</u>

The Company's shareholders meeting resolved to issue restricted stock awards on Jun. 23, 2020, and issued 800,000 shares with Dec. 30, 2020 as the base date. In 2022 and 2023, the issued restricted stock for employees will be recovered free of charge by resolution of the Board of Directors. The restricted stock awards were 45,000 shares and 226,000 shares, respectively. Please refer to Note XXI.

(II) Capital surplus

	<u>Dec. 31, 2023</u>	<u>Dec. 31, 2022</u>
<u>May be used to offset a deficit, distributed as cash dividends or transferred to capital (1)</u>		
Share premium	\$ 1,116,735	\$ 1,116,735
Share issuance premium - employee stock options	16,651	16,651
<u>Not for any purpose</u>		
Restricted stock for employees	<u>31,456</u>	<u>45,423</u>
	<u>\$ 1,164,842</u>	<u>\$ 1,178,809</u>

- Such capital surplus can be used to offset a deficit, and can be used to distribute cash or transfer to capital when the Company has no deficit. However, the appropriation to the share capital is limited to a certain ratio of the paid-in share capital each year.

(III) Retained earning and dividend policy

The Company is currently in the growth stage. Its dividends/dividends can be distributed to the shareholders in the form of cash or/and shares. The distribution of its dividends/dividends should take into consideration the capital expenditures, future business expansion plans, financial planning, and other projects required for sustainable development.

If the Company has earnings at the end of a fiscal year, it may distribute the earnings under the earnings distribution plan formulated by the Board of Directors and approved by the shareholders' meeting. The Board of Directors should formulate an earnings distribution plan in the following manner: (1) all relevant taxes shall be paid under the law; (2) the annual net profit shall first be used to offset accumulated of previous years; (3) the legal reserve shall be appropriated; (4) the special reserve shall be appropriated (if any), the remaining amount (including the reversal of special reserve) can be determined by an ordinary resolution at the regular shareholders' meetings, not less than 10% of the amount of the distributable earnings, plus the total amount approved by the regular shareholders' meetings. All or part of the unappropriated earnings of the previous years (including adjustments to the amount of unappropriated earnings) as determined by the resolution shall be paid to shareholders in the form of dividends/bonuses according to their shareholding ratios. Among these, the amount of cash dividends/bonuses shall not be less than 10% of total dividends/bonuses paid this time.

Please refer to Note XVIII (VI) Employee Remuneration and Director Remuneration for the employees and directors remuneration policy stipulated in the Articles of Association of the Company.

An appropriation of earnings to a legal reserve shall be made until the legal reserve equals the Company's paid-in capital. The legal reserve can be used to make up for losses.

The Company held regular shareholders' meetings on May 22, 2023 and May 20, 2022, and approved the resolution of the 2022 and 2021 earnings distribution proposals as follows:

	<u>2022</u>	<u>2021</u>
Legal reserve	<u>\$ 35,104</u>	<u>\$ 39,369</u>
(Reversal) Provision of special reserve	(<u>\$ 43,729</u>)	<u>\$ 2,095</u>
Cash dividends	<u>\$ 190,364</u>	<u>\$ 237,191</u>
Cash dividend per share (NTD)	\$ 3.6	\$ 4.5

On Mar. 12, 2024, the Company's Board of Directors proposed the 2023 earnings distribution as follows:

	2023
Legal reserve	<u>\$ 27,390</u>
Special reserve reversed	<u>\$ 55,399</u>
Cash dividends	<u>\$ 160,326</u>
Cash dividend per share (NTD)	\$ 3.1

The earnings distribution proposal for 2023 is yet to be resolved at the regular shareholders' meeting expected to be held on May 29, 2024.

(IV) Treasury shares (Year 2022: None)

Reason for withdrawal	Transfer of shares to employees (thousand shares)	Total (thousand shares)
Quantity as of Jan. 1, 2023	-	-
Add this year	<u>172</u>	<u>172</u>
Quantity as of Dec. 31, 2023	<u>172</u>	<u>172</u>

Under the Securities and Exchange Act, the Company shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as rights to dividends and to vote.

XVIII. Net income

(I) Other income

	2023	2022
Revenue of molds	\$ 35,074	\$ 24,790
Government subsidy (Note XXII)	36,680	15,501
Revenue of others	<u>6,691</u>	<u>10,630</u>
	<u>\$ 78,445</u>	<u>\$ 50,921</u>

(II) Other gains and losses

	2023	2022
Gain on foreign exchange	\$ 2,049	\$ 89,639
Gains on disposal and scrapping of property, plant and equipment	2,707	625
Other	(<u>6,297</u>)	(<u>2,937</u>)
	<u>(\$ 1,541)</u>	<u>\$ 87,327</u>

(III) Finance costs

	<u>2023</u>	<u>2022</u>
Interest on bank borrowings	\$ 15,670	\$ 7,124
Interest expense on lease liabilities	<u>58</u>	<u>66</u>
	<u>\$ 15,728</u>	<u>\$ 7,190</u>

(IV) Depreciation and amortization

	<u>2023</u>	<u>2022</u>
Property, plant and equipment	\$ 149,951	\$ 140,837
Right-of-use assets	3,167	2,785
Intangible assets	<u>2,735</u>	<u>2,705</u>
Total	<u>\$ 155,853</u>	<u>\$ 146,327</u>
Depreciation expenses summarized by function		
Operating costs	\$ 110,158	\$ 99,332
Operating expenses	<u>42,960</u>	<u>44,290</u>
	<u>\$ 153,118</u>	<u>\$ 143,622</u>
Amortization expenses summarized by function		
Operating expenses	<u>\$ 2,735</u>	<u>\$ 2,705</u>

(V) Employee benefits expenses

	<u>2023</u>	<u>2022</u>
Post-employment benefits (Note XVI)		
Determined appropriation plan	\$ 31,571	\$ 31,756
Share-based payment Equity-settled (Note XXI)	(7,194)	15,530
Salary expenses	341,451	391,132
Other employment expenses	<u>114,848</u>	<u>124,057</u>
Total employee benefits expenses	<u>\$ 480,676</u>	<u>\$ 562,475</u>
Summarized by function		
Operating costs	\$ 259,047	\$ 301,402
Operating expenses	<u>221,629</u>	<u>261,073</u>
	<u>\$ 480,676</u>	<u>\$ 562,475</u>

(VI) Remuneration to the employees and directors

According to the Articles of Association, if the Company makes a profit in the current year, it shall allocate no less than 5% and no more than 5% remuneration for the employees and directors, respectively. They are based on the pre-tax net profit for the year before deducting employee and director remuneration distributions and after making up for losses. The remuneration for the employees and directors for 2023 and 2022 approved by the Board of Directors is as follows:

Estimated ratio

	<u>2023</u>	<u>2022</u>
Remuneration to employees	8%	8%
Remuneration to directors	4%	4%

Amount

	<u>2023</u>	<u>2022</u>
	<u>Cash</u>	<u>Cash</u>
Remuneration to employees	<u>\$ 24,511</u>	<u>\$ 31,813</u>
Remuneration to directors	<u>\$ 12,256</u>	<u>\$ 15,906</u>

If there is still a change in the amount after the annual consolidated financial statement is approved, it will be treated as a change in accounting estimates and adjusted and recorded in the following year.

There is no difference between the actual distributed amounts of employee remuneration and director remuneration in 2022 and 2021 and the recognized amounts in the consolidated financial statement for 2022 and 2021.

For information on employee remuneration and director remuneration as approved by the Board of Directors, please visit the “Market Observation Post System” of the Taiwan Stock Exchange.

XIX. Income tax

(I) Main items of income tax expense recognized in profit or loss:

	<u>2023</u>	<u>2022</u>
Current income tax		
Current tax expenses		
recognized for the		
current period	\$ 46,872	\$ 38,335
Deferred income tax		

Current tax expenses recognized for the current period	<u>37,613</u>	<u>7,819</u>
Income tax expense recognized in profit or loss	<u>\$ 84,485</u>	<u>\$ 46,154</u>

A reconciliation of accounting profit and income tax expenses is as follows:

	<u>2023</u>	<u>2022</u>
Profit before tax	<u>\$ 358,384</u>	<u>\$ 397,193</u>
Income tax calculated at the statutory rate	\$ 48,493	\$ 46,951
Items that should be adjusted when determining taxable profits	<u>35,992</u>	(<u>797</u>)
Income tax expense recognized in profit or loss	<u>\$ 84,485</u>	<u>\$ 46,154</u>

The Company is registered in the British Cayman Islands and its profits are tax-free under local laws.

Kwok Hing (China) is registered in the Hong Kong Special Administrative Region of the People's Republic of China. According to the provisions of the "Hong Kong Inland Revenue Ordinance", it is only taxed on profits derived from sources within Hong Kong.

The Company's subsidiary FFL is established in a third place that is tax-free. Under local laws and regulations, all income tax for overseas companies is exempt from tax, so there is no profit-seeking enterprise income tax burden.

The applicable tax rate for the Company's subsidiary Khgears Taiwan located in the Republic of China and FFL's branch located in the Republic of China is 20%.

According to the "Enterprise Income Tax Law of the People's Republic of China", the subsidiary Zhuhai Khgears's original applicable tax rate is 25%. In addition, because Zhuhai Khgears has obtained the qualification of a high-tech enterprise, the applicable tax rate is 15%.

The applicable tax rate for Khgears Vietnam, the Company's subsidiary in Vietnam, is 20%.

(II) Current tax liabilities

	<u>Dec. 31, 2023</u>	<u>Dec. 31, 2022</u>
Current tax assets		
Tax refund receivable	<u>\$ 2,452</u>	<u>\$ -</u>
Current tax liabilities		
Income tax payable	<u>\$ 5,853</u>	<u>\$ 10,271</u>

(III) Deferred income tax assets and liabilities

Changes in deferred income tax assets and liabilities are as follows:

2023

<u>Deferred tax assets</u>	<u>Jan. 1, 2023</u>	<u>Recognized in profit or loss</u>	<u>Effect of exchange rate changes</u>	<u>Dec. 31, 2023</u>
Impact of deferred income tax on government subsidy income	<u>\$ 9,453</u>	<u>(\$ 3,210)</u>	<u>(\$ 124)</u>	<u>\$ 6,119</u>

<u>Deferred tax liabilities</u>	<u>Jan. 1, 2023</u>	<u>Recognized in profit or loss</u>	<u>Effect of exchange rate changes</u>	<u>Dec. 31, 2023</u>
Impact of the deferred income tax on the earnings of subsidiaries	<u>\$ 12,868</u>	<u>\$ 34,403</u>	<u>(\$ 557)</u>	<u>\$ 46,714</u>
Other	<u>794</u>	<u>-</u>	<u>(15)</u>	<u>779</u>
	<u>\$ 13,662</u>	<u>\$ 34,403</u>	<u>(\$ 572)</u>	<u>\$ 47,493</u>

2022

<u>Deferred tax assets</u>	<u>Jan. 1, 2022</u>	<u>Recognized in profit or loss</u>	<u>Effect of exchange rate changes</u>	<u>Dec. 31, 2022</u>
Impact of deferred income tax on government subsidy income	<u>\$ 10,780</u>	<u>(\$ 1,490)</u>	<u>\$ 163</u>	<u>\$ 9,453</u>

<u>Deferred tax liabilities</u>	<u>Jan. 1, 2022</u>	<u>Recognized in profit or loss</u>	<u>Effect of exchange rate changes</u>	<u>Dec. 31, 2022</u>
Impact of the deferred income tax on the earnings of subsidiaries	<u>\$ 20,280</u>	<u>(\$ 9,309)</u>	<u>\$ 1,897</u>	<u>\$ 12,868</u>
Other	<u>782</u>	<u>-</u>	<u>12</u>	<u>794</u>
	<u>\$ 21,062</u>	<u>(\$ 9,309)</u>	<u>\$ 1,909</u>	<u>\$ 13,662</u>

(IV) Income tax assessment

The reporting proposals of Khgears Taiwan and FFL Taiwan Branch before 2022 have been approved by the tax collection authority.

XX. Earnings per share

	Unit: NTD per share	
	2023	2022
Earnings per share - basic	<u>\$ 5.18</u>	<u>\$ 6.66</u>
Earnings per share - diluted	<u>\$ 5.11</u>	<u>\$ 6.53</u>

Earnings and the weighted average number of common shares used to calculate earnings per share:

Net income

	2023	2022
Net profit attributable to owners of the Company	<u>\$ 273,899</u>	<u>\$ 351,039</u>

Quantity Unit: thousand shares

	2023	2022
Weighted average number of common shares used to calculate basic earnings per share	52,874	52,710
Effect of potential dilutive common shares:		
Remuneration to employees	390	547
Restricted stock awards	<u>386</u>	<u>533</u>
Weighted average number of common shares used to calculate diluted earnings per share	<u>53,650</u>	<u>53,790</u>

If the Consolidated Company can choose to pay employee remuneration in shares or cash, when calculating diluted earnings per share, assumed that employee remuneration will be issued in shares, the weighted average number of outstanding shares shall be included in the potentially dilutive common shares to calculate the diluted EPS. When calculating the diluted EPS before deciding on the number of shares for employee remuneration in the following year, the potentially dilutive common shares will also be considered. In addition, restricted stock awards are based on the assumption that the restrictions have been lifted this year.

XXI. Share-based payment agreement

(I) Restricted stock awards

On Jun. 23, 2020, the Company's regular shareholders' meeting resolved to issue 800,000 restricted stock awards, which became effective after reporting to the Financial Supervisory Commission. It also issued 800,000 shares free of charge on Dec. 30, 2020. The restricted stock awards did not meet the vested conditions have voting rights, but not allowed to participate in the Company's allotment, dividend distribution, and cash capital increase shares.

After employees are allocated or subscribe for new shares but before the vested conditions are met, their rights are restricted as follows:

1. Employees may not sell, pledge, transfer, gift to others, set up or otherwise dispose of restricted stock awards.
2. Restricted stock awards are not allowed to participate in allotments and dividend distribution.
3. Restricted stock awards have no voting rights.

If an employee fails to meet the vested conditions, the Company has the right to take back the allocated restricted stock awards for free and cancel them.

Relevant information on restricted stock awards is as follows:

	2023	2022
Restricted stock awards	Quantity	Quantity
	(in thousands)	(in thousands)
Circulation at the beginning of the period	456	671
Expired this year	(226)	(45)
Restrictions lifted this year	(140)	(170)
Circulation at the end of the period	<u>90</u>	<u>456</u>

Information related to the restricted stock awards issued by the Company in 2020 is as follows:

Grant date	Fair value per share at the grant date (NTD)	Grant quantity (in thousand shares)	Vested period
Dec. 30, 2020	71.8	800	2 to 4 years

The cost of restricted stock awards remuneration recognized (reversed) in 2023 and 2022 was NTD7,194 thousand to be reversed and NTD15,530 thousand to be recognized, respectively.

XXII. Government subsidy

Zhuhai Khgears received the first phase of project funds of NTD26,490 thousand (approximately RMB 6,000 thousand) in December 2019 for its compliance with the Zhuhai City Innovation and Entrepreneurship Team Project Plan. However, during the review period for its project plan from Dec. 1, 2019 to Dec. 31, 2022, a portion of the project was reviewed and not approved, resulting in the local government reclaiming some of the funds. A total of NTD4,958 thousand (approximately RMB1,128 thousand) was withdrawn from the project funds in August and October 2023. The project was reviewed and concluded in 2023, and as a result, the remaining funds of NTD21,415 thousand (approximately RMB4,872 thousand) were recognized as subsidy income for the year. In July 2022, Zhuhai Khgears received the first phase of project funds totaling NTD9,183 thousand (approximately RMB2,080 thousand) due to its compliance with the 2020 Provincial Key R&D Program of the Zhuhai Municipal Science and Technology Innovation Bureau. However, the review period for its project plan has to be reviewed from Jan. 1, 2020 to Dec. 31, 2022. If the review fails, the funds will be withdrawn, and deferred income will be recognized when the payment is obtained. Subsidy income will be recognized after the subsequent review results.

As of Dec. 31, 2023, Zhuhai Khgears has received a total of NTD73,566 thousand (approximately RMB17,002 thousand) in local government subsidy funds. This fund is used to subsidize purchased equipment and encourage research and development. When the funds are received, deferred income is recognized, and subsidy income is amortized and recognized based on the useful life of the relevant machinery and equipment.

The deferred income amounts of Zhuhai Khgears that have not been amortized as of Dec. 31, 2023 and Dec. 31, 2022 were NTD44,916 thousand (approximately RMB10,380 thousand) and NTD72,191 thousand (approximately RMB16,377 thousand), respectively.

XXIII. Capital risk management

The Consolidated Company conducts capital management to ensure that companies can continue to operate, and maximize shareholder returns with the best mix of debt and equity. The overall strategy of the Consolidated Company remains unchanged from previous years.

The main management of the Consolidated Company regularly re-examines the capital structure of the Company and balances its overall capital structure by paying dividends, issuing new shares, borrowing, or repaying borrowings.

XXIV. Financial instrument

(I) Fair value information - financial instruments not measured at fair value

The management of the Consolidated Company considers that the carrying amounts of financial assets and financial liabilities not measured at fair value both approximate their fair values.

(II) Types of financial instruments

	<u>Dec. 31, 2023</u>	<u>Dec. 31, 2022</u>
<u>Financial asset</u>		
Financial assets measured at amortized cost (Note 1)	\$ 1,599,465	\$ 1,641,130
<u>Financial liabilities</u>		
Measured at amortized cost (Note 2)	594,036	746,309

Note 1: The balance includes cash and cash equivalents, financial assets measured at amortized cost, notes receivable, accounts receivable, other receivables and deposits, and other financial assets measured at amortized cost.

Note 2: The balance includes financial liabilities measured at amortized cost such as borrowings, accounts payable, other payables, and deposits received.

(III) Financial risk management objectives and policies

The main financial instruments of the Consolidated Company include receivables, short-term borrowings, accounts payable, other payables, and lease liabilities. Risks related to financial instruments include market risk (including exchange rate risk and interest rate risk), credit risk and liquidity risk. The management of the Consolidated Company analyzes each risk exposure situation according to the degree and breadth of the risk, and regularly supervises and manages it to ensure timely and take appropriate measures effectively.

1. Market risk

The main marketing risks borne by the Consolidated Company's operating activities are the foreign currency exchange rate risk (see (1) below) and the interest rate risk (see (2) below).

(1) Foreign currency risk

The Consolidated Company is engaged in foreign currency-denominated sales and purchase transactions, thus causing the Consolidated Company to be exposed to foreign currency risk.

For the book values of monetary assets and liabilities of the Consolidated Company denominated in non-functional currencies on the balance sheet date (including those monetary items denominated in non-functional currencies that have been eliminated in the consolidated financial statements), please refer to Note XXVII.

Sensitivity analysis

The Consolidated Company is mainly affected by the fluctuation of the US dollar exchange rate. When each functional currency appreciates/depreciates by 3% against the US dollar, the Consolidated Company's pre-tax net profit in 2023 and 2022 will decrease/increase by NTD18,629 thousand and NTD19,866 thousand, respectively. Since the aforementioned sensitivity analysis is calculated based on the foreign currency risk exposure amount on the balance sheet date, management believes that the sensitivity cannot reflect the mid-year risk exposure situation.

(2) Interest rate risk

Since the Consolidated Company holds financial assets with floating interest rates, it has cash flow exposure to changes in interest rates. The management of the Consolidated Company regularly monitors changes in market interest rates and adopts appropriate risk control mechanisms to respond to risks arising from changes in market interest rates.

The book values of financial assets and financial liabilities of the Consolidated Company subject to interest rate risk exposure on the balance sheet date are as follows:

	<u>Dec. 31, 2023</u>	<u>Dec. 31, 2022</u>
Fair value interest rate risk		
- Financial assets	<u>\$ 284,025</u>	<u>\$ 106,576</u>
- Financial liabilities	<u>\$ 17,556</u>	<u>\$ 19,389</u>

Cash flow interest rate risk		
- Financial assets	<u>\$ 597,381</u>	<u>\$ 692,049</u>
- Financial liabilities	<u>\$ 84,279</u>	<u>\$ 283,975</u>

Sensitivity analysis

The calculation of the Consolidated Company is based on the financial assets and financial liabilities with cash flow interest rate risk on the balance sheet date. The sensitivity analysis is based on the interest rate exposure at the balance sheet date. The analysis for floating rate assets/ liabilities assumes that the amounts of the assets/ liabilities outstanding at the balance sheet date were all outstanding during the reporting period. The rate of change used in reporting interest rates within the Group to key management is a 0.5% increase or decrease in interest rates, which represents management's assessment of the reasonably possible range of changes in interest rates.

If interest rates increased/decreased by 0.5% when all other variables are held constant, the Consolidated Company's net income before tax in 2023 and 2022 will increase/decrease by NTD2,566 thousand and NTD2,040 thousand, respectively.

2. Credit risk

Credit risk refers to the risk that the counterparty defaults on its contractual obligations resulting in financial losses. As of the balance sheet date, the maximum credit risk exposure of the Consolidated Company is from the carrying amount of financial assets recognized in the consolidated balance sheet.

The policy adopted by the Consolidated Company is to only conduct transactions with credit-worthy parties in order to reduce the risk of financial losses and to continuously monitor credit risks and the credit status of the counterparty.

The credit risk of the Consolidated Company is concentrated in the top one customer. As of Dec. 31, 2023 and 2022, the ratio for the total amount of accounts receivable and total contract assets that came from the aforementioned customers were 61% and 65%, respectively. The

Consolidated Company assesses that the past credit status and account collection status of the aforementioned customers are good, and therefore assesses that there is no significant credit risk.

3. Liquidity risk

The Consolidated Company manages and maintains a sufficient position of cash to support the Group's operations and mitigate the impact of fluctuations in cash flow.

(1) Liquidity and interest rate risk for non-derivative financial liabilities

The analysis of the remaining contractual maturity of non-derivative financial liabilities is based on the earliest date on which the Consolidated Company may be required to repay, and is prepared based on the undiscounted cash flows of financial liabilities (including principal and estimated interest). Therefore, the bank borrowings for which the Consolidated Company may be required to repay immediately are within the earliest period in the table below, without considering the probability of the bank immediately executing the right; the maturity analysis of other non-derivative financial liabilities is prepared based on the agreed repayment dates.

Dec. 31, 2023

	Payment at sight or less than 1 month	1 to 3 months	3 to 12 months	Over 1 year
<u>Non-derivative financial liabilities</u>				
Non-interest bearing liabilities	\$ 509,669	\$ -	\$ -	\$ -
Variable interest rate liabilities	61,452	4,046	12,138	7,799
Lease liabilities	11,995	688	666	4,207
	<u>\$ 583,116</u>	<u>\$ 4,734</u>	<u>\$ 12,804</u>	<u>\$ 12,006</u>

Dec. 31, 2022

	Payment at sight or less than 1 month	1 to 3 months	3 to 12 months	Over 1 year
<u>Non-derivative financial liabilities</u>				
Non-interest bearing liabilities	\$ 462,245	\$ -	\$ -	\$ -
Variable interest rate liabilities	93,140	159,031	12,792	24,083
Lease liabilities	12,474	702	702	5,718
	<u>\$ 567,859</u>	<u>\$ 159,733</u>	<u>\$ 13,494</u>	<u>\$ 29,801</u>

(2) Financing quota

	<u>Dec. 31, 2023</u>	<u>Dec. 31, 2022</u>
Unsecured borrowings quota		
- Amount used	\$ 84,279	\$ 283,975
- Amount unused	<u>1,001,845</u>	<u>747,808</u>
	<u>\$ 1,086,124</u>	<u>\$ 1,031,783</u>
Secured borrowings quota		
- Amount unused	<u>\$ 194,715</u>	<u>\$ 198,360</u>

XXV. Related party transaction

Transactions, account balances, income and expenses between the Company and its subsidiaries (which are related parties of the Company) are all eliminated upon consolidation, thus not disclosed in this note. Unless disclosed in other notes, the transactions between the Consolidated Company and other related parties are as follows.

Remuneration for key managerial officers

	<u>2023</u>	<u>2022</u>
Short-term employee benefits	\$ 30,567	\$ 31,090
Share-based payment	<u>324</u>	<u>960</u>
	<u>\$ 30,891</u>	<u>\$ 32,050</u>

The remuneration of directors and other key managerial officers is determined by the Remuneration Committee in accordance with individual performance and market trends.

XXVI. Pledged assets

The following assets have been provided as collateral for applications for borrowing lines and performance guarantees from banks:

	<u>Dec. 31, 2023</u>	<u>Dec. 31, 2022</u>
Buildings	\$ 40,949	\$ 44,923
Right-of-use assets	5,037	5,304
Time deposits (recognized as financial assets measured at amortized cost)	<u>974</u>	<u>1,013</u>
	<u>\$ 46,960</u>	<u>\$ 51,240</u>

The interest rate range for time deposits (recognized as financial assets measured at amortized cost) on the balance sheet date is as follows:

	<u>Dec. 31, 2023</u>	<u>Dec. 31, 2022</u>
Fixed deposit	7.6%	5.5%

XXVII. Information on significant foreign currency assets and liabilities

The following information is expressed in foreign currencies other than the functional currencies of the Consolidated Companies. The exchange rates disclosed refer to the rates at which these foreign currencies are converted to functional currencies.

Significant foreign currency assets and liabilities are as follows:

Unit: Except for the exchange rate, the remainder is foreign currency/

In Thousands of New Taiwan Dollars

Dec. 31, 2023

	Foreign currency	Exchange rate	Functional currency	NTD
<u>Assets in foreign currency</u>				
<u>Monetary items</u>				
USD	\$ 53,262	7.0807 (USD: RMB)	\$ 379,107	\$ 1,640,396
USD	4,048	24,445 (USD: VND)	98,956,748	124,298
USD	412	30.6080 (USD: NTD)	12,596	12,596
EUR	435	7.8592 (EUR: RMB)	3,413	14,767
EUR	350	33.9600 (EUR: NTD)	11,866	11,866
<u>Liabilities in foreign currency</u>				
<u>Monetary items</u>				
USD	19,796	7.0827 (USD: RMB)	140,203	606,662
USD	16,781	24,445 (USD: VND)	410,195,931	515,241
USD	1,211	30.6080 (USD: NTD)	37,070	37,070

Dec. 31, 2022

	Foreign currency	Exchange rate	Functional currency	NTD
<u>Assets in foreign currency</u>				
<u>Monetary items</u>				
USD	\$ 54,002	6.9646 (USD: RMB)	\$ 376,106	\$ 1,657,874
USD	3,337	23,845 (USD: VND)	79,577,025	103,617
USD	516	30.7100 (USD: NTD)	15,809	15,809
USD	2,672	7.7967 (USD: HKD)	20,834	82,061
JPY	4,555	0.0554 (JPY: RMB)	239	1,051
HKD	94	0.8933 (HKD : RMB)	84	368
EUR	420	7.4229 (EUR: RMB)	3,117	13,740
EUR	196	32.7201 (EUR: NTD)	6,393	6,393
<u>Liabilities in foreign currency</u>				
<u>Monetary items</u>				
USD	19,903	6.9646 (USD: RMB)	138,615	611,015
USD	15,294	23,845 (USD: VND)	364,683,937	473,611
USD	1,276	30.7100 (USD: NTD)	39,174	39,174
JPY	22,146	0.0554 (JPY: RMB)	1,160	5,111
EUR	107	32.7201 (EUR: NTD)	3,507	3,507

The Consolidated Company's Gain on foreign exchange gain and loss (including realized and unrealized) in 2023 and 2022 were NTD2,049 thousand and NTD89,639 thousand, respectively. Due to the wide variety of foreign currency transactions, it is not possible to disclose exchange gains and losses and significant impact on foreign currency.

XXVIII. Notes to disclosures

(I) Information on significant transactions:

1. Lending funds to others: Table 1.
2. Providing endorsements or guarantees for others: Table 2.
3. Holding of securities at the end of the period: None.
4. Aggregate purchases or sales of the same securities reaching NT\$300 million or 20% of paid-in capital or more: None.
5. Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.
6. Disposal of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.
7. The purchase and sale of goods with related parties reaching NT\$100 million or 20% of paid-in capital or more: Table 3.
8. Accounts receivable from related parties reaching NT\$100 million or 20% of paid-in capital or more: Table 4.
9. Trading in derivative instruments: None.
10. Others: The relationship and circumstances and amounts of important transactions between the parent and subsidiary companies and between each subsidiary: Table 5.

(II) Information on investees: Table 6.

(III) Information of investment in Mainland China

1. Name of the investee company in Mainland China, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, shareholding ratio, profit or loss this year, and recognized investment gain or loss, carrying amount of the investment at the end of the period, repatriated investment gains, and a limit on the amount of investment in Mainland China: See Table 7.

2. Any of the following significant transactions with investees in Mainland China, either directly or indirectly through a third area, and their prices, payment terms, and unrealized gains or losses:
 - (1) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period: Table 3.
 - (2) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period: None.
 - (3) The amount of property transactions and the amount of the resultant gains or losses: None.
 - (4) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes: None.
 - (5) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds: None.
 - (6) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services: Tables 3, 4 and 5.
- (IV) Information of major shareholders: the names of shareholders with a shareholding ratio of more than 5% with the amount and proportion of shares held: Table 8.

XXIX. Department information

(I) Industry information

In accordance with the requirements of IFRS 8 Operating Segments, the Consolidate Company only operates manufacturing and sales of gears and is a single operating segment, so there is no significant segment information to be disclosed.

(II) Revenue from key products

The revenue analysis of the key products and services of the continuing operations of the Consolidate Company is as follows:

	2023	2022
Gear components	<u>\$ 2,348,849</u>	<u>\$ 2,443,385</u>

(III) Regional information

The revenue of the Consolidated Company from external customers by location of operation and non-current assets by location of assets as listed below:

	Revenue from external customers		Non-current assets	
	2023	2022	Dec. 31, 2023	Dec. 31, 2022
Asia	\$ 2,175,962	\$ 2,170,178	\$ 1,099,814	\$ 1,204,671
America	38,291	93,040	-	-
Europe	134,596	180,167	-	-
	<u>\$ 2,348,849</u>	<u>\$ 2,443,385</u>	<u>\$ 1,099,814</u>	<u>\$ 1,204,671</u>

Non-current assets exclude financial assets classified as measured at amortized cost, deferred income tax assets, and refundable deposits paid.

(IV) Information of major customers

Customers accounted for more than 10% of the total revenue of the Consolidated Company are shown below:

	2023	2022
Customer A	<u>\$ 1,359,394</u>	<u>\$ 1,281,073</u>

KHGEARS INTERNATIONAL LIMITED AND ITS SUBSIDIARIES
LENDING FUNDS TO OTHERS
FOR THE YEARS ENDED DEC. 31, 2023

Table 1

Unit: Unless otherwise noted, the currency is in thousands of New Taiwan Dollars

No. (Note 1)	Financing Company	Counterparty	Item	Related Party	Maximum Balance for the Period (Note 3)	Ending Balance (Note 3)	Amount Actually Drawn (Note 3)	Interest Rate	Nature of Financing	Business Transaction Amount	Reasons for Short-Term Financing	Allowance for Bad Debts	Collateral		Financing Limit for Each Borrower (Note 2)	Aggregate Financing Limit (Note 2)	Remark
													Item	Value			
0	The Company	Khgears Taiwan	Other receivables - related parties	Yes	\$ 61,410 (USD2,000 thousand)	\$ 30,705 (USD1,000 thousand)	\$ 19,958 (USD650 thousand)	1.5%	Short term financing	\$ -	Operating capital	\$ -	—	\$ -	\$ 522,202	\$ 1,044,404	
0	The Company	Khgears Vietnam	Other receivables - related parties	Yes	429,870 (USD14,000 thousand)	429,870 (USD14,000 thousand)	184,230 (USD6,000 thousand)	1.5%	Short term financing	-	Operating capital	-	—	-	522,202	1,044,404	
1	FFL	Khgears Vietnam	Other receivables - related parties	Yes	237,964 (USD7,750 thousand)	122,820 (USD4,000 thousand)	122,820 (USD4,000 thousand)	1.5%	Short term financing	-	Operating capital	-	—	-	285,587	285,587	
1	FFL	Khgears Taiwan	Other receivables - related parties	Yes	30,705 (USD1,000 thousand)	- (USD- thousand)	- (USD- thousand)	1.5%	Short term financing	-	Operating capital	-	—	-	285,587	285,587	
2	Zhuhai Khgears	The Company	Other receivables - related parties	Yes	184,230 (USD6,000 thousand)	184,230 (USD6,000 thousand)	173,483 (USD5,650 thousand)	4.5%	Short term financing	-	Operating capital	-	—	-	442,812	885,624	
2	Zhuhai Khgears	Khgears Vietnam	Other receivables - related parties	Yes	153,525 (USD5,000 thousand)	153,525 (USD5,000 thousand)	153,525 (USD5,000 thousand)	4.5%	Short term financing	-	Operating capital	-	—	-	442,812	885,624	

Note 1: The description of the number column is as follows:
(1) Enter 0 for the issuer.
(2) The invested companies are sequentially numbered by company, starting from the Arabic numeral 1.

Note 2: The Company follows the procedures for lending funds to others. For companies or banks that need short-term financing, the loan limit for each borrower shall not exceed 20% of the Company's most recent net worth of financial reports that have been audited or reviewed by CPA, the total amount of funds loaned to others shall not exceed 40%; FFL funds are loaned to the parent company or a company in which the parent company, directly and indirectly, holds 100% of the voting shares. The limit and total amount of each borrower shall not exceed 100% of the net value of FFL's most recent financial report audited or reviewed by CPAs; Zhuhai Khgears has companies or banks that need short-term financing, and the loan limit of each borrower shall not exceed 20% of the net value of the latest financial report of Zhuhai Khgears that has been audited or reviewed by CPAs. The total amount of funds loaned to others shall not exceed the net value of Zhuhai Khgears Limited’s most recent financial report that has been audited or reviewed by CPAs. The net value of the financial report is limited to 40%. The aforementioned net value was calculated based on the net value of each company on Dec. 31, 2023.

Note 3: It was translated based on the exchange rate on Dec. 31, 2023.

KHGEARS INTERNATIONAL LIMITED AND ITS SUBSIDIARIES
PROVIDING ENDORSEMENTS OR GUARANTEES FOR OTHERS
FOR THE YEARS ENDED DEC. 31, 2023

Table 2Unit: Unless otherwise noted, the currency is in thousands of New Taiwan Dollars

No.	Endorsement/ Guarantee Provider	Endorsee/Guarantee		Limit on Endorsement/ Guarantee Given on Benefit of Each Party (Note 2)	Maximum Amount Endorsed/ Guaranteed During the Period (Note 3)	Outstanding Endorsement/ Guarantee at the End of the Period (Note 3)	Amount Actually Drawn (Note 3)	Amount of Endorsement/ Guarantee Collateralized by Properties	Ratio of Accumulated Endorsement/ Guarantee to Net Equity per Latest Financial Statements (%)	Maximum Endorsement/ Guarantee Amount Allowable (Note 2)	Guarantee Provided by Parent Company	Guarantee Provided by Subsidiary	Guarantee Provided to Subsidiaries in Mainland China	Remark
		Company Name	Relationship											
0	The Company	FFL	Subsidiary of the Company	\$ 2,611,011	\$ 583,395 (USD19,000 thousand)	\$ 583,395 (USD19,000 thousand)	\$ 583,395 (USD19,000 thousand)	\$ -	22.34%	\$ 2,611,011	Y	N	N	
0	The Company	Khgears Taiwan	Subsidiary of the Company	2,611,011	15,000	-	-	-	-	2,611,011	Y	N	N	
1	FFL	The Company	The Company	571,174	368,460 (USD12,000 thousand)	368,460 (USD12,000 thousand)	368,460 (USD12,000 thousand)	-	129.02%	571,174	N	Y	N	

Note 1: Calculated using net worth as of Dec. 31, 2023.

Note 2: The Company's endorsement guarantee for a single subsidiary that directly and indirectly holds 100% of the voting shares shall not exceed 100% of the Company's current net worth. FFL's endorsement guarantee for the Company is limited to no more than 200% of FFL's current net worth.
The maximum limit of this endorsement guarantee was calculated based on the net value on Dec. 31, 2023.

Note 3: Amounts were translated based on the exchange rate on Dec. 31, 2023.

KHGEARS INTERNATIONAL LIMITED AND ITS SUBSIDIARIES
THE PURCHASE AND SALE OF GOODS WITH RELATED PARTIES REACHING NT\$100 MILLION OR 20% OF PAID-IN CAPITAL OR MORE
FOR THE YEARS ENDED DEC. 31, 2023

Table 3

Unit: Unless otherwise noted, the currency is in thousands of New Taiwan Dollars

Company Name	Counterparty	Relationship	Transaction Details				Abnormal Transaction		Notes/ Accounts Payable or Receivable		Remark
			Purchases/ Sales	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
Zhuhai Khgears	FFL	The same ultimate parent company	Sales	\$ 1,091,000	57.18%	150 days	No significant difference	No significant difference	\$ 281,549	55.38%	(Note)
FFL	Zhuhai Khgears	The same ultimate parent company	Purchase	(1,091,000)	(79.90%)	150 days	No significant difference	No significant difference	(281,549)	(78.90%)	(Note)
Khgears Vietnam	FFL	The same ultimate parent company	Sales	274,407	77.80%	150 days	No significant difference	No significant difference	68,486	62.57%	(Note)
FFL	Khgears Vietnam	The same ultimate parent company	Purchase	(274,407)	(20.10%)	150 days	No significant difference	No significant difference	(68,486)	(19.16%)	(Note)

Note: It has been fully written off when preparing the consolidated financial statements.

KHGEARS INTERNATIONAL LIMITED AND ITS SUBSIDIARIES
ACCOUNTS RECEIVABLE FROM RELATED PARTIES REACHING NT\$100 MILLION OR 20% OF PAID-IN CAPITAL OR MORE
FOR THE YEARS ENDED DEC. 31, 2023

Table 4

Unit: Unless otherwise noted, the currency is in thousands of New Taiwan Dollars

Company Name	Counterparty	Relationship	Ending Balance (Note 1)	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
Zhuhai Khgears	FFL	Subsidiary of the Parent Company	\$ 281,549	3.59	\$ -	—	\$ 151,642	\$ -
Zhuhai Khgears	The Company	Parent Company	178,131 (Recognized as other receivables)	-	-	—	-	-
Zhuhai Khgears	Khgears Vietnam	Subsidiary of the Parent Company	168,681 (Recognized as other receivables)	-	-	—	-	-
The Company	Khgears Vietnam	Subsidiary of the Parent Company	186,070 (Recognized as other receivables)	-	-	—	-	-
FFL	Khgears Vietnam	Subsidiary of the Parent Company	143,530 (Recognized as other receivables)	-	-	—	-	-

Note 1: After evaluation, no provision for losses is allocated.

Note 2: It has been fully written off when preparing the consolidated financial statements.

KHGEARS INTERNATIONAL LIMITED AND ITS SUBSIDIARIES
THE RELATIONSHIP AND CIRCUMSTANCES AND AMOUNTS OF IMPORTANT TRANSACTIONS BETWEEN THE PARENT AND
SUBSIDIARY COMPANIES AND BETWEEN EACH SUBSIDIARY
FOR THE YEARS ENDED DEC. 31, 2023

Table 5

Unit: Unless otherwise noted, the currency is in thousands of New Taiwan Dollars

No. (Note 1)	Counterparty	Transaction Counterparty	Relationship to the Counterparty	Transaction Details			
				Account	Amount	Transaction Terms	% of Total Sales or Assets (Note 2)
0	The Company	Khgears Vietnam	Parent company to subsidiary	Interest income	\$ 3,815	No significant difference	-
0	The Company	Khgears Vietnam	Parent company to subsidiary	Other receivables	186,070	No significant difference	5%
0	The Company	Khgears Taiwan	Parent company to subsidiary	Other receivables	19,920	No significant difference	1%
0	The Company	Kwok Hing (China)	Parent company to subsidiary	Other receivables	47,910	No significant difference	1%
1	Zhuhai Khgears	The Company	Subsidiary to parent company	Other receivables	178,131	No significant difference	5%
1	Zhuhai Khgears	FFL	Subsidiary to subsidiary	Other receivables	62,028	No significant difference	2%
1	Zhuhai Khgears	FFL	Subsidiary to subsidiary	Sales Revenue	1,091,000	No significant difference	46%
1	Zhuhai Khgears	FFL	Subsidiary to subsidiary	Accounts receivable	281,549	No significant difference	8%
1	Zhuhai Khgears	Khgears Vietnam	Subsidiary to subsidiary	Sales Revenue	41,716	No significant difference	2%
1	Zhuhai Khgears	Khgears Vietnam	Subsidiary to subsidiary	Purchase	28,065	No significant difference	1%
1	Zhuhai Khgears	Khgears Vietnam	Subsidiary to subsidiary	Accounts receivable	23,197	No significant difference	1%
1	Zhuhai Khgears	Khgears Vietnam	Subsidiary to subsidiary	Other receivables	168,681	No significant difference	5%
1	Zhuhai Khgears	Khgears Vietnam	Subsidiary to subsidiary	Accounts payable	11,571	No significant difference	-
2	FFL	Khgears Vietnam	Subsidiary to subsidiary	Purchase	274,407	No significant difference	12%
2	FFL	Khgears Vietnam	Subsidiary to subsidiary	Interest income	4,338	No significant difference	-
2	FFL	Khgears Vietnam	Subsidiary to subsidiary	Other receivables	143,530	No significant difference	4%
2	FFL	Khgears Vietnam	Subsidiary to subsidiary	Accounts payable	68,486	No significant difference	2%

Note 1: Information on business transactions between the parent company and its subsidiaries should be indicated in the number column respectively. The method of filling in the number is as follows:

1. Enter 0 for the parent company.
2. Subsidiaries are sequentially numbered by company, starting from the Arabic numeral 1.

Note 2: The ratio of the transaction amount to the consolidated total revenue or total assets is calculated by the ending balance for the consolidated total assets if it is an asset-liability account; or calculated by the accumulated amount for the consolidated total revenue if it is a profit and loss account.

Note 3: The relevant transactions have been fully written off when preparing the consolidated financial statements.

KHGEARS INTERNATIONAL LIMITED AND ITS SUBSIDIARIES
INFORMATION, LOCATION... AND OTHER RELATED INFORMATION OF SUBSIDIARIES
FOR THE YEARS ENDED DEC. 31, 2023

Table 6

Unit: Unless otherwise noted, the currency is in thousands of New Taiwan Dollars

Investor	Investee Company	Location	Business Scope	Original Investment Amount		Holding of Investment at the End of the Period			Net Income (Losses) of the Investee	Share of Profits (Losses) of Investee (Notes 2 and 3)	Remark
				Dec. 31, 2023	Dec. 31, 2022	Quantity (in thousands)	Proportion	Carrying Amount (Notes 1 and 3)			
The Company	Kwok Hing (China)	Hong Kong	Investment holding	\$ 325,080	\$ 325,080	280	100%	\$ 2,114,542	\$ 243,316	\$ 243,316	-
The Company	FFL	Samoa	Sale of gears	32,250	32,250	2,000	100%	(RMB488,686 thousand) 267,482	(HKD61,142 thousand) 146,587	(RMB55,354 thousand) 138,235	-
The Company	Khgears Taiwan	Taiwan	Manufacture and sale of gears	25,000	25,000	25,000	100%	(RMB61,817 thousand) 4,404	(RMB33,349 thousand) 20,642	(RMB31,449 thousand) 20,642	-
The Company	Khgears Vietnam	Vietnam	Manufacture and sale of gears	295,836	295,836	-	100%	215,850 (RMB49,884 thousand)	(16,224) (VND(12,640,304) thousand)	(21,283) (RMB(4,842) thousand)	Note 4

Note 1: It was translated based on the exchange rate on Dec. 31, 2023.

Note 2: It was translated based on the average exchange rate from Jan. 1 to Dec. 31, 2023.

Note 3: It has been written off when preparing the consolidated financial statements.

Note 4: It is a limited company and does not divide shares.

KHGEARS INTERNATIONAL LIMITED AND ITS SUBSIDIARIES
INFORMATION OF INVESTMENT IN MAINLAND CHINA
FOR THE YEARS ENDED DEC. 31, 2023

Table 7

Unit: Unless otherwise noted, the currency is in thousands of New Taiwan Dollars

Investee Company in Mainland China	Business Scope	Paid-in shares Capital (Note 2)	Investment Method	Accumulated Outflow of Investment from Taiwan as of Jan. 1, 2023	Investment Flows		Accumulated Outflow of Investment from Taiwan as of Dec. 31, 2023	Net Income (Losses) of the Investee	The Company's Direct or Indirect Holding Percentage	Share of Profits (Losses) of Investee (Notes 1 and 3)	Carrying Amount of Investments at the End of the Period (Notes 2 and 3)	Accumulated Inward Remittance of Earnings as of Dec. 31, 2023 (Note 3)	Remark
					Outflow	Inflow							
Zhuhai Khgears Limited	Manufacture and sale of gears	\$ 770,642 (RMB178,101 thousand)	Reinvestment in Mainland China through companies registered in a third region.	\$ -	\$ -	\$ -	\$ -	\$ 282,713 (RMB 64,317 thousand)	100%	\$ 282,713 (HKD 71,042 thousand)	\$ 2,214,060 (HKD 564,636 thousand)	\$ 176,320 (RMB 40,000 thousand)	-

Accumulated Investment in Mainland China as of Dec. 31, 2023	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
Note 4	Note 4	Note 4

Note 1: It was translated based on the average exchange rate from Jan. 1 to Dec. 31, 2023.

Note 2: It was translated based on the exchange rate on Dec. 31, 2023.

Note 3: It has been fully written off when preparing the consolidated financial statements.

Note 4: The Company is not a company established in the Republic of China, so it is not applicable.

KHGEARS INTERNATIONAL LIMITED
INFORMATION OF MAJOR SHAREHOLDERS

Dec. 31, 2023

Table 8

Name of Major Shareholders	Shareholding	
	Number of Shares	Ratio of Shareholding
1. Kwok Hing Global Limited	6,637,963	12.49%
2. Henry & Helen Company Limited	3,972,002	7.47%
3. Long Luck Holdings Limited	3,670,829	6.91%
4. Jibulu Company Limited	3,343,817	6.29%
5. YH International Limited	3,101,161	5.83%

Note 1: In this chart, major shareholders are defined as shareholders with more than 5% collective holding interest in common and preferred shares that have been delivered via book entry (including treasury stocks), as shown in the records of Taiwan Depository & Clearing Corporation on the final business day of the current quarter. Share capital, as shown in the financial statements, may differ from the number of shares that have been delivered via book entry due to differences in the preparation basis.